

FORMAL HOUSING FINANCE SYSTEM IN DIGITAL INDIA: THE INCLUSIVENESS IMPERATIVE

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Abstract

Housing denotes one of the essential requisites for the humanity. Hence housing development as well as financing for the housing purpose are governmental priorities the world over and the Government of India (GOI) has been no exception. In fact, 'Affordable Housing for All' has been a national goal of the GOI since 2017. This national goal was originally proposed to be achieved by 2022 – the year when India attained 75 years since its independence. But, the goal still remains unattained due to the Covid-19 crisis and other reasons, and hence the target has been revised as 2025. This paper critically looks into the housing finance exposure by the major players i.e. Commercial Banks (CBs) and Housing Finance Companies (HFCs). It points out that the formal system is growingly becoming exclusive of the poor and there is a vital need for inclusive policies, and that too with regard to IC adoption this being a digital era in India.

Keywords: Affordable Housing, EWS, LIG, MIG, Digital India, ICT, AI, Transparency.

1. INTRODUCTION

Housing is a key pre-requisite for the healthy living of human beings. A good house is a vital need for the overall development of an individual, family, society and even the whole nation. So, providing adequate housing facilities for all citizens especially the poor and the homeless, and also ensuring easy availability of credit (finance) for housing purpose for the deserving masses are the functions of any democratic government. Besides, putting in place a transparent regulatory mechanism that monitors fast, effective and efficient housing development in any nation and that too in an equitable and sustainable manner is also relevant. In India, the National Housing Bank (NHB) is the regulatory authority for housing finance even when the Reserve Bank of India (RBI) is the apex authority that regulates the whole banking financial system. In India, housing has been a governmental priority since the independence, especially since the early 1970s. In 1970 HUDCO was established by the GOI with the mandate of financing of housing and also infrastructure projects. In 1977, HDFC was incorporated as a public limited company in the private sector for providing housing loans to the middle-income population, mostly the salaried class or those with regular business income.

In the late 1980s, specialized housing finance companies (HFCs) which focus on housing finance only, entered the arena. While HFCs provided housing credit only, commercial banks (CBs) provided housing loans to a limited extent along with many other types of credit facilities. In the late 1980s, the HFCs had less than one-fourth market share while CBs had more than three-fourth share. In the late 1990s the Reserve Bank of India (RBI), changed the norms and permitted the CBs to freely provide housing loans to the end-users directly. In fact, the RBI encouraged the CBs to provide housing loans and even directed CBs to earmark at least 2 percent of their total credit as housing credit. Thus, CBs became an aggressive player in the Indian housing finance market, thus posing a threat to the HFCs who were the leading players in the market since the mid-1990s. With the CBs aggressively entering the market, the share of HFCs started coming down and in 2003 CBs overtook the HFCs in the market

share. Till then, CBs and HFCs have been the major players in India's formal sector housing finance market with varying market shares. Over the last two decades, roughly two-third of the market is served by CBs and the rest one-third by the HFCs. The pattern of housing finance by the CBs and HFCs as well as its reach to the poor segments is sought to be studied in this paper.

2. OBJECTIVES OF THE STUDY

- 1) To study the performance of the major agencies that provide housing finance in India and their reach to the poor segments like the EWS and LIG in this digital era;
- 2) To study the alternative housing finance models that can ensure inclusiveness in its access and also how ICT can support inclusive housing credit;
- 3) To suggest strategies for the fast and equitable housing development in India and hence the national economic development.

3. RESEARCH QUESTIONS

- 1) What is the relative share of the marginalized groups like EWS and LIG in housing credit in this era of wide digital transformation, and how does it vary over the years?
- 2) How to make housing credit inclusive in this digital era and what could be the strategies?

4. PREVIOUS STUDIES

JLL (2022) [1] has noted the significant improvement in the transparency of India's housing and real estate sector as of 2022 in the aftermath of the landmark RERA Act 2016 which came into effect in India from 01 May 2017 as per JLL's latest industry research report, June 2022. ICRA (2023)[2] has discussed the bright prospects of affordable housing finance companies (AHFCs) – the specialised HFCs that provide housing finance to the poor and the marginalised. Harris and Arku (2006)[3] have concluded based on an detailed analysis of post-1945 global experiences that housing drives economic development. A report by IBEF (2023)[4] has noted the vast growth potential of India's real estate sector. GOI's journal *Yojana* (2023)[5] has noted the India's high GDP growth vis-à-vis other nations. Similarly, GOI's annual publication on the Indian economy *Economic Survey* (2023)[6] has noted the India's high economic growth. National Housing Bank (NHB)(2024)[7] has discussed the developments in housing finance sector in India as of FY 2023, and also key events till Sept. 2023. HDFC Securities (2023) [8] has discussed the major developments in housing finance, including the gradually declining share of 'small-ticket' housing loans and ever growing trend in big-ticket (luxury) loans. Manoj, P.K. (2022)[9], has noted the utmost need for ESG adoption for the sustainability of business in the ongoing globalised regime. So, almost all of these studies have noted the high economic growth (GDP growth) of India, and high growth potential of the housing sector. Manoj, P.K. (2005)[10] 'Cost accounting systems in Banks-for strategic advantage through effective cost management' observes the key relevance of scientific cost management in banks. Manoj, P.K. (2005) [11], 'Scientific pricing of bank products through cost accounting-a vital need in the LPG regime', has noted the special need for scientifically pricing the bank products. Manoj, P.K. (2014)[12], Role of ICT in Women Empowerment: A Study with a Focus on 'Kudumbashree' programme in Kerala State of India, has noted the vast scope of women-based empowerment programme *Kudumbashree* in

empowering women through its own women-run SHGs. Knight Frank (2023) [13] has noted the vast scope of SFH (single family housing) while the report by IFC (2019)[14] has noted that 'Green' options can ensure sustainable housing. K.K Nasar and P.K Manoj (2014)[15] Factors influencing the purchase of apartments: some empirical evidence. have identified the main factors influencing purchase decision of apartments, like, reputation of the developer, quality, price etc. The crux of these studies is financial inclusion and the need for inclusive and environment-friendly growth through civil society organisations, banks etc.

Many studies have noted ICT adorns a key position as a catalyst of fast economic growth, including growth of diverse sectors like housing; as well as the growth of the rural economy, empowerment of women, etc. The prospects of the ICT industry too were studied by some scholars, like, Manoj (2007)[16] 'ICT industry in India: a SWOT analysis' who made a macro level study of India's ICT industry and noted its vital significance in India. Pickens (2009)[17] has noted how a common ICT gadget (mobile phone) played a key role in financial inclusion, women empowerment and rural development through 'banking the unbanked' in Philippines. Manoj (2010)[18] 'Impact of technology on the efficiency and risk management of old private sector banks in India: Evidence from banks based in Kerala' has noted that ICT usage by banks could make them more efficient. Growing role of ICT in banking, including housing finance, is also noted in two reports: (i) *Banking*, (ii) *Real Estate*, of India Brand Equity Federation.(IBEF. 2023)[19]; thus ICT adoption has become an imperative in India's banking and health sectors. A study by Nasar and Manoj (2013)[20] 'Customer satisfaction on service quality of real estate agencies: An empirical analysis with reference to Kochi Corporation Area of Kerala State in India' has noted that greater awareness be provided to real estate agents, and that transparency and social networking are needed for customer service and business growth. Manoj (2013)[21] 'Prospects and Challenges of Green Buildings and Green Affordable Homes: A Study with Reference to Ernakulam, Kerala' has noted the good growth potential of green homes as they create huge employment avenues and ensure fast economic growth also. Varghese, K.X, and Manoj, P.K. (2013)[22], 'Educational loans and the higher education sector in India' have noted that study loans can improve HR quality and youth employability, and so they must be promoted. Manoj, P.K. (2015) [23] 'International Container Transshipment Terminal (ICTT) and its impact on coffee exports from India: An analysis' has noted ICTT's key role in boosting exports and economic growth. Manoj, PK (2009)[24], *Special economic zones in India: financial inclusion: challenges and opportunities* has noted the role of SEZs for fast economic growth. Manoj, P.K.(2017)[25] 'Segmentation Strategy for Promotion of Ecotourism Products: Evidence from Thenmala Ecotourism' the author suggests meticulous planning with tourists' segmentation for economic growth via tourism. Manoj, P.K. (2010)[26] 'Determinants of profitability and efficiency of old private sector banks in India with focus on banks in Kerala state: An econometric study' has sought to pinpoint the exact influencing variables that drive the efficiency and operational performance of Kerala-based private banks.

Manoj, P.K. (2010)[27] 'Prospects and Problems of Housing Microfinance in India: Evidence from "Bhavanashree" Project in Kerala State' has sought to probe into the major prospects and problems faced by HMF (housing micro finance) in Kerala with a focus on 'Bhavanashree' project of Kerala-Govt. sponsored 'Kudumbashree' which strives to empower poor women.

Manoj, P.K. (2010) [28]. 'Benchmarking housing finance companies in India: Strategies for enhanced operational efficiency and competitiveness' has sought to make a comparative study of the performance of HFCs (housing finance companies) in India using benchmarking and hence to suggest strategies for their superior financial performance and competitiveness. Manoj (2016) [29] "Bank marketing in India in the current ICT era: Strategies for effective promotion of bank products" observed ICT-enabled marketing as a key need for India's banking sector in this digital era. A study by Lakshmi and Manoj (2017) [30] "Service quality in rural banking in north Kerala: A comparative study of Kannur district co-operative bank and Kerala Gramin bank" has pointed out that KGB could make greater use of ICT than KDCB.

A paper by Lakshmi and Manoj (2017) [31] "Rural Customers and ICT-based Bank Products A Study with a Focus on Kannur District Co-operative Bank and Kerala Gramin Bank" has observed that ICT-enabled services of Kerala Gramin Bank(KGB) have been accepted to a greater level than KDCB's non-ICT-enabled services. A joint study by Joju, Vasantha, and Manoj (2017) [32] "Future of brick and mortar banking in Kerala: Relevance of branch banking in the digital era" has observed the vital need for 'human touch' as in 'brick and mortar' banking even if ICT or virtual banking is the new normal. Another study by Joju, Vasantha, and Manoj (2017) [33] "Financial technology and service quality in banks: Some empirical evidence from the old private sector banks based in Kerala, India" has observed that Fin-Techs could significantly enhance quality of banking service and they have become essential for superior service delivery by banks.

Manoj (2017) [34] "Construction costs in affordable housing in Kerala: Relative significance of the various elements of costs of affordable housing projects" ordered the different elements of cost based on their relative priority for effective control of costs, and ICT has been noted to be a vital tool for effective cost control. Manoj (2017) [35] "Cost management in the construction of affordable housing units in Kerala: A case study of the relevance of earned value analysis (EVA) approach" has demonstrated that EVA could be a powerful tool for effective control of construction costs. Joju, Vasantha, and Manoj (2017) [36] "Electronic CRM & ICT-based banking services: An empirical study of the attitude of customers in Kerala, India" has noted the key significance of ICT-based banking practice called e-CRM (Electronic Customer Relationship Management) as an enabler of efficient and competitive banking, along with noting good feedback of customers to latest ICT-based products like e-CRM. Another CRM paper relating to bank management area by Manoj (2018) [37] "CRM in old private sector banks and new generation private sector banks in Kerala: A comparison" has noted that CRM adoption by the new private sector banks (NPBs) being to a greater extent than that of the old private sector banks (OPBs) particularly in respect of the latest ICT-enabled or Electronic version of CRM (i.e. e-CRM); thus enabling the NPBs to get a clear competitive edge in the market vis-à-vis the OPBs. Manoj (2019) [38] "Social banking in India in the reforms era and the case of financial inclusion: Relevance of ICT-based policy options" has suggested ICT-based strategic options to enhance social banking that fits into the current digital banking regime. Manoj (2019) [39] "Dynamics of human resource management in banks in the ICT era: A study with a focus on Kerala based old private sector banks" observed the key relevance of ICT-enabled policies for the management as well as development of bank staff in this very competitive digital era. Manoj (2019) [40] "Competitiveness of manufacturing industry in India: need for flexible manufacturing systems" pointed out

the vital significance for adoption of ICT and other technological advances like flexible manufacturing systems (FMS) in India. A paper by Joju and Manoj (2019)[41]“Digital Kerala: A study of the ICT Initiatives in Kerala state” has studied the main ICT initiatives in Kerala, the State with many unique ‘firsts’ in India (topmost internet penetration, universal literacy etc.) and has suggested strategies for the better use of Kerala’s vast ICT potential for its faster economic development.

Joju and Manoj (2019)[42] “Banking Technology and Service Quality: Evidence from Private Sector Banks in Kerala” have observed ICT as an enabler of banking quality and as such ICT-adoption should be boosted. Ali and Manoj (2020) [43] ‘Impact of Falling Price of Rubber-A Case Study of Kothamangalam Taluk in Ernakulam District’ has noted that frequent price falls affect the livelihood of rubber farmers and that governmental interventions are vital. Manoj (2015) [44] ‘Prospects of Responsible Tourism in Kerala: Evidence from Kumarakam in Kottayam District’ has noted that responsible tourism has vast potential for supporting economic growth, if duly promoted. Manoj (2016) [45] ‘Determinants of sustainability of rural tourism: a study of tourists at Kumbalangi in Kerala, India’ has identified the key factors that affect rural tourism sustainability and offered strategies like upgrading digital (ICT) resources. Manoj (2015) [46] ‘Impact of Rural Tourism on the Environment and Society: Evidence from Kumbalangi in Kerala, India’ noted that adverse impacts are imminent in rural tourism and hence it is vital to curb them. Manoj, P.K. (2023) [47] ‘Housing Sector in India: An ESG Route into a Greener Future’ has noted imminent need for an ESG approach for the long term sustainability of the housing sector in India. Manoj (2019)[48] “Tourism Sector in Kerala in the Post-Flood Scenario: Strategies for its Sustainable Growth With a Focus on Responsible Tourism” observed the crucial part that RT could play for revival of flood-hit Kerala economy. Saritha and Manoj (2023) [49], ‘Social inequalities in IT sector: Evidence from Kerala State in India’ find inequality among Kerala’s IT sector employees and argue that it must be curbed.

Manoj, P.K. (2015) [50] ‘Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to Bhavanashree in Kerala’ has noted that housing microfinance (HMF) home loans have lower quality (higher NPAs) and also that their transactional costs are higher. Manoj (2023)[51] ‘Affordable Healthcare and Affordable Housing: Need for an Integrative Approach for the Holistic Growth of the Digital Economy of Kerala, India’, has noted that a knowledge society of Kerala must promote housing and healthcare sectors together using ICT. Krishna, S. and Manoj, P.K. (2023) [52] ‘Technological Advances and the Sustainability of Natural Rubber Cultivation in Digital India: A Study with a Focus on Kerala State’ has noted the key need of technology for the sustainability of rubber cultivation. Manoj, P.K. (2023)[53] ‘ICT for Sustained Community Development in India in the 5G Era’ has noted that high-end ICT resources and internet connectivity boost economic growth. Pagani, et.al. (2023)[54] have noted spatiotemporal links between factors like housing, health etc. Khan, F. et. al.(2023)[55] ‘Housing Loans by Banks in Kerala and the Assurance Aspect of Service Quality: Housing Finance Strategies for the Banks in the Digital Era’ have noted the key role of the assurance aspect of service quality in the housing loan business of banks. Jose, A.K. et. al. (2023) [56] ‘Responsible Tourism, Economic Growth and Tourism Policies of Kerala’ have noted the need for ICT-based tourism policies for Kerala’s economic growth. Manoj, P. K. (2023) [57] ‘Health Aspect in Housing Development for Attaining Greater Social Value: The Case of ‘Affordable Housing For All’ Goal in Digital India’ has noted the need for an integrative housing and health

policy in India. Khan, F. et. al. (2024) [58] 'Empathy of Bank Employees and Its Influence on Service Quality of Banks: Evidence from the Knowledge Economy of Kerala in Digital India' have noted that empathy is key to effectively deliver housing finance by banks. Sruthy, K. and Manoj, P.K. (2024) [59] 'Sustainable Rubber Cultivation in Digital India: Technology-Based Interventions, Skill Development and Rubber-Based Enterprises' find technology imperative as a key factor in rubber farming. William George, A.J. and Manoj, P.K. (2014). 'Promotion of Green and Affordable Housing and Allied Sectors in India: For the Faster and Sustainable Economic Development in the Digital Era' observe green housing as an imperative in India.

In view of the foregoing analysis it is noted that no study focuses on the need for inclusiveness in the housing finance exposures by the formal sector financial institutions. Hence, this study looks into this vital aspect with a view to suggest suitable remedial strategies.

5. SIGNIFICANCE OF THE STUDY

In India, '*Affordable Housing for All*' has already been a national goal since 2017. Even though this goal could not be achieved by 2022 (as originally envisaged, i.e. on the year when India attains 75 years since independence) it continues to be a national priority and the target year has since been revised as 2025. The original target year of 2022 was missed due to the influx of the global pandemic of Covid-19 and also other reasons. Besides influencing one's familial, social, economic and other dimensions as one gets 'own house', as an organized activity housing development in a nation could bring in immense macro-economic advantages in the form of faster economic growth. This arises due to the linkage effects of housing, both forward and backward, with hundreds of allied sectors.

Thus, housing investment is deliberately initiated by the Governments worldwide in recessionary situations and such other economic crises e.g. Covid-19 promoted the GOI to launch its ABA (Atmanirbhar Bharat Abhiyan) wherein housing investment is one of the core focus areas. In a developing nation like India, there always an economic sense in encouraging housing activity because housing can prompt growth momentum in other allied sectors, forward and backward.

The above macro level benefit is over and above the micro level benefits accruing to individuals because of better standard of living and greater efficiency and productivity; and so also the enhanced social status, opportunities to nurture one's talents, etc. Thus, the benefits of housing to the individual, family, society, community, state and the whole nation are beyond any doubt. In the backdrop of the unfulfilled national goal of *Affordable Housing for All* there is a key need to scale up the activities of CBs and HFCs, the major housing finance providers in India, to attain the goal. A critical study of the coverage (reach) of the major players in terms of their exposure to different groups of borrowers, like, EWS (economically weaker section), LIG (low income group), MIG (middle income group) etc. is relevant in the above context.

6. RESEARCH DESIGN

This study is structured into a descriptive-analytical cum exploratory study which is primarily based on secondary data from authentic sources like the publications of the Govt. of India (GOI) and Govt. of Kerala (GOK) and those of regulatory bodies, like, National Housing Bank (NHB) and Reserve Bank of India (RBI). Basic statistical tools are used for data analysis.

The conceptual framework for the present research is that sustained economic growth of any nation depends on the balanced and equitable wellbeing of its citizens. Good housing is a vital factor that decides the standard of living of individuals and it is an essential pre-condition for better productivity and hence greater contribution to the nation building in terms of higher output. In the India, adequate housing for the marginalized groups like EWS and LIG who constitute about 95 percent of the housing demand is essential for balanced economic growth.

7. APPRECIABLE MACRO-ECONOMIC ENVIRONMENT OF HOUSING FINANCE IN INDIA

It is noted that there has been appreciable GDP growth in India compared with other nations and also the global average growth; India's economic growth being well ahead of other nations as well as the global average. Figure I is self-explanatory regarding India's superior growth.



Figure I: India's Economic Growth Vs. Other Nations and Global Average (2022-2024)

Source: NHB (2023), *Annual Report FY 2023*, Oct., p.190. (www.nhb.org.in).

Besides India's superior macro-economic growth from a global perspective (Figure I), in respect of the specific case of housing and real estate sector in particular also the performance of India has been one of the best in the whole world.

In fact, India adorns a position of pride among the topmost world nations in respect of real estate transparency as of 2022, and India follows some of the rich nations like the Arab Emirates, France, Netherlands US, and Germany in that order. In fact, the nations like Belgium, Canada and Spain rank below India (Figure II).

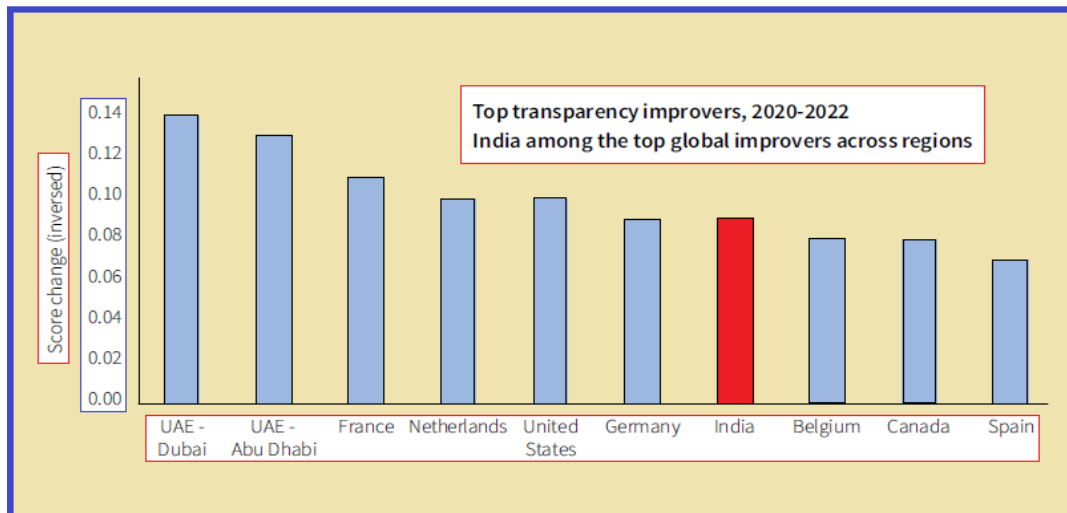


Figure II: Top Improvers in Real Estate Transparency as of 2022-Global

Source: JLL (2022), *Global Real Estate Transparency Index 2022*, June, p.6.

Besides, India's superior position among the world nations in respect of real estate transparency as of 2022 (Figure II), it may be noted that India ranks number one among all the nations in the APAC nations (Figure III).

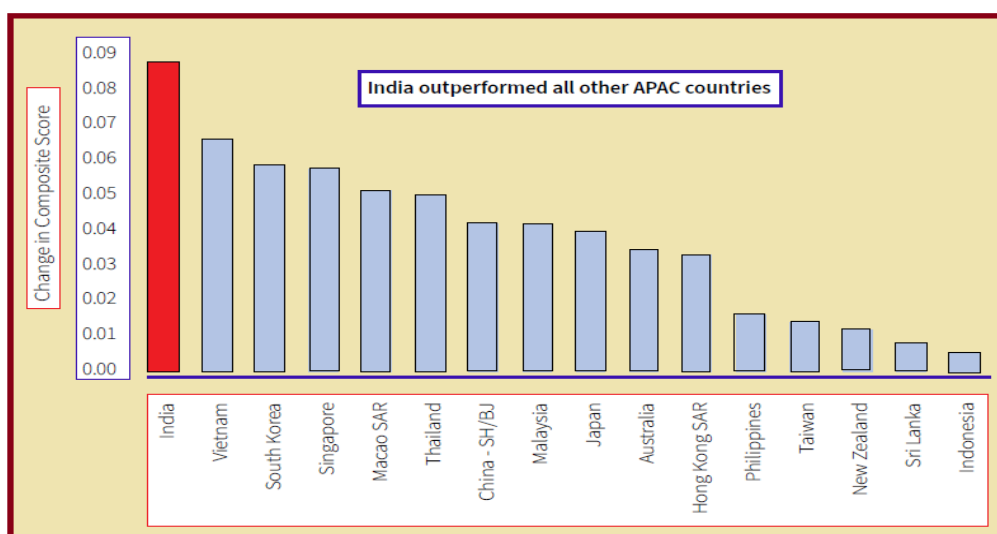


Figure III: Real Estate Transparency among APAC Nations as of 2022- India ranks first

Source: JLL (2022), *Global Real Estate Transparency Index 2022*, June, p.7.

It may be noted that the steady improvements in the economic growth of India over the years vis-à-vis other nations of the world including the advanced nations, is an undoubted fact. So also, regarding the relative position of India in the real estate transparency in the recent years, especially after the implementation of the Real Estate Regulatory Authority Act 2016 (RERA 2016) (with effect from 01 May 2017) has been higher among the world nations, and undoubtedly the topmost among the APAC nations. The fast growth of India's housing and real estate sector is clear from the growing trend in the sales of residential housing units is noticeable; despite many uncertainties like Demonetization, GST and Covid-19. (Figure IV).

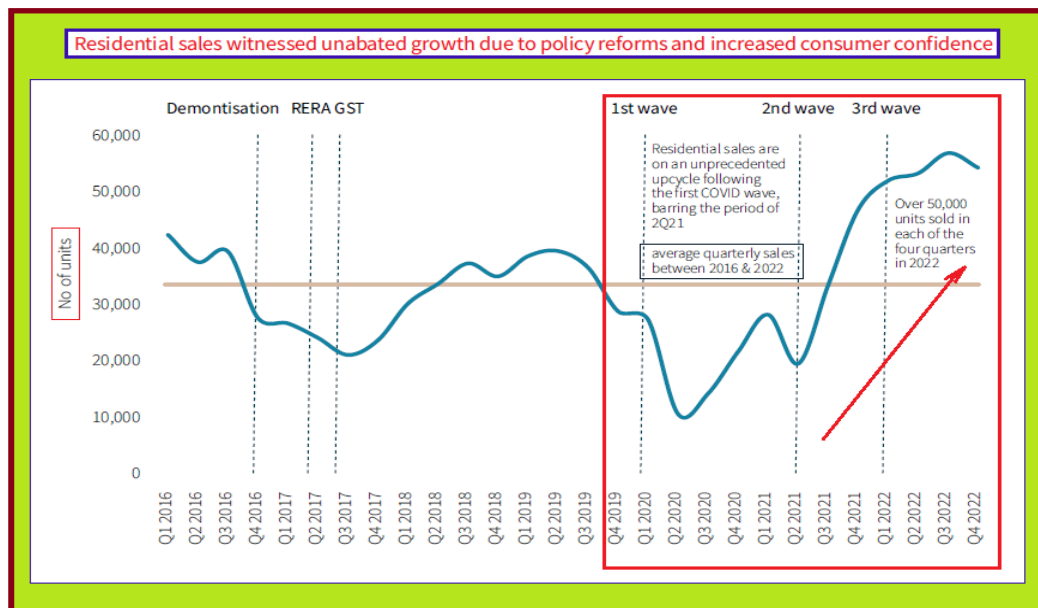


Figure IV: India's Housing and Real Estate Sector – Fast Picking up in the Post-RERA Era

Source: JLL (2023), *5 years of RERA progress*, p.10.

8. Housing Situation in India and Housing Shortage: The Case of EWS and LIG

While the growth in the economy in general and housing sector in particular are good, the same need to be equitable for its long term sustainability. Naturally, unless the fruits of development, especially those in housing and real estate sector, reach the EWS and LIG groups the development pattern is not equitable and it cannot ensure sustained economic growth. The fact is that vast majority of about 95 percent of the total housing demand relates to the marginalised groups like LIG and MIG. So, there is an imminent need to focus on such groups (Table I).

Table I: Housing Requirement (Projected as of 2022) in India

	Analyst estimate	Govt of India estimate
Shortage and requirement (mn)		
EWS	33.6	45.0
LIG	44.0	50.0
MIG and above	6.4	5.0
Total	80.0	100.0
Value of units, LTV to be financed by HFCs, SCBs (Rs Lakh Cr)		
EWS	25.2	33.8
LIG	88.0	100.0
MIG and above	51.2	40.0
Total	164.4	173.8
Total (US\$ tn)	2.3	2.5
Construction costs (Rs Lakh Cr)		
EWS	26.9	36.0
LIG	55.0	62.5
MIG and above	19.2	15.0
Total	101.1	113.5

Source: RBI (2019), *Report on Housing Finance Securitisation Market*, p.11.

Regarding the market structure it may be pointed out that CBs and HFCs alone are the major institutional players in the formal sector housing finance market in India. Despite the changes in their relative shares over the years, including their leadership roles, for the last two decades (from FY 2004 onwards) or so, roughly two-third of the market is that of CBs and the rest one-third alone goes to HFCs. (Figure V).

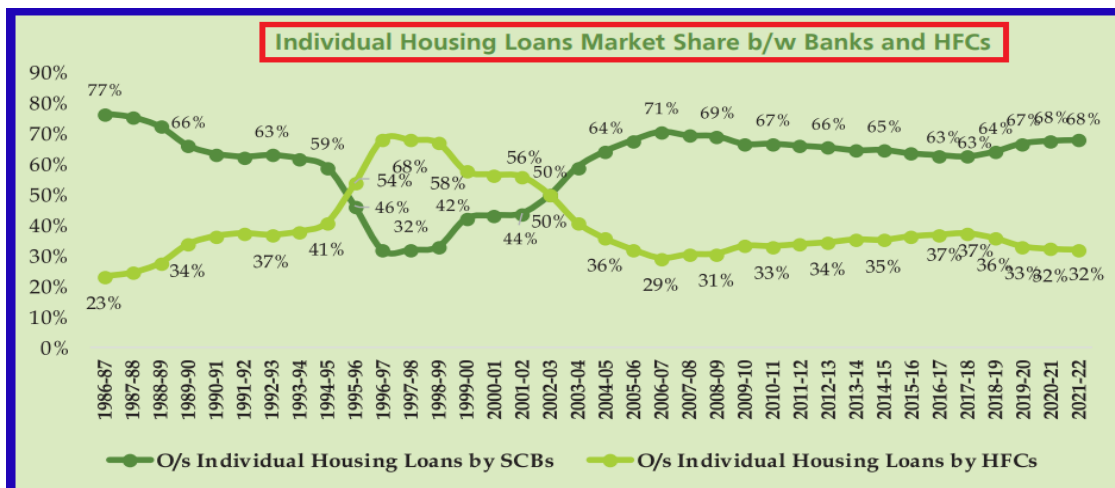


Figure V: Competitive Dynamics of the Housing Finance Market in India

Source: NHB (2023), *Trend and Progress of Housing in India 2022*, p. 126.

The growth pattern of the formal housing finance system is noted to be steady as is evident from the total housing loan disbursements by the major players (viz. CBs and HFCs). Accordingly, as of the FY-ended 31 March 2023, the total housing loans outstanding that is disbursed by the CBs and HFCs together has been Rs. 28.65 Lakh Crores. (Figure VI).

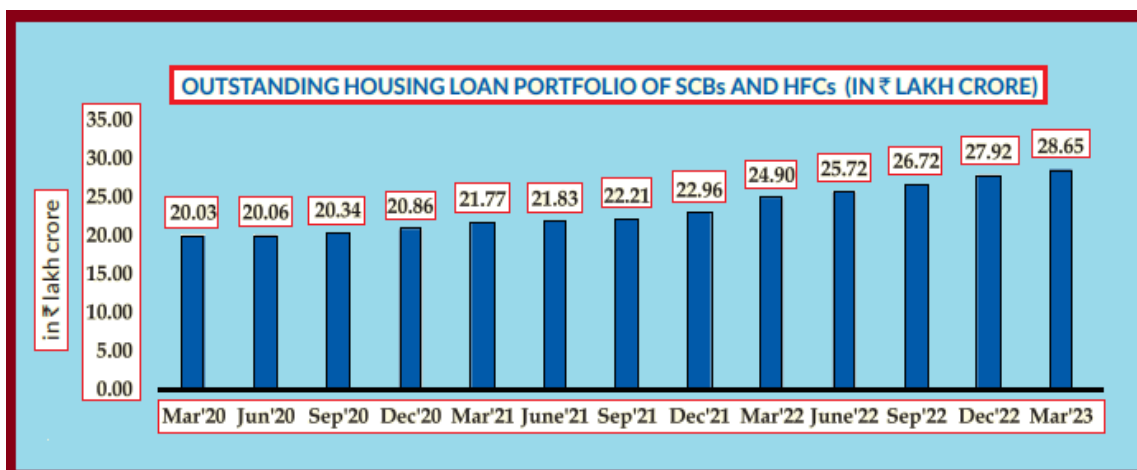


Figure VI: Outstanding Housing Loan Outstanding of CBs and HFCs (March 2020 to 2023)

Source: NHB (2023), *Annual Report*, p.193. (www.nhb.org.in).

It may also be noted that the growth rate in the housing loan portfolio of CBs – the most prominent institutional player in the formal sector housing finance in India that accounts for nearly two-third of the total housing finance market – has been rather slow. The relative share of housing advances to total advances of CBs in India has risen from 9.16 percent in FY 2010 to not more than 13.88 percent in FY 2023 which

in turn is slightly lower than 13.92 percent as of FY 2022. During the last 6 years FY 2018 to FY 2023, the share of housing loan advances by banks has increased by less than 3 percent only, and over the period FY 2010 to FY 2013 the same is less than 5 percent. In short, the relative growth rate is rather slow. (Figure VII).

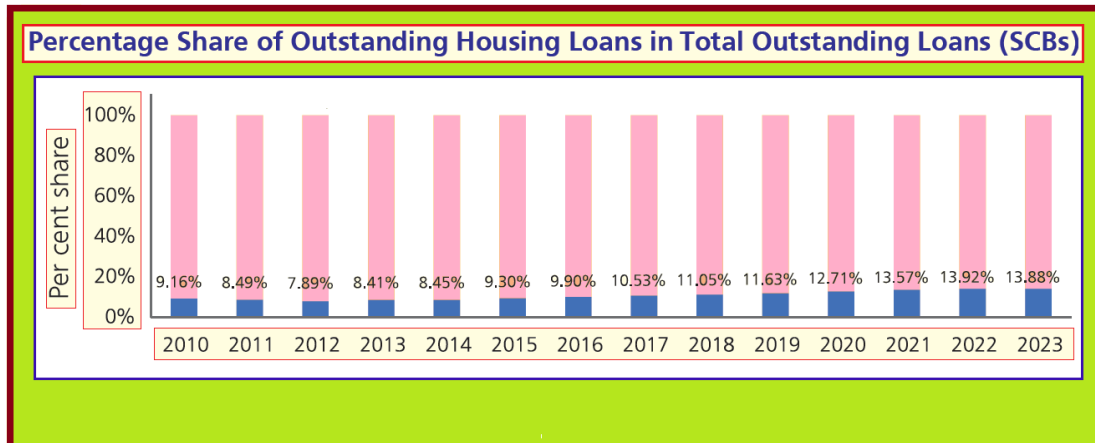


Figure VII: Share (Percentage) of Housing Loans in the Total Loans of CBs

Source: NHB (2024), *Trend and Progress of Housing in India 2023*, p.131.

In respect of HFCs, the growth in their housing loans portfolio (i.e. housing loans – both individual housing loans and other housing loans) there has been a steady growth as in the case of CBs. It may also be noted that as in the case of CBs, in respect of HFCs also the growth rate over the years is rather slow and is at the level of 11.42 CAGR (FY 2018 to FY 2023). In short, in respect of HFCs – the agencies that account for about one-third of the total housing finance market in India – the growth rate in housing loan growth rate is rather slow. (Figure VIII).

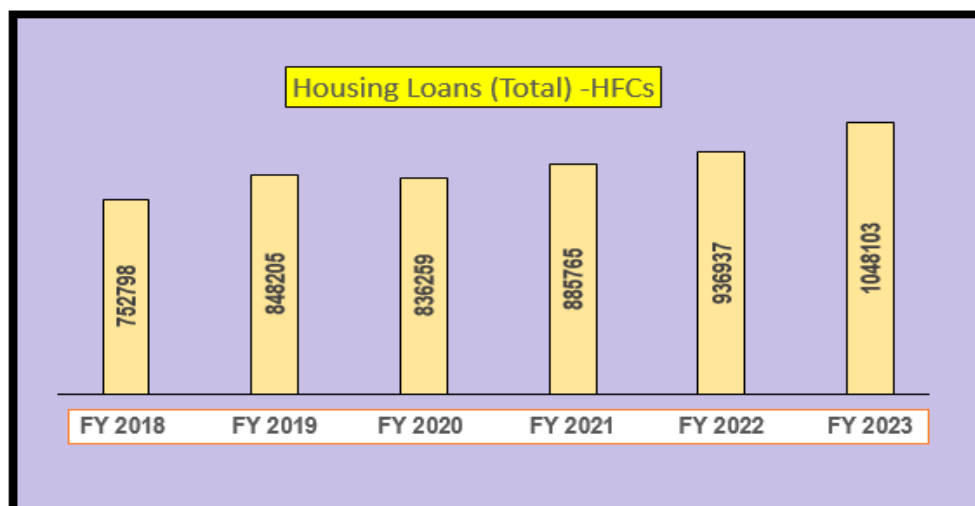


Figure VIII: Total Housing Loans (HL) of HFCs - Individual HL and Other HL

Source: Compiled from NHB, *Trend and Progress of Housing in India* (for 2018 to 2023).

In view of the India’s national goal of *Affordable Housing for All*, it is imperative that the housing finance exposures of the formal sector institutions should focus on the low income groups like EWS and LIG – those who constitute about 95 percent of the total housing demand. Unless such segments are focused or specially targeted, the

national housing goal cannot be attained. Unfortunately, housing finance pattern of formal sector institutions (CBs and HFCs) over the years do not reflect due representation for the low income groups, like, EWS and LIG. The ‘big-ticket’ housing loans fast growing while ‘small-ticket’ ones are fast declining. It may be noted ‘Upto 10 lakhs’ and ‘10-25 lakhs’ home loans are gradually declining, but all housing loans above 25 lakhs (all types) are fast growing. (Figure IX).

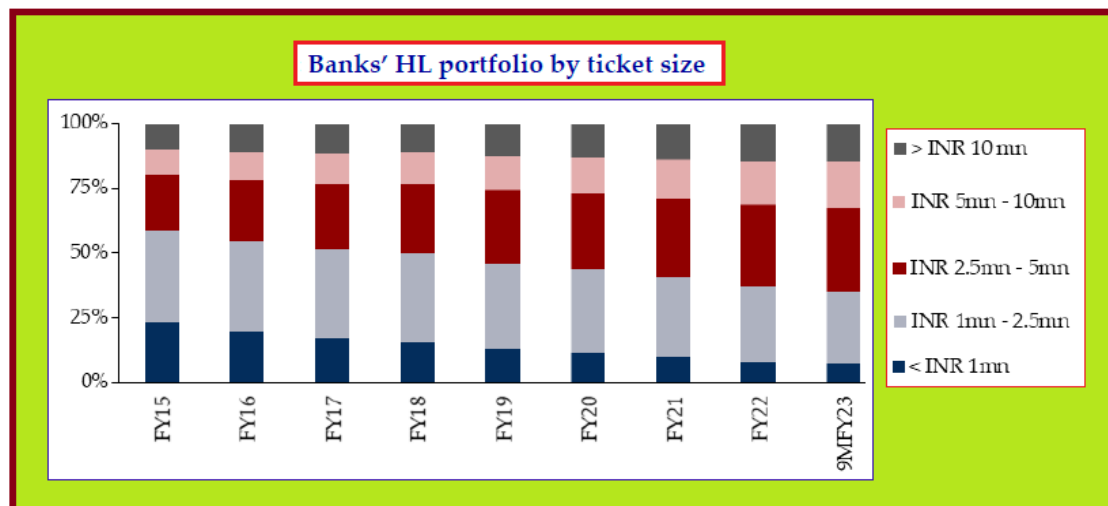


Figure IX: Housing Loans of CBs – Trend of Small Ticket and Large Ticket Loans

Source: HDFC Securities (2023), *Housing Finance*, Sector Thematic., p.7.

Similar to the case of CBs, in HFCs also there is a clear pattern of steadily falling share of the small ticket housing loans and constantly growing share of large ticket housing loans. Table II is self-explanatory in this regard.

Table II: Slab-wise Distribution of Housing Loans by HFCs

Loan Size	Disbursements during FY			Slab wise share as a % of total IHL disbursements		
	2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
	(Amount in ₹ crore)					
Upto ₹ 2 lakh	1,356	467	1,157	0.7%	0.2%	0.4%
>₹ 2 lakh and upto ₹ 5 lakh	2,030	1,727	2,294	1.1%	0.9%	0.9%
>₹ 5 lakh and upto ₹ 10 lakh	13,014	12,135	14,614	6.9%	6.4%	5.6%
Upto ₹ 10 lakhs	16,400	14,329	18,065	8.7%	7.5%	7.0%
> ₹ 10 lakh and upto ₹ 15 lakh	19,278	18,379	21,505	10.2%	9.6%	8.3%
> ₹ 15 lakh and upto ₹ 25 lakh	40,849	40,446	48,577	21.7%	21.2%	18.7%
> ₹ 25 lakhs	1,11,707	1,17,841	1,71,124	59.3%	61.7%	66.0%
Total	1,88,233	1,90,995	2,59,270	100.0%	100.0%	100.0%

Source: NHB (2023), *Trend and Progress of Housing in India 2022*, p. 143.

In short, the formal sector housing finance agencies are becoming growingly exclusive as far as the marginalised segments are concerned. This in turn indicates the need for inclusive policies that can accommodate the EWS, LIG and such other groups. In fact, ICT itself has become an effective tool for financial inclusion, rural development and women empowerment. Hence in the housing finance field also, effective use of ICT

has become an imperative for catering to the marginalised segments like EWS and LIG. The *Digital India* policy focus of the GOI and similar policies by the States (like, *Knowledge Economy* motto of the Kerala State) have already created an environment that is conducive for ICT-based financial inclusion. GOI's schemes like PMJDY (Pradhan Mantri Jan Dhan Yojana) as well as MGNREGS etc. are also encouraging vast ICT adoption as well as ICT-based payments like Direct Benefit Transfer (DBT). In sum, the ICT thrust of the Governments, both at Union and States, must be leveraged in the housing finance front also so as to include more from the EWS, LIG and such other marginalised groups; as in PMJDY that focuses on ICT-enabled on financial inclusion.

9. ICT-ENABLED AND INCLUSIVE SCHEMES FOR INCLUSIVE HOUSING FINANCE: AN IMPERATIVE

It may be pointed out here that ICT-enabled schemes for financial inclusion (like, PMJDY) is an imperative in housing finance. The performance of PMJDY commendable so far as it could ensure a total number of 50.41 Crore beneficiaries across different types of banks, including RRBs and Co-operative banks as of 13 Sept. 2023. (*Yojana*, Nov. 2023). (Figure X).

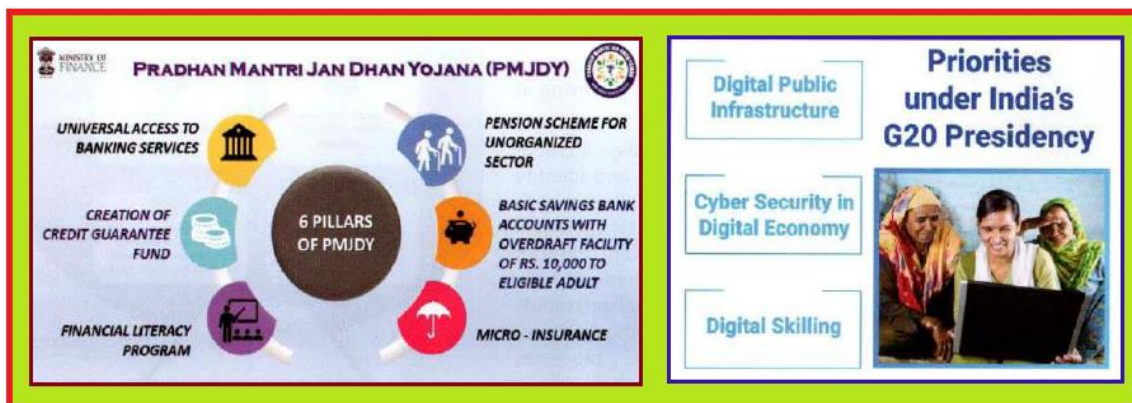


Figure X: ICT-enabled Financial Inclusion through schemes like PMJDY is an imperative Source: GOI (2023), *Yojana*, Nov

Regarding the relative access to digital services for the masses, i.e. customers including the low income and middle income customers along with the high income customers, it may be noticed that there is reasonably high consistency across the various income groups, despite the slightly lower usage of Card-based and Bank App-based transactions. (Figure XI). This shows the scope of digital transformation as a tool for financial inclusion, rural development and equitable economic development. As ICT-based devices like mobile phones are growingly becoming affordable to the masses, ICT itself has become a tool for rapid economic growth by facilitating digital financial inclusion. Global experiences such as the use of mobile phones as a tool for financial inclusion and rural transformation as noted by Pickens (2009)[17] is a classic example in this regard. Many recent Indian experiences too suggest this 'ICT potential'. So, alternative models like housing micro finance (HMF) needs to be promoted in India.

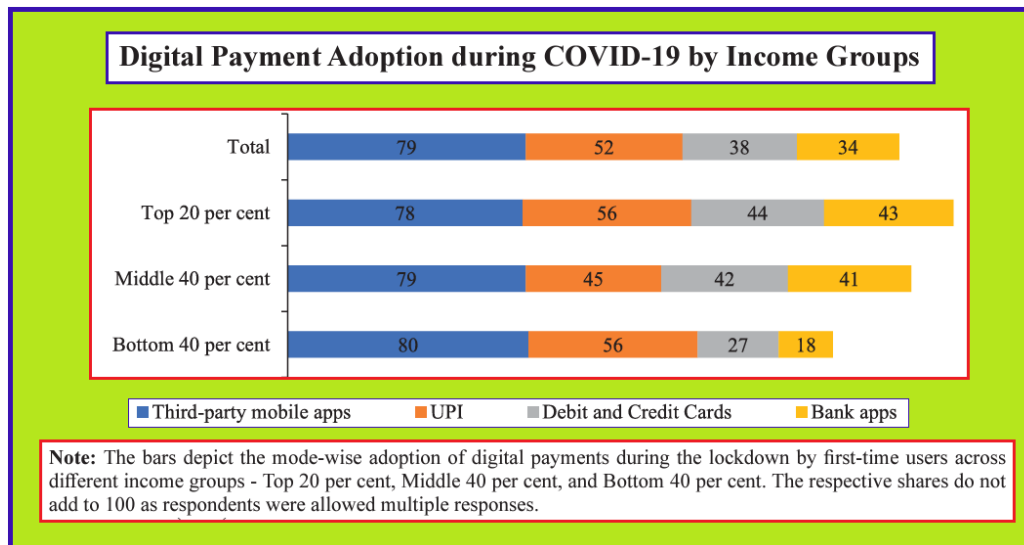


Figure XI: Digital Payment Adoption based on Income Groups during Covid-19 period

Source: Adapted from, RBI (2022), *Occasional Papers*, 43 (2), p.16.

Based on the foregoing discussions, it is noted that use of alternative models like HMF and more active participation of specialised agencies like the RRBs (Regional Rural Banks), Co-operative firms like ACHFs (Apex Co-operative Housing Federations) and DCBs (District Co-operative Banks) and emerging institutional groups like SFBs (Small Finance Banks) are vital for equitable housing development in India. Accordingly, the less privileged groups like EWS and LIG need to be particularly encouraged to avail small ticket housing loans. Models like HMF through CBs and HFCs, under the SBL (SHG-Bank Linkage) or such other schemes need to be promoted so as to reverse the very disappointing trend of steadily falling small ticket home loans by the CBs and HFCs, both, the two formal institutional groups in housing finance. The need for encouraging specialised HFCs called Affordable Housing Finance Companies (AHFCs) need not be overemphasised in the current scenario of constantly falling small ticket home loans by both the formal sector housing finance groups. (Figure XI).

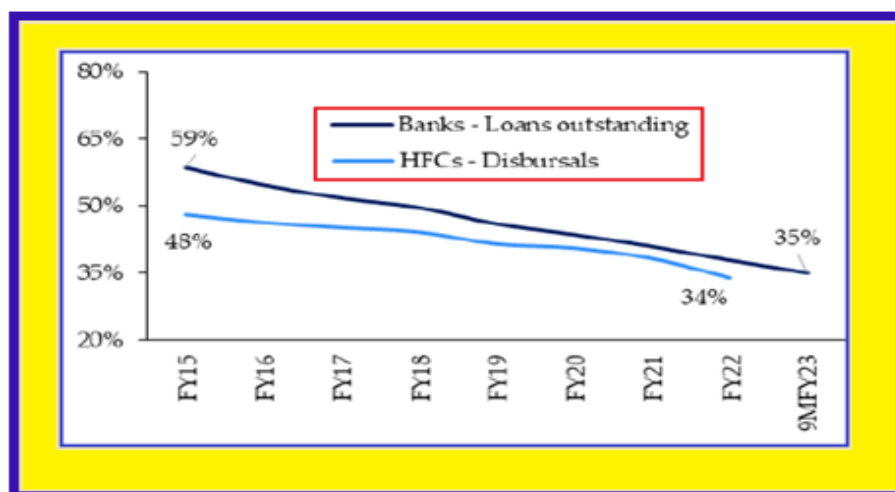


Figure XI: Steadily Falling Trend of Housing Loans upto 25 Lakhs

Source: HDFC Securities (2023), *Housing Thematic*, April.

10. SUGGESTIONS AND CONCLUDING REMARKS

Based on the above analysis, the following are the main suggestions:

- Top level co-ordination between GOI and regulatory bodies like RBI, NHB, NABARD etc. should decide on the best models that can provide affordable housing to the masses. Co-lending model and other innovative models be promoted with a focus on boosting affordable housing products, and that too with incentives like refinance, subsidies etc.
- Specialized models like HMF need to be encouraged along with the general microfinance
- Specialized intermediary groups like AHFCs and also financial intermediaries that are pro-poor and pro-poor by virtue of their basic mandates like SFBs which are supposed to earmark 75 percent of their credit to PSL (Priority Sector Loans) need to be encouraged and also supported by the Government and NHB to lend more to the affordable housing loan segment by extending more refinance, subsidies etc.
- Traditional players in banking who have presence in housing finance segment also, like, RRBs who specialize in rural credit and co-operative entities such as ACHFs need to be encouraged so as to lend more of affordable type housing loans.

To sum up, it may be pointed out that added thrust on housing finance, especially affordable housing finance, is an imperative in India. Meticulously designed policies to boost this vital sector is important not only for development of the housing sector and hence attaining the national housing goal, but also for rapid national economic development. Let us hope that GOI's thrust on housing and also that on wide ICT adoption would help India to attain both.

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