Why Indians will put anything on credit

REPORT | 13 Jun 2014

India was once a cash economy governed by middle-class values. If you didn't have it, you didn't spend it. Thanks to credit cards and a young generation that expect the finest things in life, India has a debt problem. But what opportunities can 'putting it on credit' bring?

AUTHORS

Mridu Khullar Relph

LOCATIONS:
INDIA

SECTORS:
MONEY
COMMUNITY AND GRASS-ROOTS
BANKING AND PAYMENTS
CREDIT CARDS AND LOANS
BEHAVIOURAL SCIENCES

SCOPE

India is now one of the top 15 countries in terms of highest household debt, a situation that's in stark contrast even to just a decade ago. [1] Before the country opened up its doors to multinationals in the 1990s, who swooped in and transformed India from a largely socialist economy to a capitalist, consumerist one, household debt barely existed. Since then, however, consumer debt in India has exploded.

It's not just a numbers shift, but a mindset change. Until the '90s, India was largely a cash economy governed by middle-class values. If you didn't have it, you didn't spend it – and most of the time, you didn't have it. That has now changed. Credit cards, online banking, and ease of transactions, combined with a younger generation that's studied and worked abroad and expects the finest things in life, has led to a culture of 'buy first, pay later'. And as a country that's new to credit and suddenly awash in it, this has created new opportunities and new problems.

FROM CASH TO CREDIT

Even a generation ago, the thought of owing money to someone would have been an embarrassment – something to be ashamed of, explains Abhishek Agarwal, co-founder and director of CreditVidya.com. [2] You just didn't buy what you couldn't afford. And indeed, there weren't very many means to. For most middle-class people, this meant working hard and saving hard – and if they had worked enough, saved enough, and were lucky enough, towards the end of their lives, they'd be able to afford a car, a home, and perhaps a few other choice luxuries. Before the era of the '90s, even home loans were scarcely given by India's largely state-run banks.

This changed with the economic liberalisation of India in 1991. Private and foreign companies, including banks, entered the Indian market to carve out their share of the fast-growing Indian economy. Loans – home loans, car loans, education loans, personal loans – started becoming common as people's needs and desires grew. And with increased competition, the checks and balances – while still stringent – were not as tough as they had once been. Just a decade later, loans for housing, consumer durables and personal use in urban areas grew an average of 43% between 2001 and 2006, far outpacing overall credit expansion, which grew 23.4%. [3]

> Banks realised that the slowdown affected the corporate segment more than the corporate sector
>
> Consumer lending Euromonitor report

Today, India is one of the fastest growing economies in the world and has a household debt that's 10% of its Gross Domestic Product. [1] Financial liabilities of Indian households went up sharply from Rs 31,779 crore in 2001 to 2.74 lakh crore in 2012. [4] In fact, a Euromonitor report shows that consumer lending grew at a higher rate in 2013 than in both 2012 and 2011. "This was despite negative economic sentiment in terms of low growth, high inflation and high interest rates," claims the report. "The high growth was partly due to smart positioning of products by banks, such as pushing credit cards, housing loans and auto loans to self-employed individuals, and partly it was because the impact of recession was less on individuals compared to the corporate segment." [5]

In addition, the report states that credit card outstanding balance witnessed the fastest growth in 2013. "Banks realised that the slowdown affected the corporate segment more than the corporate sector," the report continues. "A large part of the population continued to be self-employed in small businesses. Such consumers continued to post growth in their income and bankers realised their continued creditworthiness. Therefore, banks targeted such individuals to grow their credit card portfolios.” [5]

Banks are also tied into many retailers in India. Although homes and cars are the big things that people pay for on credit, pretty much anything can be bought now, and paid for later. Indians think nothing of paying by instalments for something as simple as a pair of jeans that they can’t afford in one go. The purchase is put on a credit card, and the bank sends you a monthly bill.

India’s sudden introduction to credit came at a price: heavy debt and high interest

fashionlady.in (2013)

GENERATION DEBT

Dheeraj Bhatia (name changed), now 34, had very little knowledge of what having a credit card entailed when he got his first, then second, then third many years ago when credit cards were still a novelty in the country. “I was in my twenties then, and no-one ever really explained how credit worked or what the potential problems could be,” he says. “I paid the minimum balance each month, not realising that I was racking up debt – and worse, not knowing that it was at such high rates of interest.” [6]

Bhatia eventually found himself owing the credit card company Rs 9 lakh (£9,000) with no way to actually pay it back. That’s when he found one of the many companies that help people like him get out of debt by negotiating with banks, dealing with collectors, and helping people to come up with repayment plans that work for them.

> I paid the minimum balance each month, not realising that I was racking up debt – and worse, not knowing that it was at such high rates of interest
>
> Dheeraj Bhatia, victim of credit card debt

The problem, says Agarwal, is that there is very little financial advice available to the layperson that extends beyond stocks and bonds in India. While in the West, bookstores and blogs are full of personal finance tomes that break down financial information into the most basic of steps, the Indian personal finance market still focuses almost exclusively on the stock market. This, says Agarwal, means that people – especially young people – who really need financial information and help that will apply to their own lives, have nowhere to turn. [2]

This is especially true as migrants from small towns and villages arrive in the city, start making money, and find themselves in a position where they can afford to buy a smartphone, put a down payment on a car, and find easy access to credit – but no-one's really taught them the fundamentals of how credit it. And for many like Bhatia, the shock only arrives when the bills do.

In 2008, a Reserve Bank of India study on financial literacy noted that more and more people are resorting to debt to finance their consumption needs. "Aggressive marketing of personal loans and credit cards to a vulnerable section of borrowers could also have consequences of over-indebtedness and non-performing assets," it said. [7]

> " I think the next generation – the young people who have grown up around credit – will hopefully be smarter than we were about their financial options. We were the guinea pig generation
>
> Dheeraj Bhatia, victim of credit card debt

With the help of a debt management company, Bhatia eventually told his family of the trouble he was in – a first necessary step in a country where being in debt holds stigma – and worked out a plan to repay it one Rupee at a time. "If I had known, back when I first got the credit card, that I wasn't just supposed to pay the minimum balance and that I was actually paying such high rates of interest, I would never have made the mistakes that I did," he says. "I think the next generation – the young people who have grown up around credit – will hopefully be smarter than we were about their financial options. We were the guinea pig generation." [6]

This quest to help the next generation understand credit is exactly what motivated Agarwal to start CreditVidya.com (vidya means knowledge), a company that provides information, credit counselling, and financial literacy to Indians who want to move beyond debt and take control of their money choices. It's still one of the few that operate in India – but the number is growing every year.

Civic brands are promoting financial literacy to the next generation of Indian consumers

Arian Zwegers, Creative Commons (2012)

INSIGHTS AND OPPORTUNITIES

Despite the rocky start and casualties of credit, it's widely believed that access to credit has opened up doors and options for people – especially younger people. Young couples are owning homes much younger than they ever have before, and cars, international holidays, and retail therapy are a given for the middle class of India today.

In addition to the everyday consumer, the main beneficiaries of this newly growing credit economy are private banks and retailers. And the lack of education about financial options and long-term growth advice has also opened up a huge opportunity for debt management companies, authors and bloggers, and other institutions that promote financial literacy.

> There is going to be a transition as India moves from a cash economy to a credit-based one
>
> Abhishek Agarwal, CreditVidya.com

India is still a largely cash-based economy, especially in the villages and small towns where business is done on a handshake and illiteracy is still a problem. But as more people migrate to the cities, and as more banks and financial institutions spread to more rural regions, that may begin to change. "There is going to be a transition as India moves from a cash economy to a credit-based one," says Agarwal. [2] And the best way to ensure that it's beneficial for all the players involved is to make sure that it is also a knowledge-based one.

Mridu Khullar Relph is a writer, entrepreneur, and content strategist. She has written and consulted for The New York Times, Time, CNN, ABC News, The Independent, The Christian Science Monitor and more. More details can be found on her website.

RELATED BEHAVIOURS

Preparedness: Getting ready for major future challenges.

RELATED

Revolutionising money transfers in India

SIGNAL • 20 MAY 2014

hyperWALLET is bringing its services to India, offering companies fast and low-cost payment methods

India's strategic big spenders

REPORT • 22 JAN 2014

Given its per capita GDP and number of high net worth individuals, analysts estimate that India's luxu-

India's love of home delivery

REPORT • 12 MAR 2014

In India, everyone delivers. From sweets to stationery to ice cream to medicine, there isn't a mar-

Bluebird: do the unbanked want an AmEx?

CASE STUDY • 8 MAY 2014

American Express is synonymous with privilege and luxury – so its latest venture may seem surprising. Its

SOURCES

1. '15 countries that have highest household debt', Rediff Business (November 2013)
2. Interview with Abhishek Agarval conducted by author
3. 'Indians struggle to repay credit card debt', Financial Times (January 2010)
4. 'Household Debt In India', Wealthy Matters (February 2013)
5. 'Consumer lending in India', Euromonitor International (January 2014)
6. Interview with Dheeraj Bhatia conducted by author
7. 'Financial Literacy and Credit Counselling Centres', Reserve Bank of India (April 2008)

Want to know more?

Canvas8 are a leading behavioural insight practice. Working across media, communication and product design, we harness a range of research methods to reveal practical insights into what audiences really think and do.

EXPLORE THE PLATFORM

Unrivalled resource of 29,000+ articles on global consumer behaviour, available exclusively to members.

Your account manager:

karenm@canvas8.com

BECOME A MEMBER

A Canvas8 membership allows you to continually monitor changes in human behaviour by carefully blending multiple disciplines into a more holistic, living view. Delivered to you in a one platform and designed for businesses that need results from their insights.

Dominic Rowe | Group Commercial Director

dominic@canvas8.com

BESPOKE SOLUTIONS

From ethnographic research to strategicplanning workshops, we offer a range of solutions tailored to enhance your under-standing and inspire creativity.

James Cunningham | Group Head of Strategic Partnerships

james@canvas8.com