

# Understanding the Retail Borrowers Perception: Monthly Household Income as a Moderator



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*This research examines the direct effects of societal influences and confidence in banks on loan perceptions and explores whether respondents with more positive views on loans are more likely to apply for loans, irrespective of their social factors and trust in the bank. It is found that there is a significant positive effect of societal influences and confidence in banks on people's perception of loans. However, monthly household income exhibited a small, non-significant impact, indicating income alone may not decisively shape attitudes toward loans. Through this investigation, the study seeks to offer nuanced insights into the dynamics of loan perceptions in an urban environment (Bangalore City). The study provides valuable implications for policymakers and financial institutions seeking to better understand and meet the diverse borrowing needs of urban populations.*

**Keywords:** Interest Rates, Loan, Options, Risk, Societal Influence, Trust In Banks

## 1. Introduction

The SIBC (Sector-wise and Industry-wise Bank Credit) return submitted by the schedule commercial banks to the RBI has categorised the retail/personal loans into: 1) housing loans, 2) vehicle loans, 3) credit card loans, 4) loans for consumer durables, 5) advances against fixed deposits, 6) advances against shares and bonds, 7) loans against gold jewellery, 8) education loans, and 9) other personal loans. On the basis of the SIBC return report, this paper focuses on the general retail borrower's experience with their banking service provider. The term 'retail-shift' is observed as the retail credit outstanding increased from 30.7 percent in March 2022 to 32.1 percent in March 2023; highest among other sectors. Such increase in a segment is resulted from the better asset quality and Gross Non-performing Assets (GNPA) in retail loans being lowest at 1.2 percent (Sector-wise GNPA total percentage shares at 13.9 percent) among sectors, whereas it was 2.7 percent (Sector-wise GNPA total percentage shares at 27.3 percent) for services, 3.5 percent (Sector-wise GNPA total percentage shares at 29 percent) for industry and 6.2 percent for agriculture (Sector-wise GNPA total percentage shares at 29 percent) (Financial Stability Report, 2024). Other factors like growing Indian economy, rise of the middle class, and demographic dividend fuelling the potential purchasing power also contributed to the 'retail-shift'.

Dependency on an instrument of investment comes from financial planning based on an individual's financial literacy. The basis of financial literacy is to understand financial goods and make informed decisions about investing and saving considering the trade-off between risk and reward (Verma, T. L., 2017). Many banks, both public and private, compete in the personal loan market (Tiwari. K. K., & Somani, R., 2021). By gathering savings from the depositors and giving out loans to the borrowers, banks act as financial intermediaries; enabling the economy to expand (Tiwari. K. K., & Somani, R., 2021). This transformation is prominent for economy growth (Berger and Bouwman, 2009; Bernanke, 1983).

With this background, this research tries to understand the banking experience of the retail borrowers and the factors that influences the customer experience in choosing banking; societal influences and confidence in banks.

The following are the research hypotheses:

**H1:** Societal influences and confidence in banks have a significant positive effect on people's perception of loans.

**H2:** There is a moderating effect of monthly household income on societal influence and confidence in banks over people's perception of loans.

Next section is a list of reviews on topics related to loans from banking services, and satisfaction of the services to the determinants of choosing a particular bank. After review section follows the research methodology, data analysis and results, conclusion, and limitations and scope for future research sections.

## 2. Literature Review

It is documented that about 39 percentage of the adults who had borrowed formal loans are financially literate and that different banking peer comparisons of the interest rates for Real Estate Loans showed varied rates (Verma, T.L., 2017). Financial services giving varied rates, particularly in India, where there is a lack of financial literacy and lack of financial access can be a concern and may affect selecting a favourable particular bank (Agarwal, S., Amromin, G., Ben-David, I., Chomsisengphet, S., & Evanoff, D. D., 2015).

More than 90 percentage of respondents preferred availing a gold loan when compared to other type of loans. The borrowers of Public Sector Bank's loan were highly satisfied with the safety of the security pledged, but were dissatisfied with the quality of services provided (Malarvizhi, P. V., & Angel, A., 2011). There is a discernible relationship between male and female bank customers' perceptions of loan schemes (Tiwari, K. K., & Somani, R., 2021). Moreover, the probability of taking a loan increases with the probability of owning a house, if a person is employed and has a bank account. The results also reveal that those who own a house have a lower probability of taking a loan from the informal sector (Ray, S., Miglani, S., & Paul, S., 2019). The critical role of banks in meeting diverse financial needs and their growth dynamics is influenced by factors like customer satisfaction, service costs, and technological advancements. Additionally, it assesses the quality of services across public, private, and foreign banks, shedding light on the evolving landscape of banking services amid technological advancements and changing customer expectations (Patro, C. S. 2015). Middle-aged individuals are found opting for home loans, with a preference among males. Businesspersons are more likely to seek home loans, primarily for home purchases. The majority of borrowers prefer loans sanctioned within a month with features like easy processing, customer service, and procedures. But higher interest rates and legal formalities are less influential (Soundarya, M., & Selvarani, S., 2019). It is acknowledged that there is opportunity in the retail banking but notes potential risks like household indebtedness. Competition among Housing Finance Companies, urging a prioritized housing sector for economic benefits is also noted. The study also stresses the need for skilled human resources, particularly in institutions like the State Bank of India, to manage retail credit portfolios efficiently (Gaur, A., 2009). Another study discusses changes in the global and Indian banking industries over the past two decades, emphasizing the impact of communication and information technology driven by the Information Technology Revolution (Kamakodi, N., & Khan, B. A., 2008).

A study involving 250 respondents, revealed that factors like processing fees, interest rates, and service quality experience significantly impact customers' choices (Sughana, M., & Sheela, P., 2021). The study conducted in Himachal Pradesh focused on the development of urban cooperative banks, particularly analyzing the perception of customers towards home loans offered by Baghat Urban Co-operative Bank Limited (BUCB) revealed that customers were highly satisfied with the bank's home loan services, emphasizing factors such as service quality, transparency, timely loan approval, employee cooperation, and query handling importance. Despite the overall satisfaction, the study identified challenges faced by customers, including procedural delays, lack of knowledge, unavailability of guarantors, non-cooperation of bank employees, and bureaucratic red-tapism (Chaudhary, R., & Junjhua, Y., 2011).

Past studies on education loans have significantly fueled the growth of the Indian education sector, fostering the establishment of numerous educational institutions. It was found that there is a correlation between the introduction of education loans and the subsequent expansion of educational opportunities across the country (Dhiman, B., & Khurana, A., 2011).

Banks are also found prioritizing lending to individuals pursuing professional courses. This aligns with the belief that professional education enhances career prospects, impacting the borrower's ability to repay. The assessment of loan specifics reflects the banking sector's strategic support for education linked to lucrative career paths (Kunasekaran, K. K. H., 2014). The study conducted with 1,500 participants investigated students' knowledge, attitudes, and perceptions regarding the National Higher Education Fund Corporation (NHFCE) loan. While students generally had good knowledge of the loan agreement, a notable percentage displayed negative attitudes toward loan repayment, viewing it as burdensome. It was also found that students perception on education loan's impact after post-graduation life has revealed their concern about job options, car purchases, and decisions related to marriage and children (Abu Bakar, E., Masud, J., & Md Jusoh, Z., 2006).

In terms of consumer loans, findings also suggested that customers find it safe and effective, with easy information processing. Attitudes vary, but customers appreciate positive customer service from their bank. Further, social factors and motives such as low-interest rates does influence decisions. (Aung, H. N., 2018).

The factors influencing personal loan borrowing in Malaysia, focusing on knowledge, media awareness, perceptions, family influence, and religious or ethical beliefs from a sample of 100 bank employees in Malaysia were carried out and found that media awareness and religious or ethical beliefs significantly impact personal loan borrowing. However, knowledge, perceptions, and family influence show no significant associations (Ismail, S., Othman, R., Kamalrulzaman, S. N. H., Jahya, A., Idris, N. H., Zaitun, S., & Izren, F., 2013). With over 75% of car sales attributed to bank loans, the research concludes by underscoring the impact of dealer tie-ups and subvention money, recognizing advertising's influence and the crucial role of car loans in making car ownership accessible to the middle class (Muthukumar, M., 2014).

The criteria influencing customers' selection of financial institutions for mortgage loans revealed the importance of having service quality, product attributes, access, and communication. Notably, Service Quality emerges as the most crucial factor, with customers prioritizing a bank's friendly image and competent staff. The findings underscore the enduring significance of service quality as a competitive advantage in banking, suggesting that understanding and enhancing these dimensions are pivotal for building long-term customer relationships (Lympelopoulou, C., Chaniotakis, I. E., & Soureli, M., 2006).

The factors influencing consumers' decisions on home loans from the LIC and SBI indicated that the following factor matters: interest rates, accessibility, reputation, service speed, and offered schemes. Additionally, factors like longer repayment periods, easy documentation, cooperative staff, and easy instalments significantly influence respondents' choices between LIC and SBI for home loans (Gupta, U., & Sinha, R., 2015).

Public sector banks (PSBs) play a crucial role in stimulating business growth by facilitating loans and advances for individuals, firms, companies, and industrial concerns (Rajamohan, S., & Durairaj, M. D., 2015). Greek customers' decision to take out a loan from commercial banks showed that personal marital status, customer service, shop design, and interest rates

are the most significant predictors of taking loans (Frangos, C. C., Fragkos, K. C., Sotiropoulos, I., Manolopoulos, G., & Valvi, A. C., 2012).

Empirical findings also highlighted the substantial influence of relational benefits on customer satisfaction, with a specific focus on the pivotal role of confidence in choice of the bank (Molina, A., Martín-Consuegra, D., & Esteban, A., 2007).

An exploration of the role of self-serving bias in borrowers' and lenders' perceptions of loan experiences shows the existence of pervasive self-serving bias, with borrowers displaying distinct recall patterns and rationalization tendencies. The study uncovers divergent consequences of loan delinquency on borrowers and lenders, emphasizing the impact on emotions and the relationship between parties. Borrowers' emotions are closely tied to loan repayment, while delinquency significantly alienates lenders. The research highlights the complex interplay of perceptions, emotions, and projections that contribute to potential friction in the borrower-lender relationship (Dezső, L., & Loewenstein, G., 2012).

Therefore, this research tries to understand the customer experience and the various factors influencing their choice of the retail banking service provider. This research is different from the earlier research conducted due to the applicability of the new analytical method called Confirmatory Composite Analysis (CCA). The used analysis can perform both confirmatory analyses of reflective and formative composite. This paper focuses on the general retail borrowing experiences and the data is collected from the respondents at Bangalore.

### 3. Research Methodology

The data is collected through distributing a questionnaire to 246 respondents in the Bangalore City on random basis. A pilot test has been conducted on a sample of 30 respondents and found that the questionnaire is reliable as the Cronbach Alpha is greater than .76 for the selected variables (Societal Influence, Confidence in Banks, People's perception of loans, and Monthly household income, Table 1). Based on the recommendations of Hair et al. (2019) and Hair et al. (2020); Confirmatory Composite Analysis (CCA), an emerging analysis through Smart PLS software is applied on the conceptual model.

The conceptual model (Figure 1) explains the relationship between 2 independent variables i.e. Societal Influence and Confidence in Banks and 1 dependent variable that is People's perception of Loans. A moderating variable that is Monthly household income is also taken into consideration to check if there is any impact on the relationship of the variables due to people's income.

**Societal Influence:** This independent variable includes factors such as cultural norms, attitudes towards debt, etc. It is hypothesized that societal influence has a direct effect on people's perception of loans. For example, if a society has a positive view of debt and banks are seen as trustworthy institutions, then people are more likely to have a positive perception of loans.

**Confidence in Banks:** This independent variable refers to the level of trust that people have in banks. It is hypothesized that confidence in banks has a direct effect on people's perception of loans. For example, people who trust banks are more likely to view loans as a safe and beneficial financial tool. **People's Perception of Loans:** This is the dependent variable, and includes factors such as people's beliefs about the risks and benefits of loans, their willingness to take out a loan, and their overall satisfaction with the loan process.

**Monthly Household Income:** This moderating variable could affect the relationship between the independent variables (societal influence and confidence in banks) and the dependent variable (people's perception of loans). For example, the positive effect of societal influence and confidence in banks on people's perception of loans may be stronger for people with higher monthly household incomes. This is because people with higher incomes may have more financial resources and may be less risk-averse, making them more likely to view loans favourably.

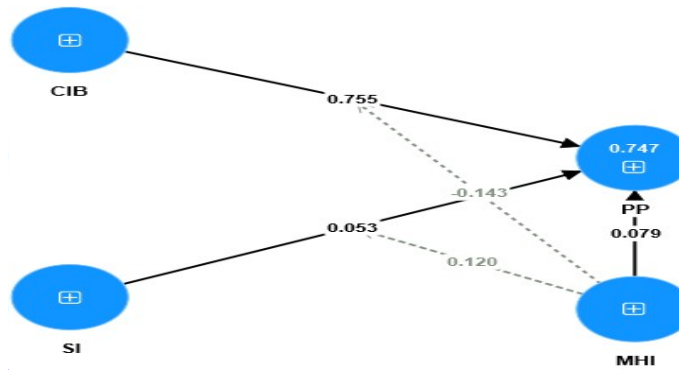
### 4. Data Analysis and interpretation

Confidence in banks (CIB) has a significant positive effect on the people's perception of loans (PP) (path coefficient = 0.755,  $p < 0.05$ ). This indicates that when the client's confidence in the particular bank affects taking retail banking services. Therefore, the null hypothesis is rejected and accept the alternative hypothesis.

Monthly household income (MHI) shows small positive effect on people's perception of loans (PP) (path coefficient = 0.079,  $p < 0.05$ ). This means that statistically significant relationship between income and people's perception of loans in this model. The moderating effect of monthly household income (MHI) on the relationship between societal influences (SI) and people's perception of loans (PP) is not significant\* (path coefficient = 0.120,  $p < 0.05$ ). This means that the effect of societal influences on people's perception of loans does differ depending on the retail banking client's income level. The moderating effect of monthly household income (MHI) on the relationship between confidence in banks (CIB) and people's perception of loans (PP) is significant (path coefficient = -0.143,  $p < 0.05$ ). This means that the effect of confidence in banks on people's perception of loans differs depending on their income level. The CCA model has generated  $R^2$  value of .747 indicating substantial explanatory power of the model.

Furthermore, the test outcome suggested that there is no evidence of a clear influence of Societal factor on the People's perception of loans as the p-value is more than 5 percent level of significance (path coefficient = 0.053,  $p > 0.05$ ). Therefore, it is not statistically significant and denotes strong evidence for the null hypothesis being true.

The following diagnostic testing outcome showed satisfactory results: Average Variance Extracted (Table 1) is on average of .54 and Fornell-Larcker criterion (Table 2) details are found to be satisfactory (Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M., 2019). The variance inflation factor (VIF) is less than 5 therefore collinearity issue is not detected.



**Figure 1** Output, MHI (Monthly Household Income), CIB (Confidence in banks), PP (People’s Perception Of Loans), Societal Influences (SI);

**Source:** Primary. Using SmartPLS: Ringle, C.M., Wende, S., and Becker, J.-M. 2022. “Smart PLS 4” Oststeinbek: Smart PLS GmbH, <http://www.smartpls.com>.

**Table 1** Reliability and Validity

	Cronbach’s alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CIB	0.84	0.86	0.89	0.57
PP	0.74	0.76	0.83	0.50
SI	0.84	0.86	0.89	0.55

**Source:** Own Computation

**Table 2** Fornell-Larcker Criterion

Variables	CIB	MHI	PP	SI
CIB	.754			
MHI	.367	1.000		
PP	.856	.377	.700	
SI	.737	.212	.661	.753

**Source:** Own Computation

**Table 3** VIF

	VIF
CIB1	1.681
CIB2	3.662
CIB3	3.443
CIB4	1.715
CIB5	1.433
CIB6	1.625
MHI	1.000
PP2	1.338
PP5	1.540
PP6	1.426
PP7	1.692
PP8	1.477
SI1	1.900
SI2	1.337
SI3	2.279
SI4	2.784
SI5	2.658
SI6	2.105
MHI x SI	1.000
MHI x CIB	1.000

**Source:** Own Computation

### 5. Conclusion

This study provided valuable insights into the retail banking experience in particular how it influences and shapes attitudes towards loans, emphasizing societal influences, confidence in banks, and the moderating role of monthly household income. Analysis revealed societal influence does not impact the perception of retail banking client on retail loans provided while the confidence in banks does. Monthly household income exhibited a small, non-significant impact, indicating income alone may not decisively shape attitudes toward loans. The respondents shared consensus that peer recommendations influence them when

selecting a trustworthy bank. It can be concluded that the societal reputation of banks greatly influences borrowing behaviour, with people displaying a preference for established institutions over online lending platforms due to trust concerns. Moreover, there's a prevailing sentiment favouring public sector banks over private ones. Additionally, people's confidence in their chosen bank is a crucial factor, as more than half of the respondents trust their current savings account provider for loan services. The study highlights the necessity of compulsory financial education for children, aimed at empowering them to make informed financial decisions and potentially decreasing loan dependence. Moreover, a vast majority, approximately fifty-five percent, of the respondents reported having long-term financial plans to reduce loan dependency, emphasizing proactive financial management.

The decisive factor in selecting a bank for loans is customer service, which subsequently affects overall trust in financial institutions. While interest rates and repayment terms play a role in decision-making, their influence is relatively secondary compared to the pivotal role of societal reputation and confidence in banks.

In summary, individuals are also influenced by societal norms in addition to higher confidence in banks tend to view loans more favourably, but income's direct impact is limited.

### Limitations & Scope for Future Research

While our study enriches understanding of the chosen topic, limitations exist due to geographical constraints (respondents are focused only in the Bangalore City though they are migrated from various parts of India). Future researchers can expand and include variables like cultural factors, financial literacy, and education to foster enhanced financial planning among individuals. Additionally, investigating the influence of borrowing experiences and the positive impact of initiating investments at a younger age, as indicated by the survey, would contribute valuable insights. The study could also delve into the utilization of online platforms for loan applications, especially in an era of advancing technology and innovation. Understanding the likelihood of the younger respondents in embracing these platforms would provide crucial information if there are any new findings.

Therefore, as financial landscapes evolve, ongoing research with diverse samples and methodologies may contribute to a nuanced understanding of peoples' perceptions of loans in different contexts based on personalized retail banking experience.

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