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Personal Loan Trends in Kerala

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Abstract

Personal loan play a vital role in helping individuals' short – term financial requirements. It is the most common financial products that meet their urgent and planned expenses. Personal loan provide immediate funds for medical needs, education, travel, and various personal purposes. This article explains the concept, features, benefits and trends of personal loans offered by commercial banks in Kerala state based on secondary data.

Key Words: Personal loan, financial product, digital banking, commercial bank, creditworthiness, credit rating, CIBIL, interest rate, unsecured loan.

Personal loan is a form of unsecured credit which is granted based on income, creditworthiness and repayment capacity of the borrowers. Increasing consumers spending, improved digital banking platforms and rising for convenient financing leads to increasing demand for personal loans.

Literature Review

The personal loan is considered as a vital financial tool with rapid increase in the financial need among individuals. The decision making of consumer with respect to personal loan associated with factors like low and fair interest rate, speedy disbursement and application process, flexible repayment terms, respectful and clear communication from the bank employees, tailored products with transparent terms etc (Nupur Shriram Jadhav, Pro. (Dr.) Vishal Chavan, Prof. (Dr.) Bhawana Sharma). Besides these factors the socio economic attributes such as age, gender, income, residence status, and years with current organization have positive impact on personal loan decision (Rehan Azam, Muhammed Danish, Syed Suleman Akbar). Further the factors like media awareness and religious/ ethics belief have strong effects towards personal loan borrowings (Shafinar Ismail). CIBIL is an critical tool for the bankers in determining their loan sanctioning and hence the customer need to maintain their credit record good. In order to encourage the customers for the prompt repayment, the bankers should provide repayment rebate to the customers (Dr.A Vinayagamoorthy, M. Somasundaram). As there is an increase in demand for personal loan, accurately assessing personal credit rating and personal loan default risk become an important in the financial field. Better accuracy and higher efficiency in analyzing personal credit data and assessing the risk of personal loan default can be achieved by using machine learning models (

Table 1 Personal Loan by Commercial Banks in Kerala (in Crore)

Guangsen Liu).

Benefits of Personal Loan to Borrowers

Personal loans are the short term borrowings for which the borrowers do not have to pledge any asset and hence people without tangible asset can access to it. Borrowers can use this money for their personal uses such as travel, medical emergencies, marriage and other social functions etc. The borrowers can avail this loan with minimum documentation and automated verification. As the loan's repayment is EMI based, the borrowers can plan their budget and maintain financial discipline. Prompt and timely repayment enhances borrowers' credit score. Salaried and self employed individuals can apply this loan if they meet income and credit criteria.

Benefits of Personal Loan to Commercial Banks

As the personal loans are unsecured, banks charge slight higher interest rate than other loans to cover higher risks. This results in substantial interest income and profitability. By offering personal loan can help the bank to diversify their loan portfolio thus ensures stable income. Personal loan requires only minimum documentation and hence reduce administrative and processing costs for banks. Further it helps the bank to strengthen relationship with customers and hence it promotes cross sell of banks credit cards, investment products, insurance etc. Bank also earn non- interest income through processing fees, penalties and prepayment charges.

Trends of Personal loan in Kerala

Table 1 depicts the trends of personal loan in Kerala offered by commercial banks for a period of five years starting from 2020.

Year	Personal Loan amount	Increase	Increase Percentage
2020	1,32,779	-	-
2021	1,48,016	15237	11.48%
2022	1,60,399	12383	8.37%
2023	1,84,201	23802	14.84%
2024	2,24,304	40103	21.77%
Source: State Statistics and Finances, rbi.org.in DoR 19-11-2025			

From 2020 to 2021, the amount of personal loan increased by11.48% which shows increasing demand for personal loan. In the year 2022 the growth rate fell to 8.37% compared to previous year. Further it rose sharply by 14.84% in 2023 and a highest increase of 21.77% in 2024, this may be due to higher household expenditure and higher use of digital lending platforms by the banks.

Conclusion

The analysis of personal loan trends in Kerala shows a consistent and significant upward movement in borrowing. A sharp hike in personal loans observed in 2023 and the highest growth in the year 2024 , the cause may be improving financial awareness, increased consumer spending, enhanced used of digital lending platforms. Overall, increasing trend emphasizes the strengthening of the retail loan market and in Kerala and developing trust of borrowers in formal banking and credit institutions.

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