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Innovations in Consumer Finance in India

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ABSTRACT *India's consumer market is riding the crest of the country's economic boom. Driven by a young population with access to disposable incomes and easy finance options the consumer market has been throwing up staggering figures. The market share of MNC in consumer durables sector is 65%. MNC's major target is the growing middle class of india. MNCs offer superior technology to the consumers where as the Indian companies compete on the basis of firm grasp of the local market, their well acknowledged brands, and hold over wide distribution network.*

In view of this changing landscape, we look at the three major drivers of growth in consumer finance : auto finance, housing finance and consumer durable finance. This paper discusses the trends in each of these area as well as the short comings which are slowing down growth.

INTRODUCTION :
Spurred by the liberalization process, there has been a gradual move away from a supply constrained economy to a demand driven one. Moreover the typical Indian consumer's mindset has changed as well. Austerity is no longer considered a virtue and debt is not a taboo any more in a typical middle class Indian family.

The arrival of cheaper finance has completely changed buying patterns. Today the size of the consumer finance market is estimated over Rs.70000 crore, clocking an annual growth of over 30%, seven out of ten cars are currently sold through loans. Rural markets also account for one third of the consumer finance purchase. Cheaper and more easily available finance has enabled consumers to upgrade and buy costlier products. As a result, purchase patterns have changed significantly and consumers are now buying higher quality goods.

In view of this changing landscape we look at the three major drivers of growth in consumer finance : auto finance, housing finance and consumer durable finance. We present some of the innovative product ideas which have appeared in the market recently and others which have the potential and can pick up provided adequate attention is paid. These include customer financing by large retail outlets, range of credit card offerings, innovation in education finance , rural finance etc.

CONSUMER CLASSES:
Even discounting the purchase power parity factor, income classifications do not serve as an effective indicator of ownership and consumption trends in the economy. Accordingly, the National Council for Applied Economic Research (NCAER). India's premier economic research institution, has released an alternative classification system based on consumption indicators, which is more relevant for ascertaining consumption patterns of various classes of goods.

There are five classes of consumer households, ranging from the destitute to the highly affluent, which differ considerable in their consumption behavior and ownership patterns across various categories of goods. These classes exist in urban as well as rural households both, and consumption trends may differ significantly between similar income households in urban and rural areas.

OVERVIEW OF INDIA'S CONSUMER DURABLES MARKET:
The Indian consumer durables segment can be segmented into three groups:

Table : 1 Consumer durable segment

White goods	Brown goods	Consumer electronics
Air conditioners	Microwave ovens	TVs
Refrigerator	Cooking range	Audio and video systems
Washing machines	Chimneys	Electronic accessories
Sewing machines	Mixers	PC's
Watches and clocks	Grinders	Mobile phone
Clearing equipment	Electronic fans	Digital camera's
Other domestic appliances	irons	DVD

Most of the segments in this sector are characterized by intense competition, emergence of new companies and introduction of state of the art models, price discounts and exchange schemes. MNCs continue to dominate the Indian consumer durable segment, which is apparent from the fact that these companies command more than 65% market share in the color television (CTV) segment.

CONSUMER SPENDING:
There are 300 million middle income earners in India, bringing home US$2000 to US$4000 a year, much higher in purchasing power parity than that figure would indicate. Economists say that annual income in Asia of about $3000 is the take off point for car purchases. India's middle class, already bigger than the entire population of the United States, is expected to grow to 445 million by 2011. Knight Frank India has ranked India fifth in the list of 30 emerging retail markets globally, predicting 20 percent growth for the segment by 2011.

Another evidence of the growing consumption levels is the consumer outlook survey conducted by Delhi based KSA technopak, India's largest management consultancy, specializing in the consumer product segment. As per the survey which is based on 10,000 four member families with slightly higher earnings than average, urban consumers in 20 Indian cities spent over INR 15,000 crore on themselves in 2002, a 12 percent year on year increase.

Table 2 : HOW INDIANS SPEND
(KSA Techno park Survey)
Percentage of annual earnings spent

Particulars	2009	2012
Groceries	49.8	46.2
Personal care	8.8	12.4

Appliances/durables	5.0	8.6
Clothes/footwear/furnishing	7.8	10.5
Books/music	5.0	6.7
Movies/entertainment	2.9	5.8
Vacation/eating out	10.8	15.6
Savings and investments	12.1	5.2

Jagdish Khattar, Managing director of Maruti Udhyog, comments " I am bullish about the future (of consumer spending habits) simply because consumer finance is intensifying and local levies can only go one way down".

CONSUMER FINANCING – PICKING MOMENTUM:
Consumer lending in India has zoomed from Rs.20,000 crore in 2000-01 to 55,000 crore in 2001-02. Finance is available for anything under the sum from TVs, washing machines, refrigerators, air conditioners, PCs, two wheelers, car, to branded furniture, software, books and teaching aids, consumer financing is now available even for air travel, holidaying and higher education cheaper and easily available finance is in fact fuelling the growth in demand for white goods.

The national council of applied economic research reckons that the impact of consumer finance first began to be felt in 1999-2000. In that year, demand for financed white goods rose 23.9 per cent while overall market grew just18.9 per cent. In rural markets the availability of cheap finance was even bigger factor in growth. While rural demand for white goods grew 22.4 per cent in 1999-2000, the growth of financed white goods rose a phenomenal 39.6 per cent. Southern states accounted for 45 per cent of consumer finance market and western states, 30 percent. Retail loans have grown at 27 per cent per annum between 2000-01 and 2002-03 and commercial credit , at 13.6 per cent. Growth in purchases with consumer financing in 1999-2000 was 134 per cent overall in urban areas and103 per cent in southern states.

AUTO FINANCE:
There are several private finance companies in India specializing in auto finance, both at the regional and national level. Apart from these companies, automobile loans are offered by most private and public sector banks. ICICI bank siburses over RS. 300 crore per month in the car financing business. It is also largest financer in the 2 wheeler industry.

Auto loan industry is growing at 30 per cent per annum. Also, consumers are upgrading their cars by borrowing from auto financing companies. Like other lending institutions in India, auto finance companies face a high percentage of delinquencies. Some of the problems facing auto finance companies in India are :

- Lending decisions are taken at the local level, and lack consistency. As local offices have to meet performance targets, they tend to lend approve marginal cases.
- Credit checks are inaccurate due to lack of information.
- Recovery from defaulters is difficult. Even repossession of automobiles limits recovery as borrowers often replace new components with used ones.
- Interest rates are high because of low recovery. This makes finance options less attractive to consumers.
- Used automobile finance and leasing of new vehicles is limited due to the difficulties in assessing consumer credibility and lack of effective recovery options.
- Automobile finance companies do not share consumer data. Consumers are often able to obtain automobile finance even after defaulting with previous such loans.

HOUSING FINANCE:
India has several housing finance companies offering loans for construction, renovation and purchase of residential accommodation. Recently, banks have also started offering housing finance, and are seen as significant competition to housing finance companies. Maximum number of housing loans is of the size less than Rs.5lakh with a repayment period of 10-15 years.

Some of the common issues facing housing companies in India are:

- Lending decisions are conservative and restricted to the high income group consumers due to the lack of facilities to establish credibility, and foreclosure regulations.
- Rural and semi urban markets have remained largely untapped due to high down payment requirement and non availability of title deeds in the absence of land records in the rural areas.
- For new construction, finance is generally offered for construction only, and not for purchase of land. This makes new housing less affordable.
- Recovery of defaults is difficult due to the lack of an effective legal framework.
- Processing of loan applications is time consuming and expensive.
- Interest rates are high because of poor recovery.

DURABLE GOODS FINANCING:
India has a large consumer goods manufacturing base. It has several major players in the luxury and semi luxury segments that boast of nationwide retail and distribution networks. A number of consumer goods manufactures have started offering loans to consumers for purchase of their products. These loans are normally processed at the retail location level. Color televisions (CTVs), refrigerators and air conditioners, generate 80 percent of business for consumer durable financiers.

There are several finance companies that offer consumer durable finance. Countrywide personal finance and the associates are two companies that have percolated to a very large number of consumer durables dealers. Apart from this, housing finance companies also offer consumer durable finance at attractive interest rates to existing home loan customers.

Issues that need to be resolved in order to boost consumer finance in this area include:

- Manufacturer or dealer promoted finance schemes for consumer goods are an effective tool for business development, but come with a heavy price due to poor recovery. It is also difficult to refinance such loans as the credit decisions are mostly made at the retail location level and application procedures are inadequate.
- Credit decisions normally take a few days. This makes such finance schemes less marketable.
- Large corporations find it difficult to implement such finance schemes nationally and seek maximum benefit.
- Retailers are also weary of promoting such schemes locally due to the lack of means of gauging consumer credibility.

CONCLUSION:
This paper shows that consumer financing business in India has been on an uptrend recently and is expected to remain so in the future fuelled by the sweeping changes in the consumption habits of the Indian middle class. Till now most of the growth has come from traditional channels of financing lie auto finance, housing finance, consumer durable financing etc. but going forward, banks and NBFC alike need to search for other avenues for sustaining the momentum. This growth can come from areas like developments in rural finance, widened gamut of credit card offerings, education, partnerships with multi brand outlets etc. If credit scoring coupled with credit bureaus providing in depth databases is employed, promising results may be achieved in reducing transaction and risk costs, as lending decisions can be automated and as repayment is reinforced.

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