Credit Distributed

A thought paper on emerging themes in the consumer credit space
The Indian consumer credit landscape has seen several changes over the past decade. From shifts in buyer patterns towards Banks and NBFCs based on end-use, to preferences for unsecured loans with the advent of small-ticket lending, to the usage of credit score risk models in underwriting assessment becoming the new normal.

This report further uncovers a key trend: **Credit Distributed**

This encompasses all aspects of profitable credit literally being “distributed” along multiple dimensions (ticket size, geography, complex multivariate segments and brand preferences). With such rapid nuanced disaggregation, Machine Learning and Smart Automation-led enablers are now a necessity for players to tap into these opportunities at scale.
Digital - fuelling the economy

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Digital - fuelling the economy

500 million
Smartphone users¹

622 million
Internet users today²

2nd highest
Internet user base³

Rapidly growing consumer credit markets

18% 3 year CAGR

$612 Bn Retail credit industry in Dec 2020

Source: TransUnion CIBIL data, 2020
Retail Loans nearly doubled since 2017

1.7x rise in active Retail Loans in 2020 vs 2017

Source: TransUnion CIBIL data, India, 2017-2020

- Education Loans: $12 Bn
- Commercial Vehicle Loans: $37 Bn
- Auto Loans: $50 Bn
- Housing Loans: $290 Bn
- Two wheeler loans: $10 Bn
- Consumer Durable Loans: $5 Bn
- Personal Loans: $82 Bn
- Credit Cards: $22 Bn
- Business Loans: $19 Bn
- LAP: $68 Bn

*Size of bubble indicates outstanding balance.
Our approach

We studied three key categories:

1. Personal Loans
2. Auto Loans
3. Home Loans

We combined data across:

- Google data
- TransUnion CIBIL data
- Consumer Research
Covid-19 impacted the credit markets and weakened consumer sentiment

Decline in credit enquiries on the bureau in Q2 2020 vs Q1 2020

\[ \downarrow 70\% \]

Decline in consumer confidence during national lockdown

\[ \downarrow 25\% \]

Sources: 1 TransUnion CIBIL data, indexed queries; 2 RBI's Consumer Confidence Survey
Confluence of mega trends accelerated **shift to digital**

Mega trends

1. Millennial workforce
2. Rise of Internet penetration
3. Rising per capita consumption

Source: Uniquely India Digital Opportunity, Kalaari Capital
Confluence of mega trends accelerated **shift to digital**

Impact on digital & finance behaviours

- **41%**
  - Increase in time spent on mobile in India; sharpest increase globally\(^1\)

- **30%**
  - Increase in monthly data consumption\(^2\)

- **56%**
  - Of users who did not use online banking regularly are likely to shift online\(^3\)

Sources: 1 App Annie State of Mobile Report 2021; 2 EY Survey June 2020; 3 Google-Ipsos Consumer Sentiment Tracker Wave 1, Jul 2020
Resilient consumer bucked the trend

Search interest declined initially but recovered starting H2.

Resilient consumer bucked the trend

- Bureau enquiries **recovered to** 90% of the 2019 levels by Dec 2020
- Credit originations **recovered to** 87.5% of the 2019 levels by Dec 2020

Source: TransUnion CIBIL data, India, 2019 and 2020
Credit awareness and consumption has increased manifold

3x
Growth in number of consumers checking their credit scores in 2020 vs 2018

2x
Growth in number of times a consumer checks their credit scores in 2020 vs 2018

45%
Growth in average consumption loans taken per borrower since 2017

Source: TransUnion CIBIL data, India, 2018 - 2020
Resulting in increased **industry competition**

**Value-seeking vs Brand loyal**

32%+ of consumers who took a consumption loan changed to a different lender type on their subsequent loan

**Industry players**

42%+ growth in lender brands disbursing over 6,000 consumption loans annually

Source: TransUnion CIBIL data, India, 2017 and 2020
In summary

An evolving digital consumer + A dynamic financial ecosystem = An unprecedented opportunity
Digital - fuelling the economy

Report findings

Business implications
“Small” is big

Beyond urban India

One size does not fit all

Reiterate trust

Tech is the future of lending
“Small” is big
Small-ticket lending is a reality which cannot be ignored

Growth in number of <= INR 25K Personal Loans originated in 2020 vs 2017

- Share contribution of <= INR 25K loans to all Personal Loan originations in Q4 2020
- Small-ticket loans originate outside Tier 1

▲ Share shift in percentage points compared to Q4 2017

Source: TransUnion CIBIL data, India, 2017 and 2020
Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh
Driven by increased lending to experienced Prime & Near Prime borrowers

Known-to-product borrowers make up 40% of small loan borrowers1 in Q4 2020

Smaller-ticket borrowers tend to have deeper relationships

Number of credit relationships per borrower 2020

- Tier 1: Population > 40 lakh; Increase: 1.5x
  - 2017: 3.26
  - 2020: 3.58

- Tier 2: 10-40 lakh population; Increase: 2.6x
  - 2017: 3.26
  - 2020: 3.26

- Tier 3: 5-10 lakh population; Increase: 2.1x
  - 2017: 3.32
  - 2020: 3.32

- Tier 4+: Population <5 Lakh; Increase: 2.3x
  - 2017: 3.12
  - 2020: 3.12

Source: TransUnion CIBIL data, India, in 2020 vs 2017

Borrowers taking small loans repeatedly from the same lender brand in 2020 vs 2017

- 31 Mn
  - 2017: 22x
  - 2020: 84x

Borrowers taking small loans repeatedly from the same FinTech NBFCs in 2020 vs 2017

- 27 Mn
  - 2017: 16x
  - 2020: 64x
Small loan searches online indicate varying needs

Type of documentation
- 20000 loan without documents

Instantaneous
- need 30000 rupees loan urgently

Gender
- mahila loan 30000

Salary-based
- how much home loan can i get on 40000 salary

Consumption
- phone on loan

EMI
- laptop on emi

Source: Google Internal data, India 2020
While **Banks are lagging behind** on capturing this trend, there is need to expand with prudent caution

**Share of <= INR 25K Personal Loans**

- Category: 60%
- Private Banks: 16%
- NBFCs: 60%
- FinTech NBFCs: 97%

Small-ticket Personal Loans average 90+ days past due in 2020 has increased by 2.6x vs 2019 average

Source: TransUnion CIBIL data, India, 2020
Beyond urban India
User intent from non-metros is material

Illustrative for Personal Loans

<table>
<thead>
<tr>
<th>City</th>
<th>Search Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jaipur</td>
<td>53%</td>
</tr>
<tr>
<td>Indore</td>
<td>33%</td>
</tr>
<tr>
<td>Surat</td>
<td>15%</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>14%</td>
</tr>
<tr>
<td>Agra</td>
<td>24%</td>
</tr>
<tr>
<td>Lucknow</td>
<td>29%</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>19%</td>
</tr>
<tr>
<td>Mysuru</td>
<td>14%</td>
</tr>
<tr>
<td>Guwahati</td>
<td>15%</td>
</tr>
<tr>
<td>Bhubaneswar</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Google Internal Data, Feb 2021, India
The balance has shifted in favour of non-Tier 1 cities and is growing faster too

3 year CAGR in retail credit searches

- Tier 1: 17%
- Tier 2: 32%
- Tier 3: 47%
- Tier 4+: 28%

▲ Share shift in percentage points compared to Q4 2017

Searches across Personal Loans, Home Loans, Auto Loans;
Source: TransUnion CIBIL data, 2020; Google Internal Data, India, 2020
Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh

77% of all retail loan enquiries from Tier 2 cities and beyond in 2020

“Small” is big
Beyond urban India
One size does not fit all
Reiterate trust
Tech is the future of lending
And ticket sizes are mostly **geo-agnostic**; with some upward skew in Tier 1 for Home Loans and Auto Loans

Average ticket size, INR ‘000

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>114</td>
<td>100</td>
<td>101</td>
<td>130</td>
</tr>
<tr>
<td>20</td>
<td>18</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

Home Loan

Auto Loan

Personal Loan

Consumer Durable Loan

Source: TransUnion CIBIL data, 2020
A significant portion of demand is coming from preferred quality credit segments in these geos

At most 0.5% incremental risk (90+ days past due) while lending outside Tier-1 for Private Banks, whereas for NBFCs and FinTech NBFCs there is lower risk to lend outside Tier-1 vs. in Tier-1

1. 50% of the demand is coming from Prime and above credit tiers

2. ~80% of this is from outside Tier 1 cities

3. Large scored borrower opportunity outside Tier 1 at 70%

4. Fast growing middle accounting for 45% of the demand is growing at 80%+

Source: TransUnion CIBIL data, 2020; All Retail Enquiries
Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh
The rapid increase in searches in local languages dovetails well into this opportunity on digital platforms:

- Kannada: Management Loans
  +24% YoY
- Tamil: Loan
  +80% YoY
- Hindi: Home Loan calculator
  +27% YoY
- Hindi: How much loan can one get for 0.6 acre land
  +650% YoY
- Hindi: Small-scale business loan scheme
  +260% YoY

Source: Google Trends, India, 2020 and 2019
And this shows up as **translation** being a key need

Searches on Google for ‘Translate’

2.6x growth since 2016

Often knowing bits and parts of English, users turn to Google to ask ‘meaning?’

Sample ‘meaning’ searches:

- Moratorium meaning
- Credit score meaning
- Credit meaning
- Credit meaning in marathi
- Moratorium meaning in hindi
- Moratorium means
- Term loan meaning in hindi

Source: Google Trends, India, Last 5 years
One size does not fit all
The face of consumers who are new to credit is diversified

- 49% under 30 years of age
- 71% from non-Tier 1 cities
- 24% female borrowers

Source: TransUnion CIBIL data, India, 2020: All Retail Enquiries
Credit Tiers: New to credit only
And there are variations within each product category

<table>
<thead>
<tr>
<th></th>
<th>Retail Loans</th>
<th>Auto Loans</th>
<th>Home Loans</th>
<th>Personal Loans</th>
<th>Consumer Durable Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>49%</td>
<td>32%</td>
<td>21%</td>
<td>65%</td>
<td>48%</td>
</tr>
<tr>
<td>Outside Tier 1</td>
<td>71%</td>
<td>74%</td>
<td>60%</td>
<td>68%</td>
<td>63%</td>
</tr>
<tr>
<td>Growing Females</td>
<td>24%</td>
<td>15%</td>
<td>31%</td>
<td>22%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: TransUnion CIBIL data, India, 2020: All Retail Enquiries: New to credit only
But ... **are these the only attributes** of assessing a consumer holistically?

3 x 5 = 15

ways to look at the audience with just **three** dimensions
Layering in a wide range of credit parameters makes this a complicated jigsaw.

Last 6 months’ credit enquiries:
- Infrequent (1)
- Credit seeker (2-5)
- Credit hungry (6+)

Bureau vintage:
- Inexperienced (1 to 6 months)
- Familiar (7 to 36 months)
- Experienced (>36 months)

Last 6 months’ repayment discipline (% of missed payments):
- Disciplined (0%)
- Lazy payers (<=20%)
- High revolve (>20%)

Debt management behaviour:
- Paying down
- Maintaining balance
- Building up

Source: TransUnion CIBIL data
With online behaviour and digital inputs adding in **nuances** to each consumer’s context
Reiterate trust
There is a heightened sense of prudence and **value consciousness**

**64%**
Consumers actively research the rate of interest/EMI/processing fee online before purchase\(^1\)

**44%**
YoY growth in "best loan interest rates" searches in 2020 vs 2017\(^2\)

**56%**
Investors say their investment budget would go down due to the Covid-19 pandemic\(^3\)

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**Conscious**

**Discovery mindset**

**Cautious**

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**Source:**
1 Google-BCG Digital Lending a $1 tn Opportunity Report 2018; 2 Google Trends, India, 2019 and 2020; 3 Google Ipsos Consumer Sentiment Tracker Wave 2, 2020
Trust leads other “traditional” parameters that are considered to drive value perception with customers

Ranking of most important parameters

1. Trust in the brand
2. Low interest rates
3. Recommendations
4. Disbursal time
5. Online process
6. Hidden T&C
7. Documentation requirements

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Brand Salience plays an important role

Credit buyers said brand was a major factor in choosing their loan provider

64%

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Brand Salience plays an important role

Reasons for switching brands

- Friends/ family recommended another player: 31%
- I read online reviews/ ratings/ comparisons: 25%
- I saw an Ad from another player: 23%
- Financial expert recommended another player: 22%

77% of consumers being influenced by recommendations

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Considerable time and research effort is put into choosing:

- Up to a week: 11%
- On the same day: 13%
- 2 weeks to 6 months: 76%
- More than 6 months: 11%

76% buyers take a min of 2 weeks to over 6 months.

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Considerable **time and research** effort is put into choosing

Average number of brands considered: 3.3

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Online research is the dominant discovery enabler for credit products

- Family and friends: 19%
- Online ads: 17%
- Search engines: 15%
- Offline ads: 13%
- Online reviews/ratings/comparison websites: 12%
- Financial advisor: 12%
- Official loan provider website/app: 11%

55% of buyers use an online tool/recommendation

Source: Google Consumer Survey, India, Jan-Feb 2021. N=1001
Consumers use **Google** search engine as a...

- **2.6x** more searches for “branch near me” in 2020 vs 2017
- **1.7X** more searches for “best Personal Loans” in 2020 vs 2017

**Sources:** 1 Google Trends data, India, 2020 and 2017; 2 Google Trends data, India, 2020 and 2017
Tech is the future of lending
Digital first ‘FinTech’ NBFCs have made rapid strides in market shares across credit tiers

Growth in FinTech NBFC Personal Loans market size

$601 Mn

FinTech NBFC Personal Loans Market in 2020

45%

of all Personal Loan originations come from FinTech NBFCs

Source: TransUnion CIBIL data, 2020
Digital first ‘FinTech’ NBFCs have made rapid strides in market shares across credit tiers

- **Super Prime**: 18%
- **Prime Plus**: 13%
- **Prime**: 38%
- **Near Prime**: 61%
- **Subprime**: 55%
- **New to Credit**: 56%

Of Prime Tier is also FinTech NFBC-first, challenging banks’ entry point

Source: TransUnion CIBIL data, 2020
With their audiences now cutting across **consumer segments**

- **52%** of searches for FinTech Personal Loans happen outside Tier 1 cities

- **71%** of FinTech Personal Loan originations happen outside Tier 1 cities

**Sources:**
1. Google Internal data, India, 2020; 2. TransUnion CIBIL data, 2020
With their audiences now cutting across **consumer segments**

78% are between 25-45 years of age, i.e. millennials

Source: TransUnion CIBIL data, 2020
Four opportunities being key to determining the first among equals

Re-imagined customer experience
- Vernacular-Visual-Video Assisted
- Seamless multilingual experience across touchpoints
- Personalisation at scale

Treating data as a currency
- Customer lifetime value and propensity modelling
- Leverage data for credit and risk modelling
- Data-backed surrogate lending programs

Operational transformation 2.0
- Everything as an API
- Smart AI/ML-led operations for originations, underwriting and servicing

Elastic core & infrastructure
- Cloud-first technology strategy to address resilience and scale
- Build/deploy cloud native digital services

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Report findings

Business implications
Small loans today could be big opportunity tomorrow.

Technology enablement + Expanded audiences are key to way forward

- Plan end-to-end digital journeys - from research phase to transaction conclusion to KYC with no physical intervention
- Identify and acquire customers who will be profitable in long term (customer lifetime value approach)
- Build capabilities to target basis propensity to convert

“Small” is big
Beyond urban India

“If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart”

- Nelson Mandela

- Invest in understanding & responding to the latest trends. Think tiered geo strategy instead of only metro for product acquisition

- Adopt an end-to-end local language approach starting from creatives to educating user to landing page and finally call centre handling
No two customers are the same, neither is context.

With data comes complexity, let Machine Learning do the heavy lifting for you

- Behind each click/impression are hundreds of variables unique to that context. We are long past the point where human capability could handle this

- Think personalisation and think at scale - of communication, of experience, service delivery and product offerings
Money is emotions and financial decisions can be complex, trust helps take the next step

- Communication helps build trust, communication that is transparent and consistent. Personalise, choose the right context and do it at scale

- Be accessible to the customer, avoid surprises and resolve his problems across touchpoints - Physical, Digital or Voice
Tech is the future of lending

The ‘best’ services get delivered real time with the customer at the front and center.

- Build an end-to-end digital lending lifecycle, supporting assisted and unassisted journeys
- Machine Learning substantially enhances human decision making in assessing credit risk and revenue-cost management
- Adopt an API-first approach leveraging the India stack to scale the lending business
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