Prevalence Of Non-Institutional Borrowing Among Indian Households: A Pre and Post COVID-19 Analysis

Debopam Chaudhuri[1], Arka Chatterji,[2] Tanya Agrawal,[3] Surbi Mantri[4]

Abstract

Since 2014, India has intensified its focus on financial inclusion through initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at bringing the unbanked population into the formal financial system. This article examines the impact of various financial inclusion initiatives on the borrowing behavior of Indian households, specifically their propensity to borrow from institutional versus non-institutional lenders. It analyzes borrowing patterns across households segmented by income, occupation, and geographic location. The primary objective is to assess whether the increased availability of institutional financial services has led to a shift among households from relying on non-institutional lenders to formal institutions such as commercial banks, small finance banks (SFBs), non-banking financial companies (NBFCs), and microfinance institutions (MFIs). Such a trend could partly explain the surge in retail lending by institutional players and ease concerns over the quality of their loan portfolios.

Survey data from the CMIE Population Pyramid study found no clear evidence of a shift toward institutional borrowing, particularly after COVID-19. The pandemic's economic fallout — including rising unemployment, reverse migration, and a growing informal workforce — stalled financial inclusion progress and raised delinquency risks. Cautious lending practices and higher risk weights on unsecured loans further limited credit access for vulnerable households and small businesses.

Introduction

Democratization of financial services is an important step towards making a developed economy. Access to institutional financial services by all segments of the population contributes to equitable economic development, higher quality of job creation, and an overall advancement in quality of life, especially that of

[1] Chief Economist, Piramal Enterprises Limited
[2] Head, Marketing Insights, Piramal Finance Limited
[3] Economist, Piramal Enterprises Limited
[4] Intern, Economics Research Team, Piramal Enterprises Limited

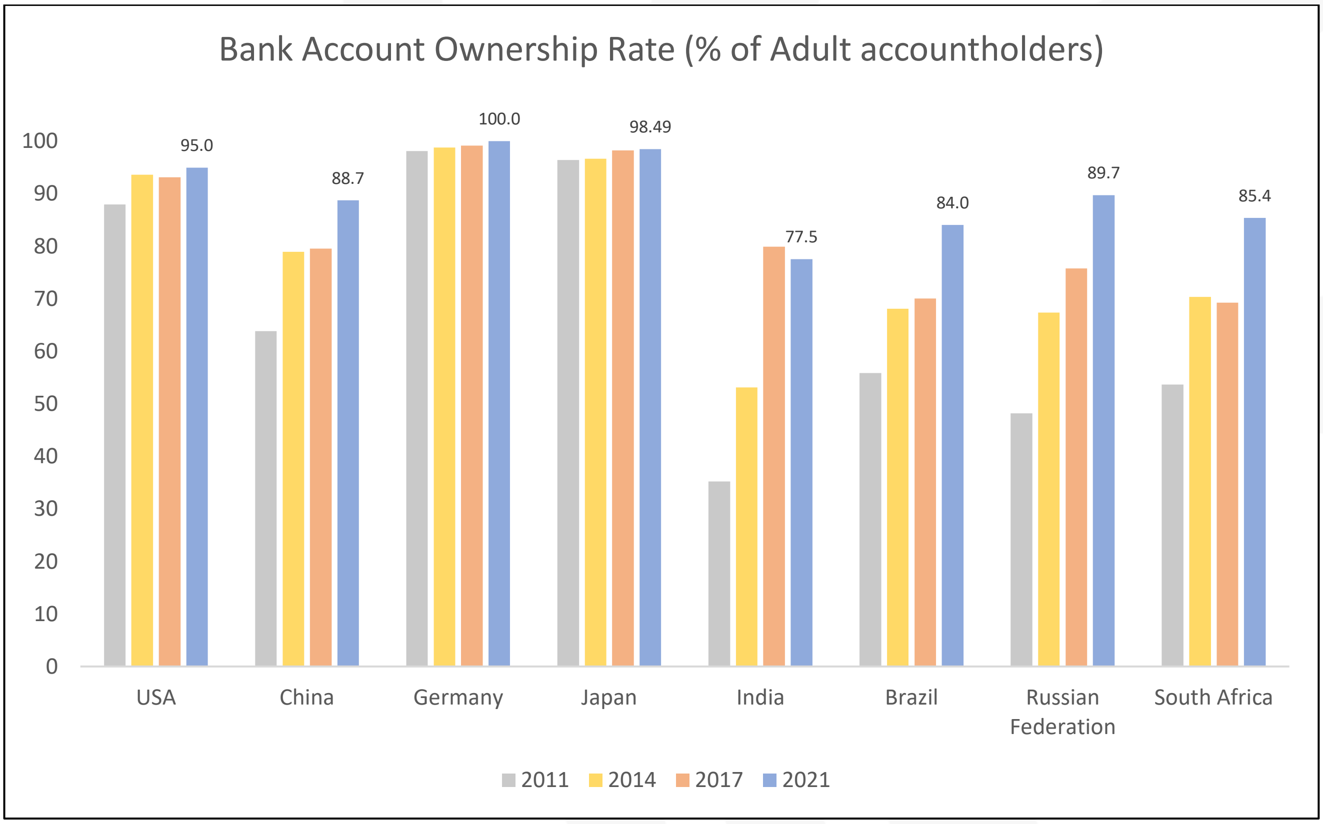
women. For example, in the United States of America (USA), 86% households had a bank account by as early as 1989, while in India, only 53% adults had a bank account as recently as in 2014.

Financial inclusion levels in India were at a primitive level till 2014. However, in the last decade multiple public policy interventions have resulted in a sharp rise with 77.5% bank account ownership amongst adults by 2021. This improvement was triggered by factors like implementation of the India stack, a slew of policy interventions like Jan Dhan (2014), Mudra (2015), Svanidhi (2020) and Vishwakarma (2023) yojanas, and the advent of fin-tech players who harnessed technology to curate financial services for the previously unbanked population.

Global Comparison

Despite that, India ranks well below its peers in something as basic as owning bank accounts. In emerging nations like Brazil and South Africa, approximately 85% adults have bank accounts, while in Russia and China, approximately 89% adults have bank accounts. Amongst large economies, Germany has 100% of its population with bank accounts, followed by Japan with 98.5%, and the US at 95% (figure 1).

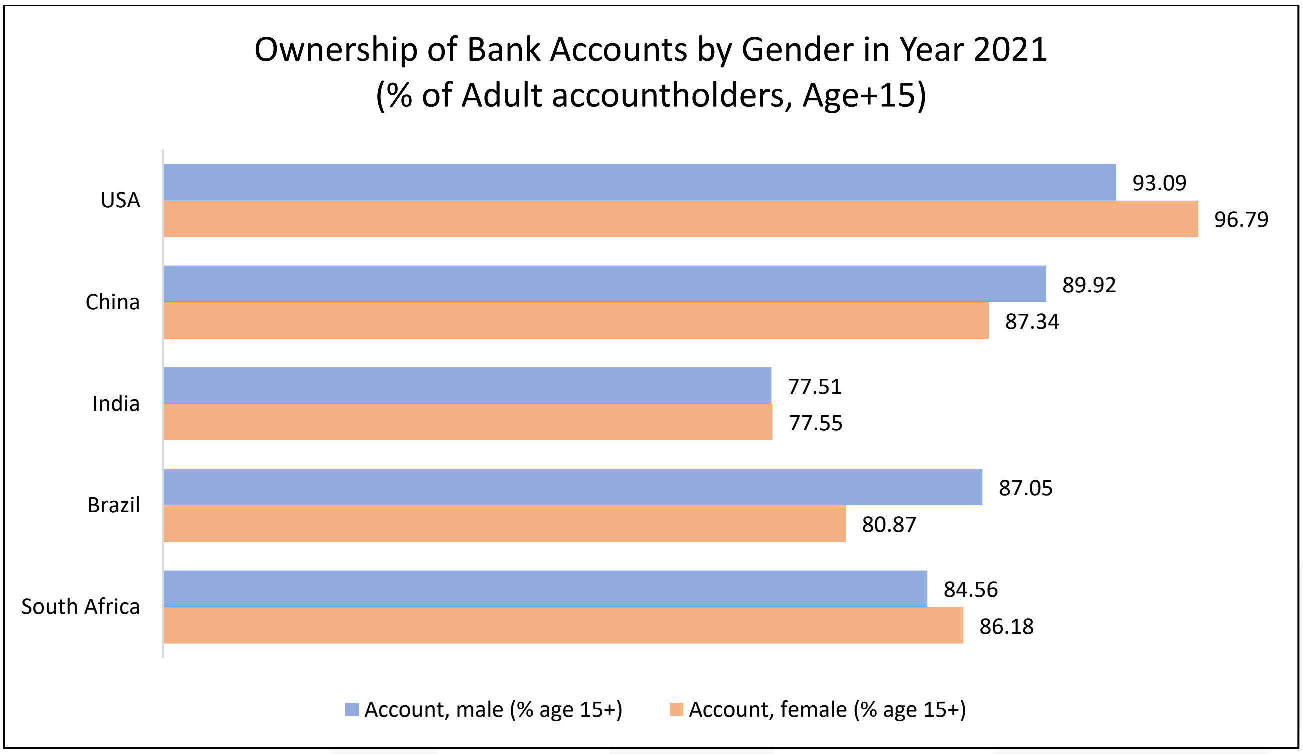
Figure 1: Bank account ownership rate across various countries for 2011-21



Source: Data from Global Findex Database, 2021

A notable positive in India's financial inclusion journey is the absence of gender discrimination, with nearly equal numbers of previously unbanked men and women gaining access to the formal financial system. While gender disparity in financial services remains a significant global concern, India appears to be addressing this challenge effectively, (figure 2).

Figure 2: Account ownership rate across various countries according to gender in 2021.



Source: Data from Global Findex Database, 2021

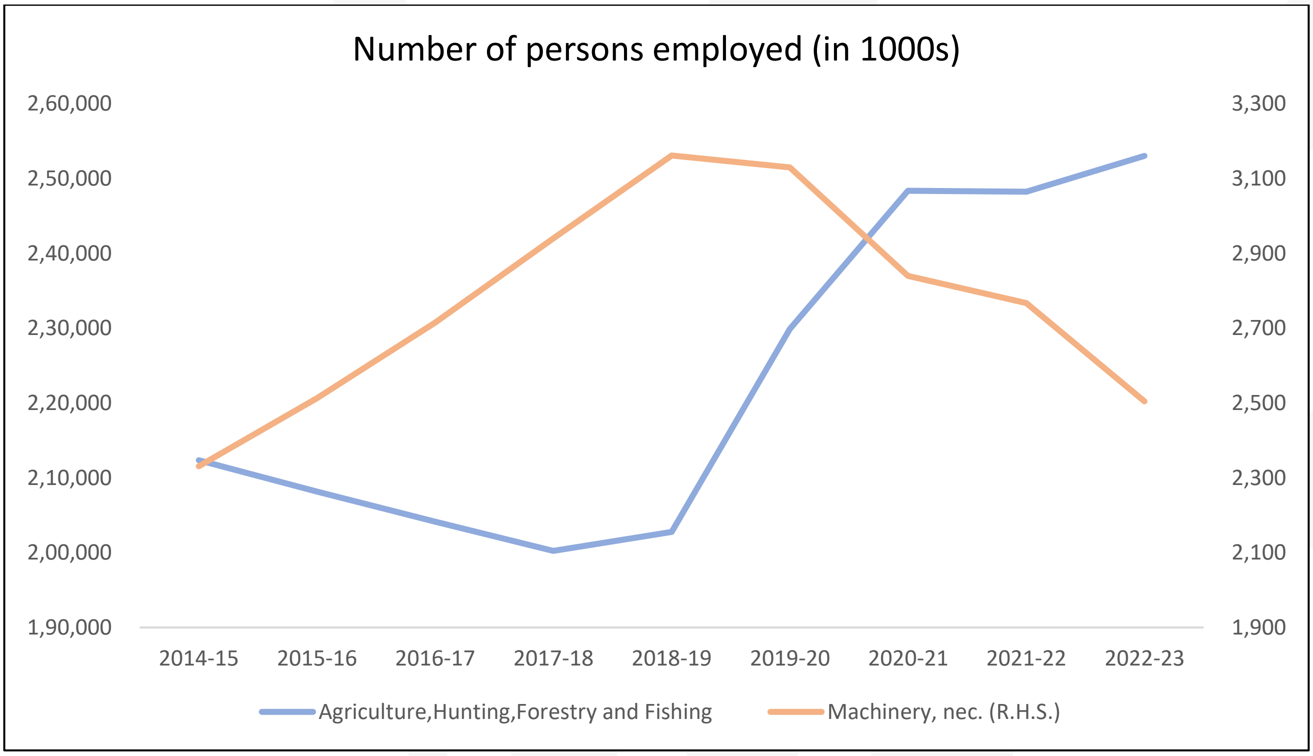
Progress in Financial Inclusion

Government of India's flagship program, Pradhan Mantri Jan Dhan Yojana (PMJDY) is a leading financial inclusion initiative for the economically weaker population, especially women. Through this program a significantly large number of poor adult women were able to open bank accounts for the first time in their life. By 2024, more than 55% of Jan Dhan bank accounts were owned by women. PMJDY, coupled with India's unique identification platform Aadhar and mobile internet (the JAM trinity) have led the foundation for implementing a mass financial inclusion program in the world's most populous nation.

While the government is endeavoring to bring many previously unbanked populations under the aegis of formal financial services, the services offered are largely restricted to basic deposits. Access to credit continues to remain slow, with credit to rural households accounting for a mere 9.4% of total bank credit in FY24. Compared to this semi-urban households had 14.5%, urban households 19.2%, and metropolitan households accounted for 57% of total bank credit. Back in FY14, rural households accounted for 9% of total bank credit, and hence there has not been any major change in credit access for the rural population.

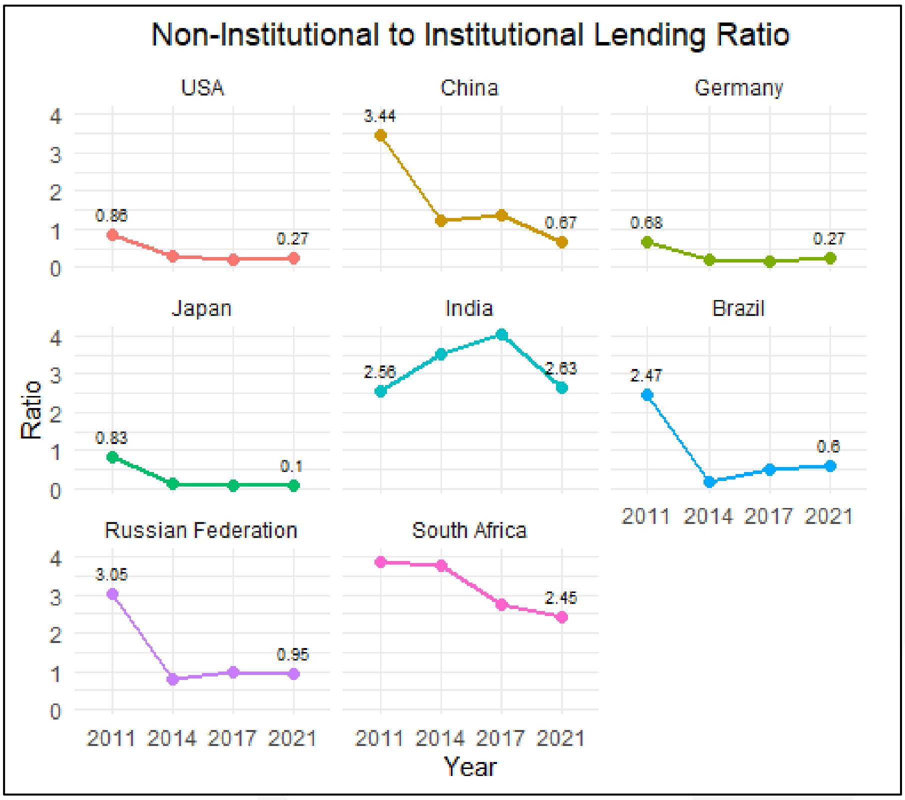
Data indicates that, despite several policy initiatives and technology-driven interventions, there has been no significant reduction in consumer loans sourced from non-institutional channels such as local moneylenders, shopkeepers, and personal networks. Although there were early signs of a shift from non-institutional to institutional borrowing between FY15 and FY19, the disruptions caused by COVID-19 and the accompanying rise in unemployment reversed this trend. Many borrowers were compelled to return to informal lenders, a pattern that coincided with large-scale urban-to-rural reverse migration and a subsequent increase in agricultural employment triggered by the 2020 lockdowns. As per the latest Reserve Bank of India (RBI) KLEMS (K: Capital, L: Labor, E: Energy, M: Materials and S: Services) data, agricultural employment levels are yet to come back to its pre-COVID-19 levels (figure 3). The rise in agricultural employment was accompanied by a notable contraction in jobs within higher productivity sectors such as machinery, signaling a concerning shift in the employment landscape

Figure 3: Change in employment.



Consequently, India continues to have the lowest penetration of institutional credit, with a credit to GDP ratio of 55.63% in 2024 increasing marginally from 53.36% in 2014. India has one of the highest non-institutional to institutional lending ratios (figure 4).

Figure 4: Non-institutional to institutional lending ratio across various countries for 2011 – 2021.



Source: Authors calculation. Data from Global Findex Database, 2021

Figure 4 shows the trend of non-institutional to institutional lending ratio across various countries for the period between 2011 and 2021. While other economies, both developed and developing, witnessed a declining trend in share of non-institutional credit, India observed rising incidences of non-institutional lending, vis a vis institutional lending. In 2021, borrowing from non-institutional sources was 2.63x of borrowing from institutional sources in India compared 0.6x in Brazil or 0.27x in USA. This implies that for every two people borrowing from institutional sources, 5 people were opting for non-institutional sources of borrowing.

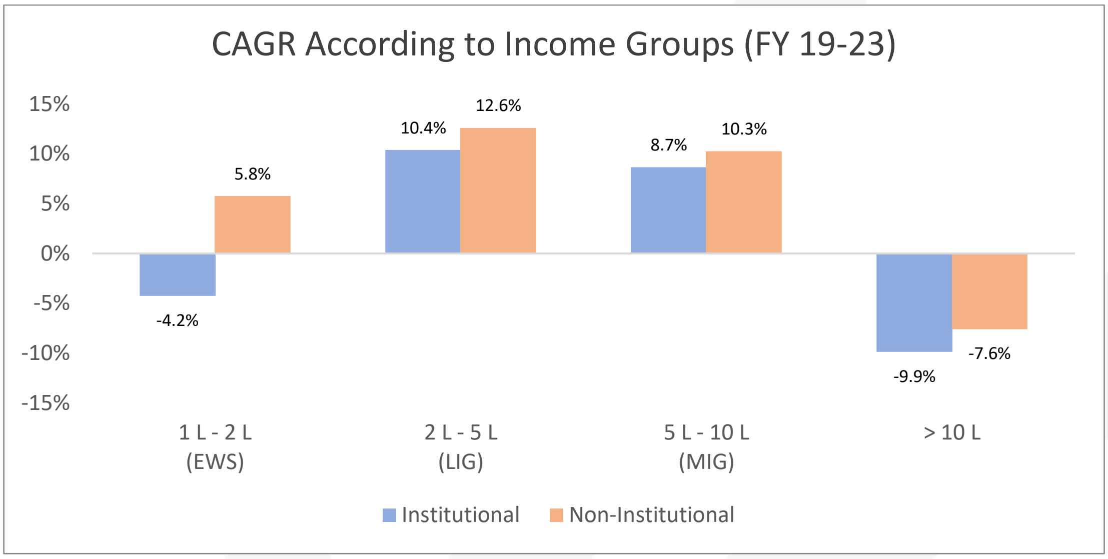
Household Survey data on borrowing trends in India

Through this article we intend to evaluate the extent of financial inclusion across Indian households representing various demographic factors like income levels, occupation, and geographies. We have used household data on borrowing from institutional and non-institutional sources over a period between FY19 (pre-COVID-19) to FY23 (post-COVID-19) as indicators of financial inclusion.

The data used for this analysis was sourced from the Centre for Monitoring Indian Economy's (CMIE's) Consumer Pyramid Household Survey (CPHS) dataset. The private agency conducts high frequency large scale surveys that have increasingly become popular for assessing the short-term changes in the economic conditions of Indian households. Since official government surveys were not being released regularly in recent years, CPHS became a significant source for primary data in India. While the National Sample Survey Office (NSSO) conducts a survey on a particular subject once every few years and releases the data after lengthy delays, the CPHS surveys are conducted continuously with households being revisited once every four months. The CPHS comprises surveys of households living in about 174,405 sample houses (110,975 urban and 63,430 rural) spread across most states in India. The sample is surveyed repeatedly in four monthly Waves. Within a Wave, a roughly equal number of households are surveyed every month. For this study, the data extracted from CMIE CPHS is on the borrowing trends of Indian Households. Both national and state wise data were extracted to capture the geospatial trends.

Financial Inclusion across different income groups:

Figure 5: CAGR of borrowings according to income groups



In figure 5, the annualized change in borrowing from institutional and non-institutional sources has been plotted across income categories of borrowers. The economically weaker segment (EWS) includes households with annual income of less than Rs. 2 lakhs. Low-income group (LIG) includes households with annual earnings of Rs. 2 lakhs to Rs. 5 lakhs. Middle income group (MIG) includes households with an annual income of Rs. 5 lakhs to Rs. 10 lakhs. Households earning more than Rs. 10 lakhs a year are categorized as the affluent segment.

Economically weaker households witnessed a contraction in borrowing from institutional sources with the number of such households borrowing from a bank or NBFC shrinking by 4.2% annually between FY19 to FY23. Declining productivity, rising incidences of agricultural employment, and RBI's caution on a higher likelihood of stress in retail lending books could be driving the institutional players away from the weaker segments of the population. The decrease in access to institutional credit seems to have been replaced by an increasing number of households (5.8% annually) in this segment who are borrowing from non-institutional sources.

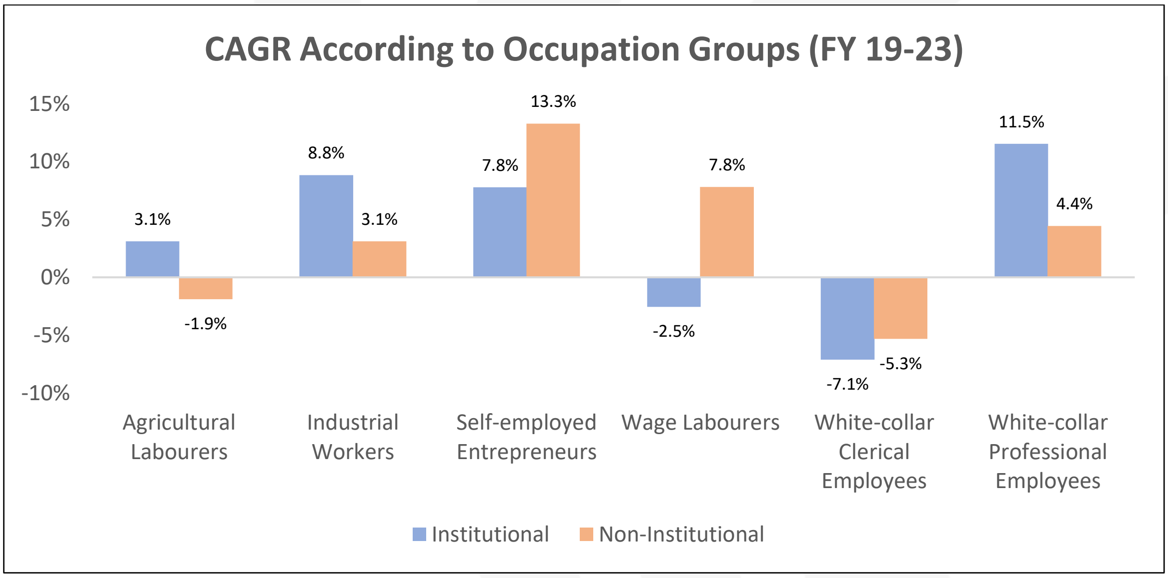
Among low-income households (LIG), although there has been a steady increase in borrowing from institutional lenders, an even higher number have continued to rely on non-institutional sources. According to survey data, between FY19 and FY23, the proportion of households borrowing from institutional sources rose by 10.4% annually, while those borrowing from non-institutional sources increased by 12.6% annually. This pattern suggests that institutional credit is not replacing non-institutional lending within this segment, underscoring persistent gaps in financial inclusion among India's low-income population.

The trend observed in LIG was similar to the middle-income group (MIG) as well, with growth rate of households in MIG borrowing from non-institutional sources remaining above those borrowing from institutional sources.

While incidences of borrowing, particularly from non-institutional sources have been on the rise among households earning between Rs. 2 lakhs to Rs. 10 lakhs (LIG + MIG), the propensity to borrow seems to have weakened among the affluent households in India whose income is higher than Rs. 10 lakhs a year. The number of household borrowing from institutional and non-institutional sources has been contracting by 10% and 7.6% annually, respectively, during the period under consideration. It is likely that this segment includes a larger share of borrowers who can be categorized as prime or super prime. Hence, the decline in exposure to loans underlines a systemic fall in customers with high credit ratings.

Financial Inclusion Across Occupational Groups:

Figure 6: CAGR of borrowings according to occupation groups



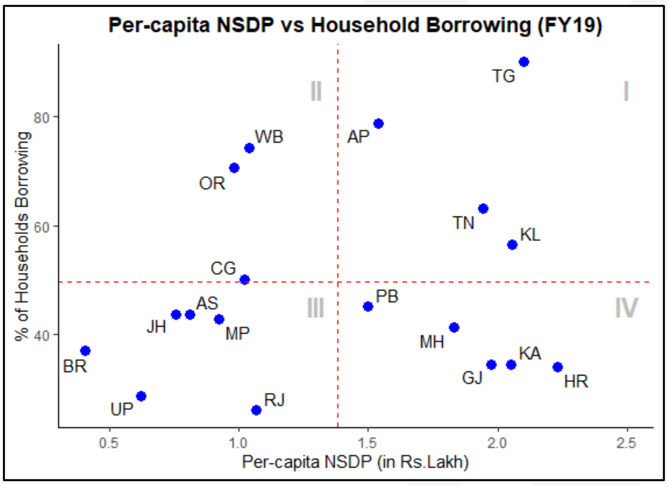
Slicing household data by the key earner in a household provides an understanding of how type of employment can influence access to institutional sources of credit (figure 6). The data suggests wage laborers continue to borrow significantly from non-institutional money lenders while their access to institutional sources has been contracting. This indicates a rising risk aversion of institutional lenders to fund daily-wage workers with no long-term work commitments. More than 55% of households associated with this profession have active loans, largely from non-institutional sources, underlying the demand for loans as well as lack of supply from institutional sources.

Self-employed entrepreneurs are increasingly relying more on non-institutional sources with the annualized growth of households borrowing from such sources rising at a much faster pace than those borrowing from institutional lenders. This depicts increased risk aversion among institutional players to support small businesses.

In case of industrial workers and white-collar professional workers, incidences of non-institutional borrowings are slowing down with the advent of new age fintech lenders and easy access to institutional credit for these cohorts. These cohorts seem to be the biggest beneficiaries of democratization in finance, that is underway in India.

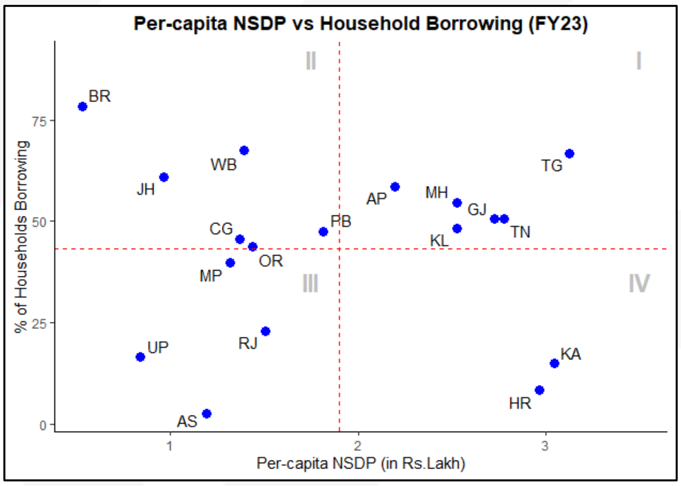
Financial Inclusion Trends Across Indian States

Figure 7: Scatterplot of Per-capita NSDP and Household Borrowing (FY19)



Source: CMIE and Economic Survey FY25

Figure 8: Scatterplot of Per-capita NSDP and Household Borrowing (FY23)



Source: CMIE and Economic Survey FY25

Figures 7 and 8 plots the per-capita net state domestic product (NSDP) and the percentage of households borrowing on x and y axis respectively for FY19 and FY23. The red dotted line shows the average NSDP and the average households borrowing during the year. Based on this, the figure can be divided into four quadrants (I, II, III and IV).

The scatter plot is split into four quadrants, with the first quadrant (I) representing Indian states with higher share of households with an outstanding loan and higher per capita income. In FY23, these were, Andhra Pradesh, Gujarat, Kerala, Maharashtra, Tamil Nadu, and Telangana. Considering these states have per capita income higher than average, a higher share of households exposed to borrowing should be an indicator of good-quality loans with productive end-use of the borrowed funds. The average per capita income of these four states is Rs. 2.64 Lakhs, and the average percentage of households borrowing are 54.93% (18.29% from institutional and 42.56% from non-institutional sources). Though this reflects a higher incidence of borrowing from non-institutional sources, it is lowest than most other quadrants, and additionally, in Kerala and Tamil Nadu, households relied more on institutional lenders indicating better penetration of financial services. Incidentally, these two states have a high exposure to gold loans, accounting for the highest number of origins among Indian states (as per Transunion CIBIL). With these states being some of the best performing Indian states, the significantly large number of households still borrowing from non-institutional sources is a worrying trend and underlines the slow progress in financial inclusion in India.

The second quadrant (II) categorizes the states as high borrowing - low-income states. The list of Indian states with these characteristics are Bihar, Chhattisgarh, Jharkhand, Odisha, Punjab, and West Bengal. These states have higher chances of delinquencies or defaults since they have many households borrowing despite low per capita income. This group of states have an average income of Rs. 1.13 Lakhs, with 57.22% of households borrowing on an average in FY23 (10.86% from institutional and 57.28% from non-institutional sources). On average, in these states 3 out of every 5 households have borrowed from non-institutional sources. This high share of borrowing from local money lenders or shopkeepers coupled with low-income levels highlights poor penetration of financial inclusion measures in these states. It is surprising to note that Punjab, which till FY19 was amongst the states with high per-capita income and low borrowing (Q IV), has migrated to this quadrant by FY23.

The third quadrant (III) categorizes the states as low borrowing - low-income states. Assam, Madhya Pradesh, Rajasthan, and Uttar Pradesh belong to this category. Government subsidies and private NGO support seems to have created a low appetite for credit amongst households in these low-income states. On average, their per-capita income is Rs. 1.40 Lakhs, and the average households borrowing are 20.41% (19.94% from institutional and 30.47% from non-institutional sources). These states don't seem to have a large demand for borrowed funds.

The fourth quadrant (IV) categorizes the states as low borrowing - high income states. The states in this category are Haryana, and Karnataka. Higher than average per capita income in these states make households good contenders of retail loans. These states may signify untapped business opportunities for institutional lenders. The average income of these states is Rs. 2.83 Lakhs, with an average of 11.74% of households borrowing (18.86 % from institutional and 16.72 % from non-institutional sources). Karnataka needs special mention because it is amongst the very few states in India where households share of borrowing from institutional lenders is higher than that from non-institutional lenders. Other major states to have this trend are Tamil Nadu, and Kerala (both in quadrant 1).

Some major changes between FY23 and FY19:

- Maharashtra and Gujarat moved from quadrant IV to quadrant I. The number of households borrowing in these two states increased after the COVID-19 pandemic.
- Jharkhand and Bihar moved from quadrant III to quadrant II. The per capita income of the two states is still below average, but a greater number of households have borrowed during and post pandemic.
- Punjab went from being a low borrowing – high income state to a high borrowing – low-income state in just 4 years.

Figure 9: CAGR of borrowings from unorganized sector

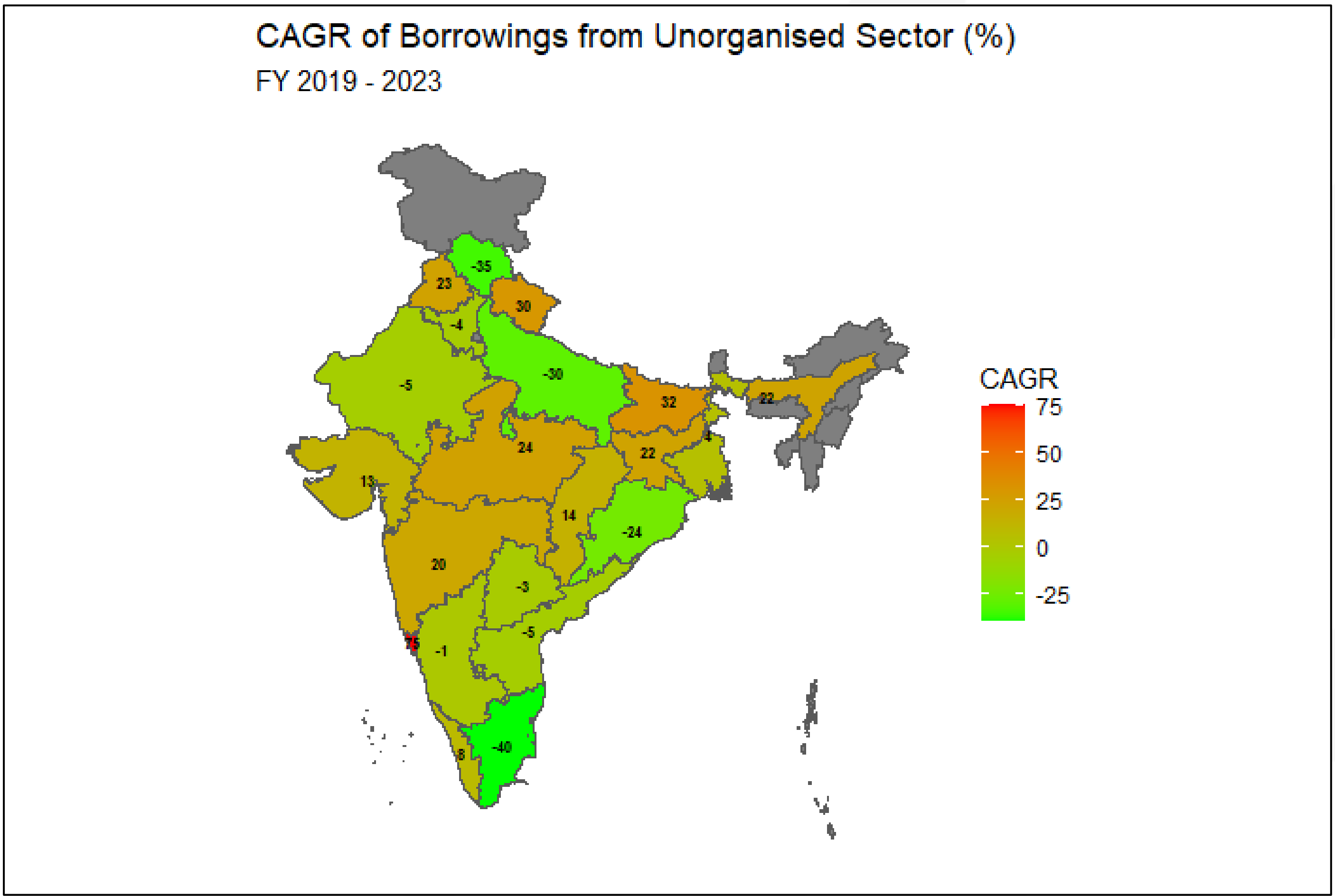


Table 1: Top States with highest number of households who borrowed in FY23.

Top 5 States with Borrowing in FY23	
Institutional	**Non-Institutional**
Madhya Pradesh	Bihar
Uttarakhand	Jharkhand
Karnataka	West Bengal

Kerala	Uttarakhand
Punjab	Telangana

The incidences of households borrowing from non-institutional sources have witnessed a sharp slowdown in Tamil Nadu, Uttar Pradesh, Odisha, Haryana, Andhra Pradesh, and Telangana (figure 9). The annualized growth rate in households borrowing from non-institutional lenders from these states have contracted between FY19 and FY23. At the same time states as Bihar, Madhya Pradesh, Punjab, and Maharashtra are witnessing increasing share of households borrowing from non-institutional sources. This dichotomy across Indian states points towards unequal implementation of measures to improve financial inclusion.

As of 2022-23, the top states with borrowings from non-institutional sources are Bihar, Jharkhand, West Bengal, Uttarakhand, and Telangana, whereas the highest number of households borrowing from institutional sources are in Madhya Pradesh, Uttarakhand, Karnataka, Kerala, and Punjab (table 1).

Conclusion

Non-institutional borrowing from sources like moneylenders, shopkeepers, and family remains prevalent across India. To curb this trend, especially post-COVID-19, targeted policy measures are needed to provide reliable institutional financial services to economically vulnerable groups, including EWS, LIG, blue-collar workers, and small businesses.

NBFCs are at the forefront to take this responsibility, with agile underwriting processes, robust risk management and presence across the last mile of the economy. It has been repeatedly acknowledged by the Government as well as regulators that NBFCs are vital engines of credit and have consistently serviced segments that were underserved or excluded by the traditional banking system in India.

As NBFCs play an increasingly crucial role in India’s financial stability, the regulatory framework has undergone substantial reforms designed to strengthen balance sheets and reduce non-performing assets, especially among the top 15 NBFCs. While these reforms have successfully enhanced capital adequacy and reduced stressed assets, they have also resulted in higher compliance costs and increased funding expenses. A key measure to further financial inclusion would be to support NBFCs in reducing their funding costs, enabling these savings to be passed on to end borrowers.

Measures such as a liquidity backstop window by the RBI to secure short-term liabilities of top-tier NBFCs can improve their credit ratings and reduce borrowing costs. Additionally, granting deposit-taking licenses to well-managed, large NBFCs, with appropriate regulatory safeguards, would allow these institutions to diversify funding sources beyond banks and raise long-term liabilities at lower costs, thereby reducing ALM risks. A dedicated refinancing window for NBFCs is urgently needed to alleviate liquidity concerns. Furthermore, simplifying the ease of doing business for these institutions by lowering the loan amount threshold for enforcing security interests under the SARFAESI Act from ₹20 lakh to ₹1 lakh would be highly beneficial. These reforms would equip NBFCs with greater capacity to expand their reach, serving a larger portion of India's population who still struggle to access formal financial services.

Appendix

Table 2: Abbreviation of states

States	Abbreviation
Andhra Pradesh	AP
Assam	AS
Bihar	BR
Chhattisgarh	CG
Gujarat	GJ
Haryana	HR
Jharkhand	JH
Karnataka	KA
Kerala	KL
Madhya Pradesh	MP
Maharashtra	MH
Odisha	OR
Punjab	PB
Rajasthan	RJ
Tamil Nadu	TN
Telangana	TG
Uttar Pradesh	UP
West Bengal	WB

Bibliography

Centre for Monitoring Indian Economy. (2024). *Consumer Pyramids Household Survey (CPHS)*. CMIE.

Centre for Monitoring Indian Economy. (2024). *Economic Outlook*. CMIE.

Council Of Economic Advisers. (2016). Financial Inclusion In The United States. In *Council Of Economic Advisers Issue Brief*. https://obamawhitehouse.archives.gov/sites/default/files/docs/20160610_financial_inclusion_cea_issue_brief.pdf

Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, and Saniya Ansar. (2022). The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank.

Ministry of Finance, Government of India. (2024). Economic Survey 2023-24. https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf

Pais, J., & Rawal, V. (2021). CMIE's Consumer Pyramids Household Surveys: An Assessment. *Society for Social and Economic Research*.

Reserve Bank of India. (2024). Basic Statistical Returns of Scheduled Commercial Banks in India - March 2024. https://data.rbi.org.in/DBIE/#/dbie/reports/Publication/Time-Series%20Publications/Basic%20Statistical%20Return%20%28BSR%29-1%20-%20%28Annual%29%20-%20Credit%20by%20SCBs

Reserve Bank of India. (2024). Measuring Productivity at the Industry Level – The India KLEMS Database. https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1275