

Credit Performance of the Private and Public Sector Banks Towards the Personal Loan - A Comparative Study

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Abstract

The research study is based on the crediting of loans by both public and private sector banks in the United Kingdom. The research study has highlighted the rationale of loans that have been credited over the years in every household. The study has revealed the aim, as well as the objective of the study and the research questions, has been developed accordingly. The study has also included the literature section with an explanation of the credit system and performance of public and private banks. The methodology sections include the methods of data collection and the research approach adopted. The secondary research method is adopted in the research which provides a justification for the literature as well as the findings that are gathered through various data-collecting platforms. The analysis has been done through the help of six selected articles which are secondary in nature. Lastly, the study contains the conclusion chapter which provides a detailed conclusion to the study and presents the future scope of the study which can be applied to conducting future studies.

Keywords: Credit performance, personal loan, public and private sector banks,

Chapter 1: Introduction

1.1 Introduction

The citizens of the United Kingdom are known to take loans for different reasons for their purposes. The banks of both public and private sectors have been involved for many years in the crediting of loans to citizens. These banks have actively participated in various types of loan credit especially "*personal loans*" to the residents of the country. Personal loans have been identified to be beneficial for "*residential renovation*", "*medical*", "*higher education*", "*travel*", "*car purchase*" and "*debt consolidation*".

1.2 Background

The banking sector in the United Kingdom has been observed to show increasing rates of opting for loans among citizens. The citizens have revealed a reliance on the personal loan grant for various purposes. The graphical representation has highlighted that "9,972" citizens of Great Britain had taken loans in the year 2019 (Statista.com, 2023, d). However, in the year 2020, a record of about "9426" persons had opted for loans.

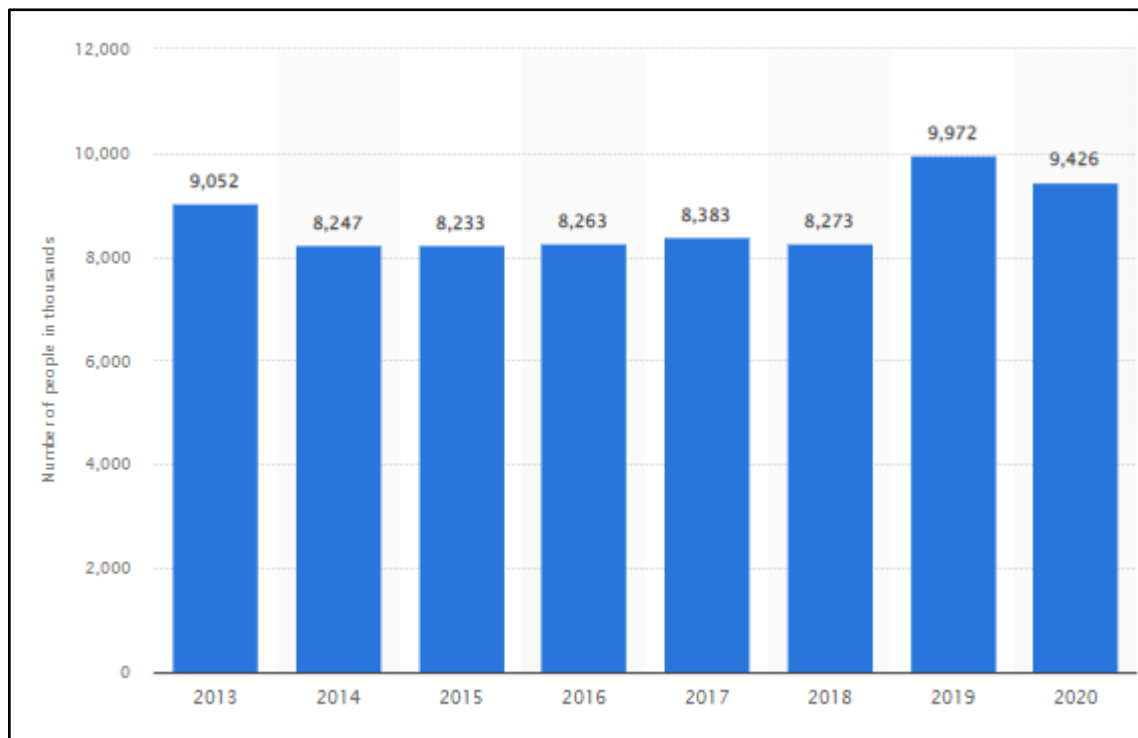


Figure 1.1: Number of persons with loans in Great Britain from 2013 to 2020

(Source: Statista.com, 2023, d)

On the contrary, an estimated number of citizens “9052” had opted for personal loans in the year 2013 in Great Britain. These data reveal that there was an increasing number of loans being taken and credited by the year 2020 in Great Britain (Chen *et al.* 2018).

1.3 Rationale

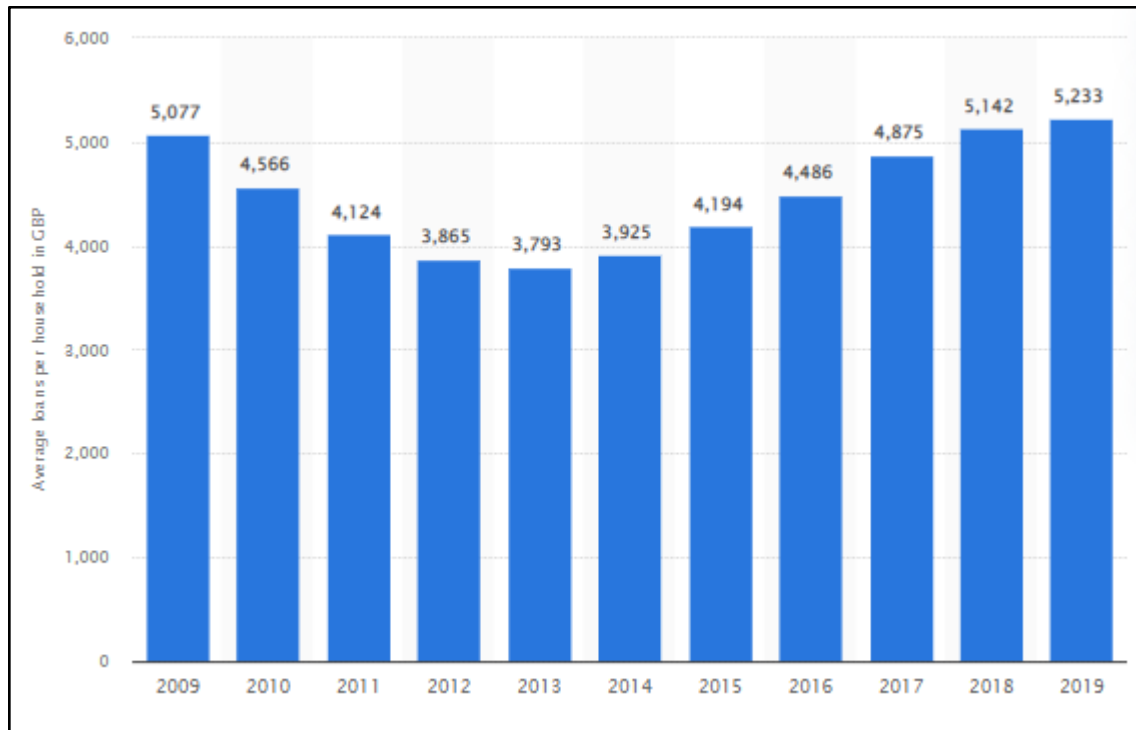


Figure 1.2: Average personal loan per household in the UK from 2009 to 2019

(Source: Statista.com, 2023, a)

The above graph represents the personal loans that have been credited on average in the year 2009 estimated to be about “5077 GBP”. There was a decrease in the credit of personal loans in each household from the year “2010 to 2014” (Statista.com, 2023, a). The highest personal loan that has been credited in the banks of the United Kingdom is evaluated to be “5233 GBP”.

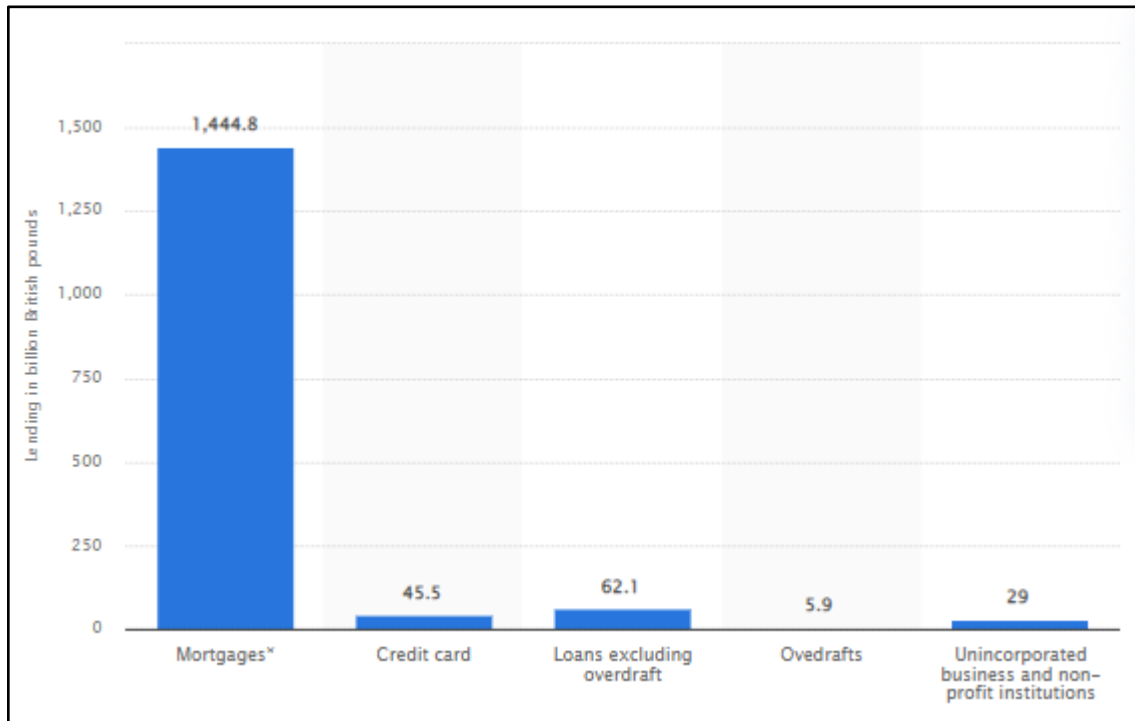


Figure 1.3: Outstanding lending to households in the United Kingdom in 2022

(Source: Statista.com, 2023, b)

The graph reveals that lending money to the sector of the household has been seen in the form of a *mortgage*. The statistical data has revealed that the mortgage value among households in the United Kingdom has reached approximately “1.29 billion British pounds” (Statista.com, 2023, b).

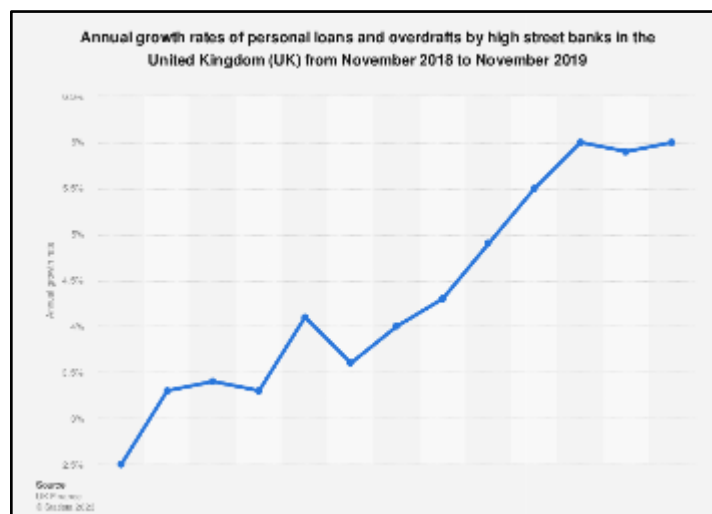


Figure 1.4: Annual growth rate of personal loans in the UK from 2018 to 2019

(Source: Statista.com, 2023, c)

The graph has highlighted that there has been a growth in personal loans rate annually between the years “2018 and 2019”. The year 2019 has shown a high rate of growth in personal loans with the estimated percentage being “6 per cent” compared to other years (Statista.com, 2023, c).

1.4 Aim and Objectives

Aim

The aim of the research is “*to understand the performance of personal loan credit between the public and private sector banks*”.

Objectives

Objective 1: To identify the provisions of the banks both public and private for credit personal loans.

Objective 2: To recognise the performance of personal loan credit in banks of the private sector.

Objective 3: To identify the performance of credit for personal loans in public sector banks.

1.5 Research question

RQ 1 What are the provisions that public as well as private sector banks have adopted for personal loan credit?

RQ 2 How have private sector banks performed while crediting personal loans?

RQ 3 What is the performance grade of public sector banks for crediting personal loans?

1.6 Significance

The research study signifies that it is necessary to evaluate the personal loan credit by the banks belonging to both the public and private sectors. In the United Kingdom, citizens have shown higher rates of loan credit from banks for different purposes (Rona-Tas and Guseva, 2018). The banks have also performed increased credit grants of personal loans to citizens.

1.7 Summary

The above information has revealed that there is an increasing rate of loans among citizens of the United Kingdom. The rate of personal loan credit has been observed to be the highest in the year 2019 per household.

Chapter 2: Literature Review

2.1 Introduction

Public, as well as private sector banks, have facilitated the citizens of the United Kingdom with loan creditability. Crediting of loans has been prioritised by the banks to facilitate citizens with economical aid. Citizens too have opted for loans and grants to fulfill their personal purposes like medical, education, home, and consolidation of debt. An increasing rate of loan credit has been observed among citizens in the United Kingdom. Both public and private banks have actively credited loans to the citizens of the UK thereby revealing credit performance over the years. These financial institutions have shown flexibility towards crediting loans to citizens of the country.

2.2 Provision of personal loans by public and private sector banks

Personal loan credit is regulated by the “*Financial Conduct Authority (FCA)*” in the United Kingdom. As stated by Akomea-Frimpong *et al.* (2022), the regulation for crediting personal loans is formulated by FCA which provides guidance on loan credit to banks and financial institutions. Personal loans are credited by the public as well as private banks based on a fixed rate of interest on a fixed amount. Loans are provided for a certain duration which ranges mostly from “3 to 10 years”. As mentioned by Bezemer *et al.* (2018), the maximum limit set for a personal loan for an individual has been estimated to be “£25,000”. Citizens are required to provide adequate documents to avail of the facility of loan credit from banks in the United Kingdom. Mortgage for household individuals has also been facilitated among the public and private banks. A certain rate of interest has been fixed for a fixed duration to avoid any financial losses in the banking sector.

2.3 Credit performance of private sector banks

Private Banks in the United Kingdom have introduced the credit facility of loans for residents at a certain rate. As opined by Makovšek and Moszoro, (2018), private banks have intended to provide loans to individuals that have been built on a complex background of finances. These banks usually tend to charge premiums based on the requirements of high fund risks. Private Banks have been observed to be highly flexible towards crediting loans to individuals in the United Kingdom. As stated by Dou *et al.* (2019), individuals can easily opt for loans from private banks without undergoing the hassles of strict banking regulations. Private Banks have shown resilience towards interest rates and building trusted relationships with customers. As stated by McHugh, (2021), the banks have aimed to create a “*long-term relationship*”

with individuals with the implementation of flexible rates and expansion of time periods. The assets or cash of clients are transferred to the management division of assets in private banks.

2.4 Credit performance of public sector banks

Public sector banks in the United Kingdom have provided the facility of loans and mortgage for the people. Fernández-Olit *et al.* (2020), have mentioned that personal loans credited to clients have to undergo strict procedure banking regulations. The regulation formulated by the “*Financial Conduct Authority (FCA)*” is strictly followed while crediting personal loans. Loans are provided at a fixed rate, unlike to those private banks which have adopted flexibility. Duration for loan and pay of returns are fixed and works as per the regulations of FCA. The period of time being fixed has resulted in the bound return of payment by individuals within the scheduled date. Widyastuti *et al.* (2023), have opined that individuals have opted for public sector banks for personal loans because of low rates of interest. The interest rate has been observed to be lower than the rate of private banks in the United Kingdom. Public banks have shown lower resilience towards fixing the rates of interest and expansion of time periods in the case of personal loans. Credibility has been put under restrictions of interest and inflexible time bound for loan repayment for the clients.

2.5 Theoretical framework

The theory that has been adopted in the research study is the “*credit creation theory*” to explain the banking and credit system of loans. As stated by Starkey, (2018), the theory has postulated that money can be created by individual banks as per the banking proposals. Banks are not solely responsible for lending deposits to their clients instead they can create deposits.

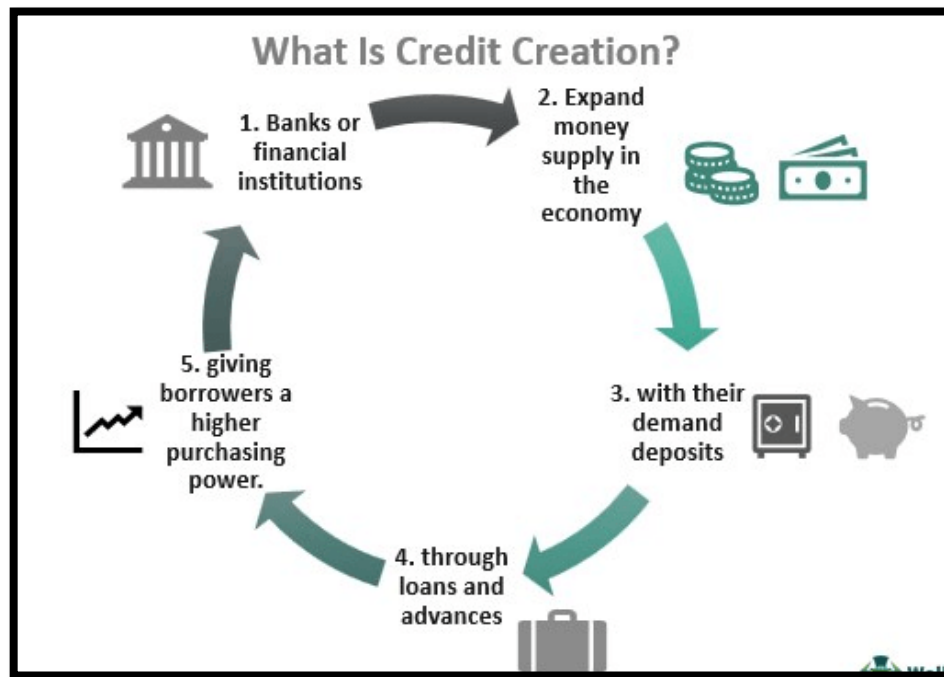
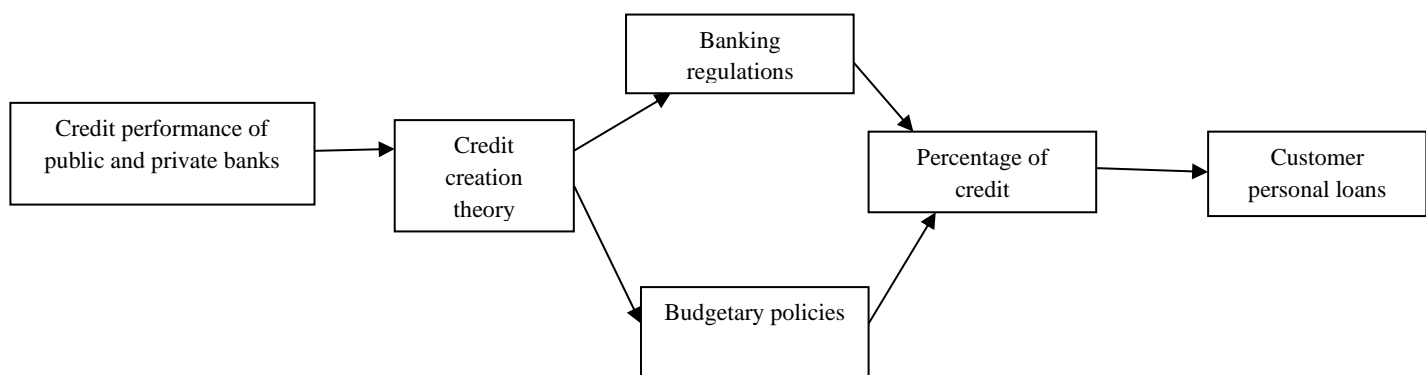


Figure 2.1: Credit creation theory

(Source: Starkey, 2018)

2.6 Conceptual framework



2.7 Summary

The information above has revealed that private banks have shown flexibility towards time periods and interest rates for personal loans. However, public banks have adopted a fixed system of crediting personal loans to individuals and households. Both the rate of interest and time have been observed to be fixed or inflexible in the case of public banks in the United Kingdom.

Chapter 3: Methodology

3.1 Introduction

The research that has been conducted includes various relevant methods to accumulate data for the research study. Data that have been collected are described comprehensively after the conduction of a thorough analysis. Analysing the gathered data is vital for the research that has been conducted to increase the relevance of data. Research philosophy and approach have been performed in association with the research design. The collection of data has been conducted through secondary methods and the ethics of research have also been considered.

3.2 Research Philosophy and Approach

The philosophy that has been followed while conducting the research study is “*Interpretivism*”. Interpretivism is the type of philosophy which considers the assumptions of reality in the form of subjective, social and multiple (Alharahsheh and Pius, 2020). It has aided the researchers to obtain a clear understanding of reality through experience. The approach that has been adopted in the research is “*inductive*” which involves analysing data that are qualitative in nature (Azungah, 2018). Specific data are observed and analysed with a thorough understanding of the patterns of data accumulated.

Justification: The philosophy of interpretivism has been applied because of the data gathered based on experience in the research study. It has created a better understanding of the research topic for credit of personal loans by banks both public and private. An inductive approach has been adopted with the view to make clear observations of data through effective recognition of the patterns.

3.3 Research design

The design that has been followed in the research study is “*descriptive*” in nature. It has enabled the researchers to provide a thorough description of the data that has been collected. The data that has been collected is analysed with a clear understanding of the research topic (Sileyew, 2019). Describing the data

results in a clear concept along elaboration of the data, so collected in the research study helps to form conclusions.

Justification: Descriptive design has been adopted with the aim to make the concept of the accumulated data clear to the readers with increased relevance.

3.3 Data collection

The collection of data that has been conducted in the research study is “*secondary*” in nature. The secondary collection of data has been conducted by gathering information from various articles (Ruggiano and Perry, 2019). The articles so collected have been searched and analysed from various sources like *Google Scholar*, *Proquest* and *PubMed*. The collection of data that has been done is analysed and described concisely by selecting “*6 articles*”.

Justification: Secondary data has been collected for creating a clear knowledge about the data so gathered in the research study. The relevance of the data has been considered with the effective description of the information (Mazhar *et al.* 2021). The collection of data is conducted for revealing relevant information based on experience and reality.

3.4 Ethical consideration

The ethics of the research so conducted have been considered to prevent any loss of data. The theft of information in research has been focused on in the research study (Gov.uk, 2019). The personal information of the researchers as well as the research has been password protected in the drive and database archive. The security of data is conducted by making improvements in the cyber security of the technological system of research (Gov.uk, 2019).

3.5 Summary

From the above, it can be summarised that the methodology will include interpretivism philosophy and a descriptive design. Alongside the secondary research will be proceeded which would help to analyse and compare the public and private banks and their credit system.

Chapter 4: Finding and analysis

4.1 Findings

Articles and Authors	Aim	Research type	Findings
Akey <i>et al.</i> 2021	The aim of the article is to recognise political power as an interference towards consumer credit of loans.	Secondary qualitative and cross-sectional	The interference of politics has affected lending regulation in the United Kingdom. The political interference has caused a decrease in credit access to consumers.
Bartlett <i>et al.</i> 2018	The aim of the study is to understand the prevalence of discrimination due to ethnicity in lending and the role of Fintech.	Secondary	The article has revealed that there was existence of ethnic discrimination in regard to crediting loans. However, the emergence of Fintech has aided in warding off discrimination to rejection of applications.

Claessens <i>et al.</i> 2018	The aim of the article is to recognise the rapid growth of Fintech in the credit market of the banking sector.	Secondary and reviewed	The article has highlighted that recently there is a rapid growth of Fintech credit in the economic world. The banking system has experienced less stringent regulation due to high credit volumes.
Cornelli <i>et al.</i> 2020	The aim of the article is to identify the expanding platform of loans due to the emergence of Fintech.	Secondary quantitative	The article has revealed the emergence of Fintech has resulted in more developed forms of loan credit. It has caused a low ratio of credit-to-deposit in banks.
Dobbie <i>et al.</i> 2021	The aim of the article is to examine the existence of biases while lending to consumers with the use of administrative data.	Review study	The article has enlightened that there is a prevalence of disparities in the credit system of the United Kingdom. The banking firms have shown a preference for obtaining profits in the long run.

Park and Kim, 2020	The aim of the article is to highlight the business opportunities of private banks with the adoption of green banking.	Secondary qualitative	The article has highlighted the negative aspects of loan credit in private sector banks have been mitigated with the introduction of green banking instruments. The approach has enhanced the competitive advantage of the banks thereby opening new opportunities.
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Table 4.1: Findings

(Source: Self-created)

4.2 Analysis

The above articles have revealed that the banking sectors have shown discrimination towards crediting loans to their clients. As mentioned by Akey *et al.* (2021), the increasing interference of politics in the regulation formation of loans in the financial market has shown a negative impact. The political powers have resulted in the decreasing rate of credit to individuals thereby causing disparity in the banking system. The accessibility of people in the country to bank loans has reduced along with the emergence of differentiation. As opined by Bartlett *et al.* (2018), financial institutions both public and private have revealed a prevalence of discrimination based on ethnicity. The article has indicated that there are increasing cases of poor credit systems due to differentiation among immigrant residents of the country. There is an emergence of a new technological era in recent years in the banking loan system. As mentioned by Claessens *et al.* (2018), the entry of the new era of *Fintech* has helped to fight the challenge of discrimination in lending procedures in banks. Private Banks have adopted the approach of a higher return on profits in the long run thereby turning into high-cost lenders. Fintech has aided in warding off such negative disparity in the financial market in the United Kingdom.

The banking sectors have adopted the new technological era of “*big tech*” to ease the loan credit system of the banks. Cornelli *et al.* (2020), Fintech and other big techs have shown higher resilience towards crediting

loans at a lower rate of interest in the market in the United Kingdom. The banking sector has to no longer experience the greater stringent regulation of the financial and banking systems. The new technological approach has resulted in the lowering of the ratio between credit and deposit. Dobbie *et al.* (2021), have opined that ethnic biases in the lending procedure of the banking system. This bias factor has been observed in the immigrant community in the United Kingdom which has lowered the rate of credit facilities. The banking sector has shown inflexibility towards the crediting of loans thereby causing disparities in the financial markets. Park and Kim, (2020), have mentioned that banking and financial institutions today have shown their interest in the sustainable approach to banking. The sustainable approach includes the transition of banking sectors towards diverse “*green financial instruments*” to obtain newer opportunities. Banking sectors especially private banks have gained a higher competitive advantage in the financial markets. However, Akomea-Frimpong *et al.* (2022), have mentioned that an initiative towards green financing can bring about a high rate of consumer satisfaction in banking markets. The market of finance experiences lesser risks both transitional and physical with regard to crediting loans. Banks and other financial institutions have gained a higher competitive advantage along with new opportunities.

Chapter 5: Conclusion and Recommendation

5.1 Conclusion

The above information has revealed that both public and private banks have actively participated in the crediting of loans to their consumers in the United Kingdom. An increasing number of loans have been opted for by the citizens, especially in the year 2019. Loans have been credited the highest in the years 2019 and 2020 to every household in the United Kingdom. The articles have revealed that there has been existence of discrimination, especially in the immigrant community in terms of loan credit. The above information has also highlighted that the new technology of Fintech has aided in warding off differentiation.

5.2 Recommendation

New Technology: The inclusion of new technology should be focused on by the banking institutions for improving the credit system. It can help to reduce the negative impact of strict regulations of finance and banking (Chen *et al.* 2018).

Low Political Interference: Political interference in the framing of regulations should be prohibited. The prohibition of interference can improve banking regulation thereby resulting in the inclusion of the benefits of credit loans (Rona-Tas and Guseva, 2018). Consumers are credited with the facility of an improved system of lending regulations procedures.

Green banking: The system of green banking should be encouraged in the financial market of the United Kingdom. The banking system can obtain a high rate of advantage in the competitive market (Bezemer *et al.* 2018). The financial market is open to newer opportunities for loan credit in the UK market.

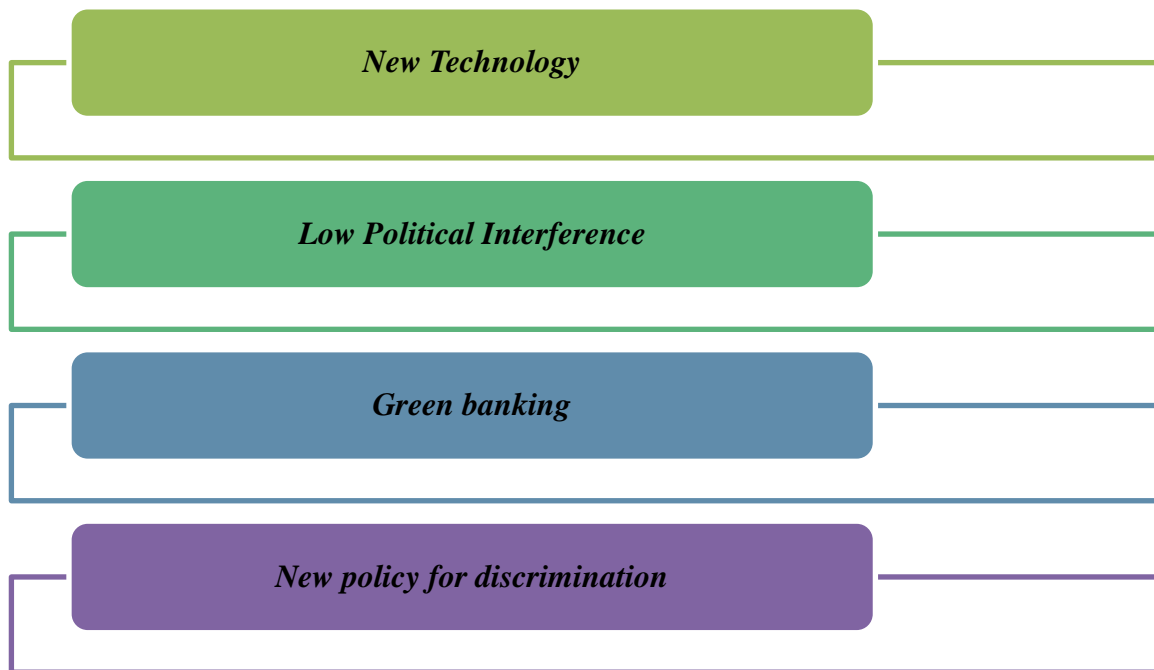


Figure 5.1: List of recommendations

(Source: self developed)

New policy for discrimination: Both public and private banks should upgrade their policies to eliminate the negative impact of discrimination in the banking system. The new policy should include the regulations of the “*Equality Act of 2010*” to ward off inequality in banking institutions (Makovšek and Moszoro, 2018). The formulation of a new policy on discrimination can aid in the removal of inefficiency in the lending procedure of the financial market.

5.3 Future scope

The research provides a clear view of the current strategies and policies upon which the public and private banks provide credit for personal loans to consumers. It can be said that the study would be helpful in estimating the effectiveness of the policies and the credit rate provided by the banks. With the changing market and economy, it is essential to improvise and amend the policies and credit scores so that personal loans are repaid and the returns have huge value. This would be helpful for both the growth of the economy and would help in savings of the customers.

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