

# Demand for Bank Loan During Economic Uncertainty: An Investigation among the Young Population



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*The present study attempts to comprehend the impact of the various aspects that influence a person's credit decision during a financial crisis. When they run out of money, people usually use different credit facilities, but during a recession or economic crisis, their choice may change. Using the structural equation model, we identified how an individual's attitude, perception of family, and financial control influence the demand for bank loans among the young generation, particularly under economic uncertainty. This study has important implications to understand the demand for bank loans during the economic crisis.*

**Keywords:** Bank Loan, Economic Perception, Credit Decisions; Young Generations; India

## 1. Introduction

The word "external credit" refers to a person's obligation to repay a loan within the lender's specified time frame, which varies depending on the type of loan the person has taken. Typically, low-interest rates attract individuals to borrow money from banks. Borrowers use external credits for things like paying for a wedding or medical bills, as well as consolidating existing unsecured debts or making large purchases like cars or boats. The decision to take external credit also depends on the current state of the economy. In times of economic uncertainty, people's expectations change and influence their ability to make sound financial choices (Brahmana et al., 2018). If people expect the economy is not performing well or undergo through crisis, they may avoid taking external credit due to low confidence in repayment.

The COVID-19 economic crisis in 2020 had notable consequences for economic catastrophes. To protect the borrowers, the government of India took specific actions during the COVID-19 outbreak. The noticeable changes include a decrease in the cash reserve ratio (from 4% to 3%) and the liquidity coverage ratio (from 100% to 80%). Furthermore, repayments on term loans due in March had been frozen for three months, and interest payments on working capital facilities had also been suspended for three months. However, the effectiveness of such government measures on the perception of people regarding economic performance has not been explored. Moreover, the study on the relationship between the perception about the economy and bank loan demand is lacking in the literature. Therefore, our study attempted to understand what makes young people want to borrow money from commercial banks and how economic perception influences the intention.

## 2. Literature Review

**Shaik, et al., (2022):** They studied how IT professionals save and invest their money. IT professionals have a unique perspective when it comes to making investment decisions; they want their assets to be invested in the safest, most liquid way possible, yet this goal is contingent on several factors beyond their control. However, the choice depends on the individual's level of comfort with risk.

**Abhinandan & Al-(2019):** They followed a systematic literature review on investment behaviour and identified that people of different economic classes exhibit different risk tolerances and knowledge of the available alternative investments.

**Yaseen & Naqvi (2018)** investigated the factors that affect investment decisions in the banking sectors of the Pakistan region. They analysed variables like faith, cultural psychological bias, come-on investment, and client perception. They conducted a primary survey through structured questionnaires. The population of the analysis was five Pakistani typical Banks and a pair of Islamic Banks. The sample size was 698 respondents. Multivariate analysis, correlation, descriptive analysis and multicollinearity were used with the assistance of SPSS and IBM software. The findings suggest that investment decision has multiple factors but insignificant relationship with client perception and culture.

**Chavali & Mohanraj (2016)** looked into how demographic factors (such as age, gender, and risk tolerance) affected people's choices to invest in the Indian metropolis of Bangalore. One hundred and one people replied to the survey, which used a non-probabilistic convenient sampling method. They found that people's risk tolerance and risk perception varied with age and occupation. Most investors discuss with their family members while making investment decisions, and they invest for reasons like safety, security, and long-term planning.

**Chawla (2014)** attempted to learn how Indian retail investors make decisions regarding mutual funds. A total of 431 people participated in his primary survey. According to the findings, investors should think about the insurance company's track record,

tax-advantaged funds, and growth funds with capital appreciation. Moreover, investors expect fund managers to provide good returns but at minimum risk.

**Bhushan (2014)** investigated the relationship between financial literacy and the investment behaviour of salaried individuals in Himachal Pradesh, India. Using a multistage sampling he conducted a primary survey and collected responses from 506 salaried individuals. He identified that financial literacy affects financial product awareness and investing preferences. High-financial-literacy respondents are more knowledgeable of all investment instruments except post office savings. Bank fixed deposits, savings accounts, public provident funds, stock market investments, mutual funds, and bonds have statistically different awareness levels. Respondents with little financial knowledge also tend to favour traditional, low-risk financial products over ones with comparable but higher potential returns.

### 3. Objectives

Objectives of the study are: *firstly*, to explore the relationship between attitude, family perception and financial control influence demand for bank loans; *secondly*, to identify how an individual's perception of the economy influence the intention of the individual to take a bank loan. In this study, we focus only on personal loan from Indian commercial banks.

### 4. Hypothesis Development

The study uses the following hypotheses

**H1:** Individuals' attitude is significantly related to the intention to take a bank loan.

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**H2:** Family perception is significantly related to the intention to take a bank loan.

**H3:** Financial control is significantly related to the intention to take a bank loan.

**H4:** Perception about economy significantly influences the intention to take a bank loan via attitude.

**H5:** Perception about economy significantly influences the intention to take a bank loan via family perception.

**H4:** Perception about economy significantly influences the intention to take a bank loan via financial control.

### 5. Research Methodology

#### 5.1 Sampling and Data Collection

Data were collected through online survey by a structured questionnaire that participants filled out at their convenient time. The questionnaire was classified into four segments: section-1: basic demographic questions (including age, employment status, income status and household size); section-2: perception of individuals about present Indian economy; section-3: Investment behavior; and section-4: attitude towards personal loan from private bank. For this study, we used a non-probability sampling method called purposive sampling and selected the young individuals (18-45 years), who were earlier communicated from any private bank for personal loan. The age group 18 to 45 years is identified because most of the people prepare a financial plan before the middle age. Questionnaires were distributed to 280 individuals but only 265 returned with responses. After removing 20 invalid and partial responses, 245 responses were considered for analysis.

**Table I** Socioeconomic Characteristics of the Respondents

Characteristics	Frequency	Percentage
<b>Gender</b>		
Male	83	33%
Female	164	67%
<b>Employment status</b>		
Student/Scholar	120	49%
Searching for Job	24	10%
Permanent Salaried Employment	60	24%
Self-Employment	20	8%
Casual Salaried Employment	16	7%
Neither working nor looking for job	6	2%
<b>Educational Qualification</b>		
Below Secondary	1	0.4%
Secondary	1	0.4%
Higher Secondary	22	9%
Graduation	156	63%
Post-Graduation	64	26%
Technical Diploma	2	1%
<b>Age</b>		
Below 20	18	7%
21-30	155	63%

Characteristics	Frequency	Percentage
31-40	39	16%
Above 40	34	14%
<b>Family Monthly Income</b>		
Below 20,000	48	20%
20,000-40,000	54	22%
40,000-60,000	49	20%
60,000-80,000	26	11%
Above 80,000	69	28%
<b>Total Family Members</b>		
2-4	174	71%
4-6	60	24%
Above 6	12	5%

According to the posthoc power analysis, 245 responses are adequate to detect an effect size of 0.15 with 80% statistical significance (Fink, 2017). Males made up 33% of the total, while females made up 67%. Most of the respondents are students (49%), followed by permanent salaried employees (24%). 63% have completed graduation. Considering the monthly household income, 28% or more belong to Rs. 80,000 & above and 20% of individuals belong to the lowest income class i.e., Rs. 20,000 or less (Table I).

### 5.2 Analytical Strategy

Partial least squares structural equation modelling (PLS-SEM) in Smart-PLS 3.1 was used for this study for three reasons: first, PLS-SEM is a useful multivariate analysis method for evaluating the study path model with latent constructs (Hair et al., 2017); second, PLS-SEM can be effective even on small and non-normal datasets (Mamun et al., 2021); and third, the PLS-casual-predictive SEM is useful for the complex models (Chin, 2010).

Data analysis with PLS-SEM is best done in two phases. In the first step, the model was measured to guarantee research variables are consistent and correct (Hair et al., 2017). Secondly, it estimates the structural model to evaluate hypotheses regarding the link between the variables (Chin, 2010). We also estimated the impact from the exogenous construct to the endogenous by using  $R^2$ ,  $Q^2$ , and effect size ( $f^2$ ) (Hair et al., 2017).

## 6. Results

### 6.1 Robustness of the Model

Discriminant validity can be checked through Heterotrait-Monotrait (HTMT) Ratio. Table II demonstrates that HTMT values are below 0.9, suggesting “discriminant validity has been established between a given pair of reflective constructs” (Henseler, Ringle, & Sarstedt, 2015).

Table II Heterotrait-Monotrait Ratio

Heterotrait-Monotrait Ratio	Age	Attitude	Economic Perception	Education	Employment Status	Family Income	Family Perception	Financial Control	Gender
Age									
Attitude	0.33								
Intention to take bank	0.15	0.15							
Education	0.37	0.22	0.08						
Employment Status	0.39	0.01	0.13	0.10					
Family Income	0.28	0.16	0.18	0.23	0.12				
Family Perception	0.28	0.77	0.16	0.22	0.07	0.29			
Financial Control	0.29	0.08	0.16	0.16	0.15	0.08	0.01		
Gender	0.15	0.03	0.03	0.01	0.08	0.15	0.11	0.10	
Perception about Bank	0.25	0.82	0.15	0.20	0.06	0.18	0.75	0.06	0.03

Source: Author’s Data Analysis

Cronbach’s alpha is also used to measure internal consistency but may not be suitable due to its tendency to offer conservative measurements in PLS-SEM (Wong, 2013). Previous studies (Hair et al., 2012) have insisted researchers use composite reliability for examining internal consistency reliability. The minimum value accepted for internal consistency reliability is 0.6 (Hock & Ringle, 2006), and the preferred level is 0.8 or higher value is good for confirmatory research (Henseler, Ringle, & Sarstedt, 2012). Table III shows that the composite reliability values of all the constructs are higher than the preferred level (0.8) – implying that all the constructs used in the extended model have internal consistency and are reliable.

The average variance extracted (AVE) is the essential measure for examining both divergent and convergent validity. To check convergent validity, the minimum requirement of AVE is 0.5 (Bagozzi & Yi, 1988). The AVEs of the variables, indicated in Table III, are higher than 0.5 which implies the requirement for convergent validity is satisfied.

**Table III Results of Reflective Measurement**

Observed measurement items	Outer Loading	CR	AVE
<b>Attitude</b>			
Do you consider external loan is a good idea for financing household expenditure in economic crisis?	0.912	0.929	0.814
Do you consider external loan is an useful way for financing household expenditure in economic crisis?	0.904		
Do you consider external loan is beneficial for financing household expenditure in economic crisis?	0.89		
<b>Financial Control</b>			
Do you control the household expenditure decision of your family?	0.936	0.954	0.911
Do you control the household financial decision of your family?	0.973		
<b>Family Perception</b>			
Do your family members expect you to take external loan for financing household expenditure?	0.941	0.942	0.891
Do your family members favour to take external loan for financing household expenditure?	0.947		
<b>Intention to Take Bank Loan</b>			
Would you like to take external loan for financing expenditure?	0.837	0.915	0.781
Would you like to put effort to get an external loan for financing household expenditure?	0.913		
Would you like to try for an external loan for financing household expenditure?	0.900		
<b>Economic Insecurity</b>			
Do you think present economy is undergoing through crisis?	0.87	0.926	0.757
Are you concerned about the financial security of people in present economic situation?	0.891		
Are you concerned about the employment security in present economic situation?	0.824		
Are you concerned about the economic growth in present economic situation?	0.893		
<b>Age</b>	1	1	1
<b>Gender</b>	1	1	1
<b>Education</b>	1	1	1
<b>Family Monthly Income</b>	1	1	1
<b>Employment Status</b>	1	1	1

Source: Author's Data Analysis

By using the blindfolding procedure we got  $Q^2 = 0.43$  – that indicates our model has enough predictive relevance (Stone, 1974). The final structural model is estimated using a bootstrap technique with 5000 samples. The value of  $R^2$  is 0.57 suggesting that 57% of the variance of the intention to take a bank loan was explained by the explanatory constructs.

**Table III Results for Reflective Measurement Model**

Measures	Model 3
$R^2$	0.58
Adjusted $R^2$	0.57
$Q^2 (=1-SSE/SSO)$	0.43

Source: Author's Data Analysis

## 6.2 Path Analysis in Structural Model

Prior to analyse structural model we need to check the collinearity of the constructs. We checked the VIF values and found that all the values are below the offending value (3.33), indicating that no multicollinearity exists in the model (Damantopoulos & Siguaw, 2006).

**Table IV Results for Reflective Measurement Model**

Path Relationship	$\beta$	SE	t-value	p-value	Result
Age -> Intention to take bank loan	-0.06	0.06	1.06	0.29	Insignificant
Attitude -> Intention to take bank loan	0.53	0.07	8.02	0.00	Significant
Economic Insecurity -> Attitude	-0.14	0.07	1.99	0.05	Significant
Economic Insecurity -> Family Perception	-0.15	0.07	2.02	0.04	Significant
Economic Insecurity -> Financial Control	0.16	0.06	2.30	0.02	Significant
Education -> Intention to take bank loan	0.01	0.05	0.20	0.84	Insignificant
Employment Status -> Intention to take bank loan	0.06	0.06	1.19	0.24	Insignificant
Family Income -> Intention to take bank loan	0.05	0.05	0.89	0.38	Insignificant
Family Perception -> Intention to take bank loan	0.30	0.07	4.54	0.00	Significant
Financial Control -> Intention to take bank loan	0.01	0.05	0.32	0.75	Insignificant
Gender -> Intention to take bank loan	-0.07	0.04	1.86	0.06	Insignificant

Source: Author's data analysis.

Note: \*\*\*p<0.01 & \*\*p<0.05.

The significance between variables is done by assessing the output of the partial least square structural equation modelling (PLS-SEM) with the help of bootstrapping calculation that offers a t-value. The t-values help in identifying the existence of the relationship between the constructs, while beta coefficient values explain the strength of the relationship between the constructs. The accepted limit for testing the significance through the t-value in Smart PLS is >1.96. Therefore the significant relationship between variables is established wherever the t-value is noted to be less than 1.96. Table IV highlights the t-values for significance testing of the variables extracted from the structural path output presented in Figure I.

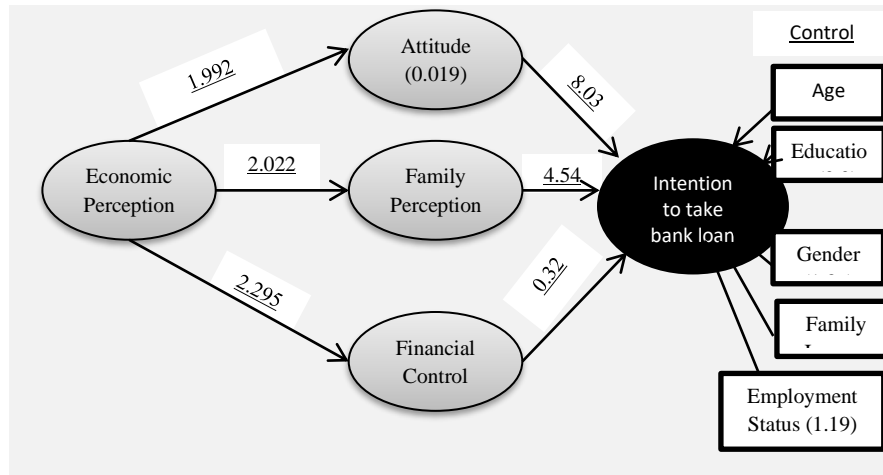


Figure I Structural Model of Commercial Borrowing  
Source: Author's Data Analysis

Figure I demonstrate the structural model of the study. Factor loadings are given in the parenthesis. All the construct variables: Attitude ( $\beta=0.53$ ;  $p=0.00$ ) and family perception ( $\beta=0.30$ ;  $p=0.00$ ) have significantly positive relationship with intention to take bank loan. It indicates that hypotheses H1&H2 are supported. However, we do not find any significant relationship between intention to take bank loan and financial control of the individuals. Socioeconomic variables like gender, employment status income and level of education also do not exhibit significant relationship with the intention to take a bank loan.

However, we discovered that these three variables significantly affect the decision to purchase a bank loan when we used at titude, family perspective, and financial control as the mediator and economic perception as the indicator.

### 7. Conclusion

The study explored an important fact that how economic perception of people influences the intention to take bank loan through attitudes, family perceptions, and financial control. The study suggests economic perception has significant effect on the individual's behavior towards external credit from bank. Therefore, at the time of offering loan banks it is suggested to understand the potential customer's perception about economic situation. Policymakers, investors, banks, and investment agencies can use the study's findings to develop strategies of policies for promoting economic growth.

Our findings have certain important implications: *firstly*, it addresses the constraint to selling loan to the potential customers of bank. *Secondly*, it identified the need for financial education through proper source to shape the economic perception of the individuals. *Finally*, the study helps to understand the need of a potential customer of bank loan. However, the study has certain limitations. As most of the respondent is below 30 years, we can assume a response bias.

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