

Over 30 pct of banks' retail loans are unsecured

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Nearly a third of outstanding retail loans in the banking system are unsecured, showed data released by the Reserve Bank of India ([RBI](#)) for January 2018. Outstanding loans to individuals as on January 19 stood at Rs 18.28 lakh crore, of which loans worth Rs 5.62 lakh crore, about 31%, were unsecured.

Unsecured loans comprise loans for consumer durables, credit card outstandings and what the RBI categorises as “other personal loans”. Typically, retail advances other than housing loans, vehicle loans, loans against deposits and other financial instruments, and education loans are considered unsecured.

Historical data reveals that the share of unsecured loans in portfolios of banks has been climbing over the years. Such loans accounted for a little over 24% of retail bank loans in January 2014, rose to 27% in January 2015, contracted a little to 25.6% in January 2016 before rising again to 27.1% in 2017.

Calendar year 2017 saw a particularly high degree of reliance on unsecured loans, with the outstanding amount shooting up 41% between January 2017 and January 2018.

Analysts have earlier flagged the rising share of unsecured loans in the retail portfolio of banks.

In August 2017, Jefferies expressed concern about the ‘other personal loans’ category. “What we are unable to figure is the ‘others’ (not qualified by RBI) which has seen a very significant jump even as the overall loan pie has started slowing down,” the investment bank said, adding that the growth seen in credit card outstandings was relatively justifiable because demonetisation may have increased the use of these cards.

Earlier this month, ratings agency Icria said personal loans are going through a phase of higher-than-average growth. “Banks attribute improved data availability on credit track record of borrowers as one of the drivers for personal loans,” Icria said, adding, “However, this can be a case for closer monitoring!”