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A STUDY OF VARIOUS CATEGORIES OF LOANS PROVIDED BY THE INDIAN BANKS WITH SPECIAL REFERENCE TO DIGITALISATION AND PRE-APPROVED PERSONAL LOANS (PAPL)

Dr. Payal Garg*

ABSTRACT

India's Banking industry is one of the most efficient capital regulated and well-managed industry. The economic and financial conditions are much controlled than many other countries all over the world. It is so efficient that it has faced all the crisis, even the global crisis very efficiently. Asset of Public sector banks stood at approx. Rs. 108 lakh crores in Financial Year (FY) 19- 20. During Financial Year (FY)16-20 bank credit grew at a Capital Asset Gearing Ratio (CAGR) of 3.57%. Due to pandemic (COVID-19) banking industry suffered a lot. But it was able to face the ill-effects of pandemic due to innovative banking models. Digitalisation of banking industry is one of the required and much needed adaptations by banks in this challenging scenario. To make availability of credit faster it has introduced a scheme of Pre-Approved Personal Loans (PAPL). This scheme gives the benefit to the borrower to receive the loan in few minutes, without paper work. It has a two-fold benefit both to the lender and also to the borrower. This paper critically examines the current status of Pre-Approved Personal Loans (PAPL) of the Indian banks. It also highlights various developments and initiatives taken by the Indian government to boost up the banking industry. It also discusses about various categories of loans provided by Indian banks.

Keywords: *Banking, Digitalisation, Loans, Pre-Approved Personal Loans (PAPL).*

Introduction

Overview of Indian banking system and its products

The Indian Banking system is a backbone of the economy of a country. It is the industry that makes economy run smoothly by making required changes to keep it abreast with the changing national as well as international economic environment. The banking industry like all other industries has undergone a vast change since independence. From the primary function of Deposits, banks have come a long way, now they are also managing your money through a lot of products and services. The basic function of loan and deposits have now extended to various other products and services.

Bank's products can be classified into:

- Retail Banking
- Trade Finance
- Treasury Operations

Retail Banking

Deposits, Remittances, Loans, Cash credit & overdraft

Trade Finance

Issuing & confirming of letter of credit, Drawing, accepting, discounting, buying, selling, collecting of bills of exchange, promissory notes, drafts, bill of lading & other securities.

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* Associate Professor, R.B.S., Management Technical Campus, Agra, U.P., India.

Treasury Operations

Buying & selling of bullion, foreign exchange, acquiring holding, underwriting and dealing in shares & debenture etc., purchasing and selling of bonds securities on behalf of customers.

With the increase in pace of development and digitalisation the above products are now made available to the customers very quickly, just in seconds or minutes as compared to the long waiting period of the past banking system.

Objectives and Purpose of the Study

- To study various categories of loans by Indian banks.
- To study various developments in banking industry post COVID-19.
- To study the effect of digitalisation on Indian banking industry.
- To highlight the concept of Pre-Approved Personal Loans (PAPL).

Research Methodology and Data Collection

The study is based on secondary data which was collected through different newspapers, articles, magazines, internet and annual report of Reserve Bank of India (RBI).

Types of Loans & Advances

Loans can be utilised for various things in today's world. It can be utilised for funding a new business to buying appliances for your newly purchased house. The various types of loans available in the market and their specific characteristics that make these loans useful to the customers are:

Based on the Security Provided

- **Secured Loans**

These loans require the client to pledge collateral for the money being borrowed. In case the borrower is unable to repay the loan, the bank has the right to utilise the pledged collateral to recover the pending payment. The rate of interest for secured loans is much lower as compared to unsecured loans.

- **Unsecured Loans**

Unsecured loans are those that do not need any primary or collateral security for loan disbursement. The bank analyses the past relationship with the client, the credit rating, and some other factors to decide whether the loan should be given or not. The rate of interest for unsecured loans is usually higher, as in the case of default of the borrower there is no collateral to recover the loan amount.

Based on the Purpose

- **Education Loan**

Education loans are one of the loans for financing the borrower's education expenses. An education loan is availed specifically to finance educational requirements towards school or college. The course can either be an undergraduate (UG) degree, a postgraduate (PG) degree, or any other course like diploma/certificate from a institution/university of repute. Depending on the bank, it will cover the tuition fees of the course, the examination fees, hostel fees, and various other charges or fees of the course. One must have the admission pass provided by the institution to get the financing. The financing is available both for courses running in India and also for international courses.

- **Personal Loan**

Most banks offer personal loans to their customers and the money can be utilised for any expense like repaying an old debt, going on vacation, funding for the down-payment of an household asset, any medical emergency, gadgets like purchasing a new refrigerator. Generally, these loans are unsecured loans. Whenever there is a liquidity issue, a borrower can go for a personal loan. Personal loans are offered bas (ed on the past relationship with the client, the credit rating, and some other factors as required by the banks. The bank needs certain documents like proof of wealth, proof on income, etc. before granting the personal loan amount. The rate of interest charged with these loans is usually on the higher side. The time period of these loans is not too long.

- **Vehicle Loan**

Vehicle loans finance the purchase of two-wheeler and four-wheeler vehicles (car loans). Further, the four-wheeled vehicle can be a new one or a second-hand one. Based on the on-road price of the vehicle, the loan amount will be determined by the bank. The loan application will get approved easily and there might a lower rate of interest on the loan. There may be some down payment to get the vehicle as the loan rarely provides financing for the full cost of the vehicle. Vehicle loans are a type of secured loans, the vehicle will be owned by the bank or the lender until full repayment of the loan is made. If one fails to pay his instalments, the bank will take back his vehicle and recover the outstanding debt.

- **Home Loan**

Home loans are used to get finances in order to buy a house or apartment, construct a house, renovate or repair an already existing house, or purchase a plot for the construction of a house or apartment. These loans generally come with longer tenures (15 years to 30 years). The rates offered by some of the banks in India on home loans is at 6.50%p.a. The applicant's credit is checked before the loan request is approved by the lender. In this case, the property i.e., house will be held by the bank and the ownership will be transferred to the rightful owner after all repayments are made.

Based on the Pledged Assets

- **Gold Loan**

A gold loan can be utilised to raise cash to meet any emergency or also for future planned financial needs, such as business expansion, education, medical emergencies, agricultural expenses, etc. Many financiers and banks offer cash when the borrower pledges physical gold, may it be jewellery or gold bars/coins. The loan against gold is also a secured loan where gold is placed as security or collateral in return for a loan amount that corresponds to the per gram market value of gold on the day that the gold has been pledged. The lender weighs the gold given by the customer and then the bank calculates the amount offered, on the basis of various checks of purity and other aspects. The loan must be repaid in monthly instalments so the loan is cleared by the completion of the term and the gold can be taken back to custody by the borrower. If the borrower is unable to make the repayments on fixed time, the lender has the right to take over the gold to recover the losses.

- **Loan against Asset/Property**

Similar to pledging gold, individuals and businesses pledge property, insurance policies, Fixed Deposits certificates, mutual funds, equity shares, bonds, and other assets in order to borrow money. Based on the value of the pledged assets, the bank will offer a loan with some margin at hand. The borrower needs to make repayments on time so that he/she can get custody of the pledged assets at the completion of the tenure. Failing to do so, the bank who is the lender can sell the assets/property to recover the defaulted funds.

- **Credit Card Loan**

Credit cards are also like small term loans provided by the banks. The holders have to pay back for all the purchases they make at the end of the billing period. Credit cards are used and accepted about everywhere, even when someone is travelling outside India. These credit cards have also great rewards and benefits. It's the loan where you need to pay back on time but borrower is also benefited for using it. There are cons also with this category of loan. There is a high rate of interest on the fund borrowed on the credit card. If borrower fails to pay credit card bills on time, the interests will keep adding up and it might be difficult for managing finances with the rising payment balance.

- **Small Business Loan**

Small Business Loans are the type of loans that are provided to small scale and medium scale enterprises to meet various business requirements. These loans can be used for various category of purposes that help in operations of the business and also its growth. Some of these could include purchase of assets, inventory of raw material or goods, payment of the salaries to the employees, advertising or marketing expenses, paying off any business loans, meeting office and administrative expenses, or even to open a new branch. The eligibility criteria for small business loans differs from bank to bank, but the common ones are the age of the business, the number of years the business has been operational, income tax returns, and statement of the previous year's turnover (sales) that has been audited by a Chartered Accountant.

- **Payday Loan**

Payday loans are also known as salary loans. These are also a type of unsecured short-term loans that require the borrower to be employed with a regular income. They generally have high rate of interest. This is also based on the applicant's credit score, age, and steady income. Documents required would be salary statements and other proof of the borrower's income.

- **Cash Advances**

These loans are offered by credit card issuers and allow credit card users to withdraw funds from an ATM machine using their credit card. The amount of cash that can be withdrawn from such credit card in this way will depend availability of the credit limit. The cash has to be paid back along with the interest, which is usually calculated from the day when the cash has been withdrawn from the ATM. There are also other fees along with a cash advance, such as cash advance fees and ATM or bank fees.

- **Agriculture Loan**

Agriculture loans are the category of loans that are provided to farmers to meet the expenditure of their regular or general agricultural needs. These loans can be of the short term or long-term tenure. They can be utilised for raising working capital for crop cultivation or to buy agricultural tools, equipment or machinery.

- **Loan Against Credit Card**

Loan against credit card is like a personal loan that is taken against the borrower's credit card. These are usually pre-approved loans that do not need any additional documentation. Depending on the borrower, this can be converted into a personal loan that is interest free or zero interest within a certain period of time. After that, it will charge some percentage of interest. There is a processing fee charged with converting the credit limit that is already assigned into a loan.

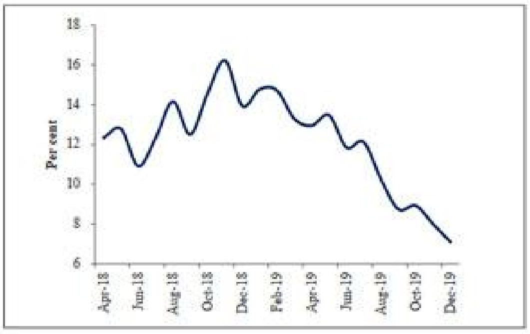
- **Consumer Durable Loan**

The loans that are availed to finance the buying of consumer durables such as electronic gadgets and household appliances are known as consumer durable loans. The purpose of the loan depends on the borrower's need. He canuse it to buy anything from mobile phones to refrigerator. Loan amounts range from Rs. 5,000 to Rs. 15 lakh. There is none security deposit required normally. Some lenders even do not charge any interest on these loans. These are the loans with instant approvals and least documentation is needed as well.

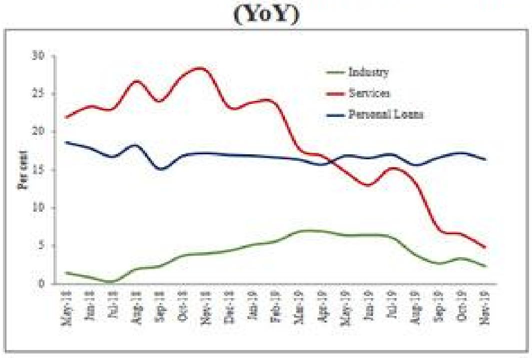
Position of Bank Credit during Pandemic and Post-Pandemic (COVID-19)

Prior to the pandemic, the loans & advances from banks were growing rapidly. However, with the arrival of Covid-19 Pandemic, the scenario changed. There was a decrease in lending for a certain period of time when there was lock-down in the country. But it regained its position with time. The graph below indicates the decrease in loan percentage during pandemic. Personal loans didn't suffer a major downfall, but services loan has a steep fall, in overall credit by banks.

Bank Credit Growth (YoY)



Sectoral Bank Credit Growth (YoY)

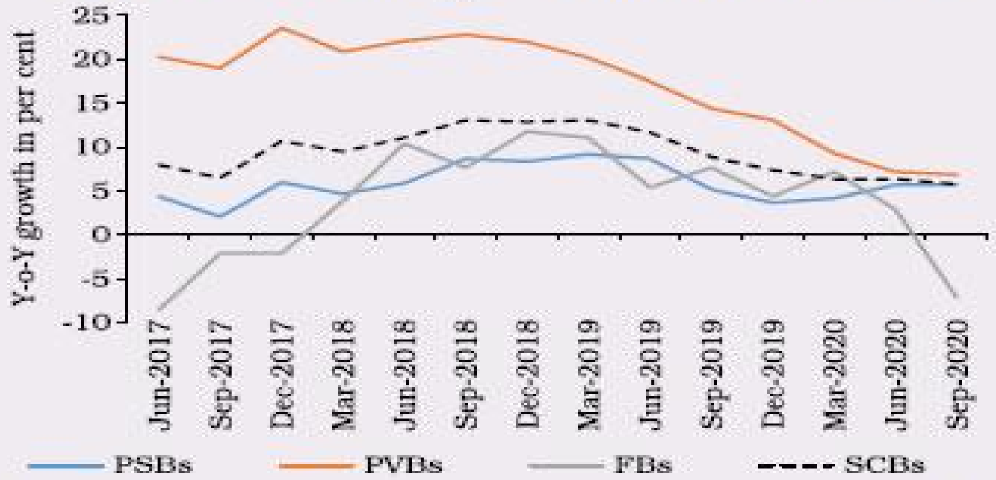


Source: RBI.

In India, there were interventions to uplift the demand for loans to regulate the flow of capital and increase the liquidity by increasing the period of loan repayment. As observed during the pandemic despite the various efforts like loan moratorium, lenders like banks& other financial institutions use various modern digital ways and technology to reach out to the customers and potential clients. Even in the case of loan processing, post pandemic bankers moved from a combination of physical & digital process to complete digital journey. Government of India and RBI's interventions also created a platform for digital realization of credit.

After a gap of two years consecutively, loan growth of Scheduled Commercial Banks decreased in the financial year 2019-20, reflecting both risk aversion and very low demand of credit. During the financial year 20-21, this was more prominent and increased by the COVID-19 pandemic. The loan book of Private Sector Banks was affected erratically in comparison to the other banks in the case of advances. Credit increment was at a higher growth among Public Sector Banks during quarters of March 2020, June2020 and September, 2020, after three consecutive quarters of decrease in loans and advances.

Chart IV.5: Bank Group-wise Growth in Advances



Note: IDBI Bank Ltd. has been categorized as Private Sector Bank with effect from January 21, 2019. Hence, from March 2019 onwards IDBI Bank Ltd. is excluded from Public Sector Banks group and included in Private Sector Banks group. The data on bank-group wise growth rate from March 2019 to December 2019 is based on the adjusted bank-group totals.

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI.

Bank Credit Distribution based on Various Sectors

The downtrend in credit growth during 2019-20 and 2020-21 so far (up to September) was seen across all the various sectors of the economy, but was noticeable in the case of industry and services.

Sectoral Distribution of Gross Bank Credit

(Amount in ₹ crore)

Sr. No.	Item	Outstanding as on			Per cent variation (y-o-y)		
		Mar-19	Mar-20	Sep-20	2018-19*	2019-20**	2020-21 (up to September) ^
1	Agriculture & Allied Activities	12,17,594	12,39,575	12,91,752	10	1.8	6.6
2	Industry, of which	32,93,638	32,52,801	31,30,493	5.2	-1.2	-1.4
	2.1 Micro & Small Industries	4,39,811	4,37,658	4,63,564	5.2	-0.5	6.6
	2.2 Medium	1,23,843	1,12,376	1,40,247	-1.7	-9.3	18.6
	2.3 Large	26,11,567	26,11,369	24,42,320	6.1	-0.01	-3.5

3	Services, of which	26,02,287	27,54,824	26,89,484	25.1	5.9	4.3
	3.1 Trade	5,83,930	6,28,171	6,51,990	12.4	7.6	11.5
	3.2 Commercial Real Estate	2,43,122	2,66,357	2,54,960	18.9	9.6	-1.1
	3.3 Tourism, Hotels & Restaurants	56,194	60,039	62,313	7.9	6.8	9.6
	3.4 Computer Software	22,236	24,404	22,566	-0.3	9.8	0.0
	3.5 Non-Banking Financial Companies	6,27,089	7,36,447	7,17,778	38.4	17.4	1.1
4	Retail Loans, of which	23,04,313	26,59,250	27,27,946	18.6	15.4	10.4
	4.1 Housing Loans	12,04,362	13,96,445	14,37,886	19.5	15.9	10.3
	4.2 Consumer Durables	9,195	11,154	16,786	-51.7	21.3	88.6
	4.3 Credit Card Receivables	1,11,361	1,32,076	1,40,824	34.5	18.6	15.7
	4.4 Auto Loans	2,69,677	2,89,366	2,98,672	12.9	7.3	8.4
	4.5 Education Loans	76,233	79,056	80,092	1.8	3.7	2.7
	4.6 Advances against Fixed Deposits (incl. FCNR (B), etc.)	77,135	80,753	71,482	-0.1	4.7	13.0
	4.7 Advances to Individuals against Shares, Bonds, etc.	9,339	5,619	6,977	46.3	-39.8	-19.4
	4.8 Other Retail Loans	5,47,010	6,64,781	6,75,229	25.6	21.5	10.4
5	Gross Bank Credit	95,26,932	1,00,98,420	1,00,63,699	13.4	6	5.1

Note: 1. Figures in the table may not tally with the figures released by RBI in ‘Sectoral Deployment of Bank Credit’ every month due to difference in coverage of banks.
2. *: March 2019 over March 2018.
3. **: March 2020 over March 2019.
4. ^: September 2020 over September 2019.
Source: Off-site returns (domestic operations), RBI.

As it is clear from the above statistics, bank credit has grown post pandemic, except the industrial lending. Agriculture and allied loans have increased by 6.6% and also the retail loans by10.4%. the gross lending has increased by 5.1%. One of the reasons, of the growth is easily availability of loans by providing a digital platform to the banks and to the customers.

Recent Developments

- **Investments and Developments**

  Major Investments and Developments in India’s Banking Sector include:

  - The introduction of Flexi-Loans, in July 2021, gave a platform to MSMEs, to access credit through Google Pay. The small merchants got benefitted by this initiative of digital lending.
  - A revised code of conduct was issued in December 2020, by the Digital Lenders’ Association, in connection to the RBI’s cautionary information and message.
  - National Payments Corporation of India (NPCI), approved WhatsApp UPI payments service in India on the condition of,‘Go Live’ on UPI in a graded manner, on November 6, 2020.

- 'Healthy Life Programme', was launched in the partnership of HDFC Bank and Apollo Hospitals in October 2020. It was meant for the overall healthcare solution which will make healthy living reachable and affordable on the digital platform of Apollo.
- In 2019, there were 32 mergers and acquisitions activities in banking and financial services.
- State Bank of India (SBI), India's largest lender, was able to raise US$ 100 million, in March 2020 by private placements in green bonds, thus also supporting climate related and environmental projects.
- The Cabinet Committee on Economic Affairs, in February 2020, approved for continuation of recapitalization of Regional Rural Banks (RRBs). It provided minimum regulatory capital to Regional Rural Banks (RRBs) for another year beyond 2019-20 up to 2020-21.
- In Financial Year 19-20, the NPAs (Non-Performing Assets) of commercial banks recorded a recovery of around Rs. 400,000 crores in the last four years including record recovery of about Rs. 156,746 crores.

Various Initiatives by the Government

- Prime Minister Mr. Narendra Modi launched e-RUPI, in August 2021. It is a cashless digital payment solution. e-RUPI is a QR code or SMS string-based e-voucher which is sent to the beneficiary's mobile phone. The users of this one-time payment system will be able to redeem the voucher at the service provider without using a card, any digital payments app, or even the internet banking access.
- The government has declared in the Union Budget of 2021-22, that it will disinvest IDBI Bank and will also privatise two public sector banks (PSBs).
- The Government has also proposed a system of fully automated GST refund module in the Union Budget 2019-20. It has also introduced, in the same budget, the idea of an electronic invoice system that will eliminate the need for a separate e-way bill.
- The number of Public Sector Banks (PSBs) has been reduced by eight by various consolidations done by the Government.
- The Government of India made Pradhan Mantri Jan Dhan Yojana (PMJDY)an open-ended scheme in September 2018. The government also added more incentives in the above scheme of PMJDY.
- The Government of India has also planned to invest a sum of about Rs. 42,000 crores in public sector banks (PSBs) of India by March.

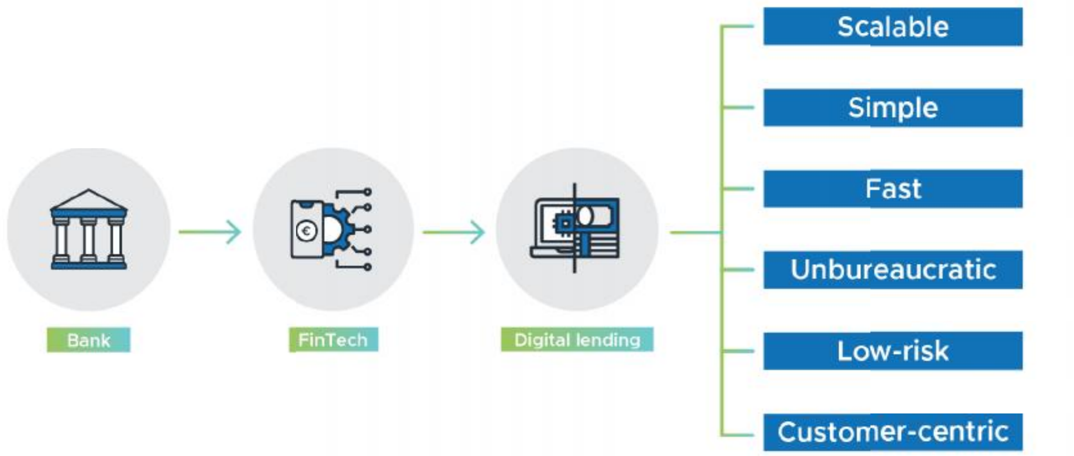
Loans and their Digitalization

Gone are the days, when a borrower who is seeking for a loan has to face long queue. He has to go from one bank to another bank to apply for a loan and to get the loan. Banks and other institutions (NBFC's) have now embraced digitalization along with financial technologies which cover all the aspects of loan processing. Starting from the application form, till the remittance of loan.

The Indian Government's various initiatives and developments for driving larger financial inclusion of people of all the sections in the country, have directed the focus of credit seekers. As a result, a whole new category of products& services like digital landing, Pre- Approved Personal Loans, digital payments have emerged. The consumers can access these services very conveniently on their smart phones.

- **Fast and Easy Loans by Banks**

Traditional way of lending used to take weeks or even months. Now a days a customer does not want to waste his time on time taking formalities. The digital loan application process, is one of the processes, which is completely digital for both the borrower and the lender. The digitalisation of loan has reduced the processing time from months to just a few seconds. The fast and also the secured lending decision is made possible only through extraction of past data available with the banks and by analysing the same for the purpose of verifying the borrower's details. The borrowers are also in the gainful position, as they do not have to go to the bank, loan decisions are immediate. He does not even need physical documents and the application process is also too easy.



Loan Applications- Digital and Scalable

Banks and financial institutions do not need to invest much of their time or money.With the development of digital loan application process. The technology experts make the process fast and easy as the technology is already there, they have to work on it to make digital loan accessible to the customers.

The Digital Credit Check (DCC), has helped the Fin-Techs in developing a product that enables a low-risk assessment of creditworthiness of the prospective borrower, in real time. The creditworthiness analysis of the prospective borrower is based on real information. This information is updated regularly on a daily basis. The data is first extracted, then analysed, and then made usable and finally evaluated for the purpose of risk management. This enables in taking the correct decision quickly, offering loans to a large number of customers and also convince them with an easy and less time taking digital application process.

Digital Credit Check (DCC)

The Digital Credit Check (DCC) is a process which is based on the Digital Account Check (DAC).It accesses the prospective borrower's online banking information in real time and on regular basis. The prospective borrower's online banking account information is accessed with the help of technical way through an interface to the account-holding bank. With the consent of the borrower, this data is used for taking the lending decision and thus optimises the time taking traditional procedure of checking creditworthiness of the customer. In the financial sector, the easy accessof real-time financial data, through technology, is the foundation of successful digitalisation of loans.

Digital Lending vs Traditional Lending

A digital loan application is a quick and efficient way in meeting customer demands. The employees at banks and other financial institutions have to give so much of their valuable time on lengthy manuals or only partly digitalised processes for providing loans.

The various processing steps, that includes, printing out documents of the customer for credit checks, are very time-taking. The further step of checking account statements and salary statements in the form of physical statements is also tiring and time-consuming.

With every additional manual step there is a potential chance of error. But in contrast, digital lending reduces time, costs and various risks associated with the entire lending process. The current crisis of Pandemic (COVID-19) is merely a catalyst which will speed-up the long pending and also necessary digitalisation which has been the need of the financial world for many years.

Pre-Approved Personal Loan (PAPL): a Revolution in Personal Loans

A *personal loan* is a form of unsecured loan (i.e., no primary or collateral security is required to obtain it) which can be used for various purposes like paying bills, repaying old loans or purchasing a house hold appliance. The bank needs some documentary proof like assets and income proof etc. before forwarding the personal loan. The time period of a loan is not very long and interest rate is usually high. It helps in providing short term liquidity to a person. It is usually based on applicants' past relationship with banks or NBFCs and his credit score.

With the upcoming of digitalization, the applicant/customer now gets a benefit of getting these loans very fast as compared to past. With nearly 500 million people using internet in the country the digital section of personal loans has opened up opportunities for a large mass of the country to access affordable credit like never before. One of the revolutionary changes is Pre-Approved Personal Loan (PAPL)

A *Pre-approval Personal loan* is usually offered by banks NBFCS or fintech lenders to the borrowers who have a clean track record of repaying their dues. Generally, it bears a lower interest rate. They are mostly unsecured, collateral free short-term loans. Sometime a lender may land a loan to the customers on the based on their income & savings history, even if they do not have a credit history. But usually, it is often a limited period offer of the loan.

They are like to personal loans in their characteristics, except, the lender itself reaches to you to lend the money. To understand it clearly, one gets this offer when the lender has already assessed your credit worthiness favourably. It is a quick loan facility for the selected borrowers where the providing time is so quick mat sometimes the loan is disbursed in seconds only.

Difference between Personal Loans & Pre approved Personal Loans (PAPL)

Personal loans and pre-approved loans are both mostly short-term credits that require no security or collateral to get the loan. The difference is, in pre-approved loans (PAPL) the customer is contacted by the bank to apply for easy and quick funding while personal loan applications can be passed or rejected by the bank on the basis of customer's details.

- *Availability*: A personal loan can be availed by the customer at any time, whereas pre-approved loan offers are available only for a limited and specific period of time.
- *Eligibility:* Before applying for a regular personal loan from bank or financial institutions, the customers must check whether they meet the eligibility criteria for the loan or not. It includes factors like age, income, credit rating, and so on, or else they may not get approval for loan. On the contrary, Banks and financial institutions make pre-approved personal loan offers to their already existing customers who have a good credit score, timely repayment record, regular source of income, and decent savings history.
- *Disbursal time:* Preapproved loans will be disbursed in a very short period of time ranging-within 3 seconds to 5 minutes. In the case of personal loans, the banks may take anywhere between few hours to a few days to disburse the regular personal loans to the borrower.
- *Documentation*: There is a very minimum to nil documentation required for pre-approved loans. The documentation process is quite cumbersome in the case of personal loans. In the case of pre- approved loans, the bank already has the existing customer's KYC details and all the other required details.

Features of Pre-approved Personal Loan

- *Disbursal of loan quickly:* The pre-approved loan will be approved and disbursed directly to the account in a very short period of time, if the customer has an account already with the bank.
- Least documents required: The pre- approved loans don't require a large number of documents for approval of loan and these loans are easy to obtain thus the process is considered very easy.
- No collateral or security required: The pre-approved loans are a type of unsecured loans so the borrower need not give any security or collateral to get such loans.
- Different loan amounts: The pre-approved loan amount is different for different individual. The loan amount depends on various factors like the customer's credit score and his past repayment record of loans.
- Repayment method: The borrower has to repay the pre-approved loans in the form of Equated Monthly Instalments (EMIs). The auto-debit facility is also available to the borrowers who have their account already with the bank to pay the EMIs of the loan. The genera repayment term varies from 12 to 60 months.
- Fees and charges: The banks may charge certain fees and other charges on borrowers during and after the disbursal of pre-approved loans. These may include processing fees, outstation collection charges, EMI bounce charges, foreclosure charges, secure fee, penal interest, etc. The terms and conditions of the fees and charges that are applicable on the borrower differ with banks.

Pros of a Pre-approved Personal Loan over other Loans

- Complete flexibility of the way of use of loan.
- Problem free online loan application.
- Flexible repayment options like EMI and auto-debit, with term of loan ranging from 12 months to 60 months.
- No primary or collateral security is required.
- Loans are easily available for different types of needs.
- Easy, simple and very less documentation, also a very quick processing and speedy disbursal of loan.
- Borrower can easily check his eligibility online on the lender's website.

Cons of Pre-approved Personal Loans

- High-interest rates due to their unsecured nature, and especially if the borrower does not have a good credit history.
- The high-interest rates which might considerably increase the borrower's monthly financial planning.
- Some banks may charge a few additional processing fees on these types of pre-approved loans, they may also put in extra fees or charges such as transaction fee. The banks sometimes put a high penalty on foreclosures and also on partial pre-payments.
- Pre-approved loans are an exclusive deal offers that may be valid only for a few days.
- If the borrower has a bad credit score, then chances are that his application might get rejected by the bank, thus further diluting your credit score.

The Pre-approved Personal Loans (PAPL) facility is offered by many banks and also by many non-banking financial companies (NBFC), in India. These are helpful in increasing the sale of loan products, to meet the urgent financial needs of people, and also to decrease the disbursal time of loan considerably. The rate of interest offered can be approximately between 11% p.a. and 15% p.a. for pre-approved personal loans. But the rate of interest usually differs from bank to bank and the borrower can check with the bank, the interest rate before asking for a personal loan.

A Comparison between banks that offer Pre-Approved Personal Loans (PAPL)

Bank name	Loan amount	Rate of interest	Processing fee	Repayment tenure
State Bank of India	At the bank's discretion	At the bank's discretion	NIL	At the bank's discretion
ICICI Bank	Up to Rs.20 lakh	11.25% onwards	1.25% of the amount of the loan + GST	Up to 60 months
HDFC Bank	Up to Rs.15 lakh	10.75% onwards	2.5% of loan amount subject to a min. of Rs.2,999 and max. of Rs.25,000	Up to 60 months
Aditya Birla Capital	Up to Rs.15 lakh	14% onwards	At the bank's discretion	Up to 36 months
IDFC First Bank	Rs.1 lakh onwards	10.75% onwards	NIL	Up to 84 months

A comparison between various banks clearly shows that the rate of interest on PAPL loans, processing fees, sanctioned loan amount as well as repayment tenure is different in different banks. ICICI is granting the highest loan limit (up to 20 lakhs) and IDFC the lowest only RS. 1lakh onwards.

The rate of interest charged by Aditya Birla Capital is the highest (14%) and others are charging 10.75%. SBI has kept it on its discretion depending on the borrower.

Except SBI and IDFC all the above banks are charging processing fees too. HDFC is charging the highest processing fees.

The term of loan is highest in IDFC bank (upto84 months)and lowest in Aditya Birla Capital (up to 36 months)

Thus, a borrower should critically analyse the pros and cons of PAPL loans before taking it. One should make a comparison of various banks before taking a loan, depending on his needs and repayment capacity.

Conclusion

As per the Reserve Bank of India (RBI), the banking sector of India, is a well-regulated sector with sufficient capital flow. As compared to the other countries, various financial and economic reforms are far better as well as efficiently managed. Credit market and liquidity risks studies suggest that banks in India have generally the capacity to recover quickly and have firmly faced the global challenges well. Various measures taken and efforts done by the government and RBI has made the banking industry face all the challenges effectively. It has been coping up with changing technologies globally and has always been at pace with them. Indian banking has recently witnessed the introduction and implementation of new banking models like payment banks and also small finance banks. All the measures by RBI have made digitalization in banking system possible. Due to digital lending banks are able to work faster and in an efficient way. It has also increased the capital flow of the banks, as can be seen in the above paper. PAPL loans are one of the initiative of banks which has made loans available even in few seconds, without undergoing much of documentation. All such policies and measures have brought in a revolutionary change in banking industry of India.

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