

ASSESSING THE AWARENESS LEVEL OF CREDIT SCORE SYSTEM- THE CIBIL SCORE

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Abstract

The mankind's desires keep increasing, and so does their loan requirements. But banks can't be so naive to permit all these requested loan applications. This arouses the need to fact-check and then grant credits as per the situations and conditions. To analyze these loan taker's creditability and goodwill, CIBIL Score was created. The CIBIL Score acts as a forecasting tool for the banks and thus relieve banks, to a great extent, from the dread of NPA, by calculating credit worthiness and repaying capacity of the borrower before giving the loan. This score has acquired that position today, that every bank and financial institutions finds it mandatory to have an eye on borrower's credit rating by CIBIL before sanctioning the loan to them. But how much is the general public aware of this credit score system? Do they realize that CIBIL Score is the first thing checked by the Financial Institutions before lending them the Loan amount? Do they have knowledge regarding maintaining their CIBIL Score? The present paper gives answers to these questions by collecting primary data from respondents of Vadodara city, Gujarat and attempts to bring forth the awareness level of people regarding CIBIL Score. The demographic variables of the respondents are compared with the awareness dimensions to find out whether they are associated or not by employing Chi-Square Test in SPSS. The Study found that respondents reasonably knew the concept of CIBIL Score.

Keywords: Credit score system, CIBIL Score, loan process, awareness level, borrower.

INTRODUCTION

While extending loans the credit institutions need to assess the loan repaying capacity as well as creditworthiness of the borrower. This is done by assigning a credit score, popularly known as CIBIL score. The full form of CIBIL is Credit Information Bureau India Limited founded in 2000 India. It gives credit information. After the Asian Financial Crisis, a need in 1997 was felt in India to have such an agency that can provide a credit history of retail and commercial borrowers to its members who are the banks and other financial institutions who extend credits.

CIBIL score is an arithmetic expression which is calculated on the credit history of a person. It represents the solvency position of a borrower which is an information sourced from credit bureaus. In order to assess the possible risk involved in lending money to the customers, the banks and other non-banking financial companies (NBFC) make use of credit scores to recognize the person whether he eligible for the borrowing a loan, will be able to pay the interest and qualifies for the credit limit.

Today's scenario of CIBIL score in India, is that, two out of the three borrowers in India are unaware about the CIBIL score which is a symbol of credit worthiness, in spite of good advancement in the section of financial inclusion in the country according to one of the report. CIBIL score is a factor that comforts the banks to decide whether a borrower is worthy for loans.

As licensed by the central bank- the RBI, there are four companies in India at present that provides credit information about the loan seeker. It is displayed in the table below:

Table 1: List and details of Credit Information Companies in India

Particulars	CIBIL	CRIF Highmark	EXPERIAN	EQUIFAX
Year of establishment	2000	2005	2006	2010 (in India)
Range of credit score	300-900	300-900	330-830	300-900
Credit Report Generation duration	Once the documents are verified, it is released in few minutes	The report is mailed to the customer on	Once the documents are verified, it is released in few	The report will be given between 7-10

		successful documents verification	minutes	working days.
Cost of obtaining report on Credit score	Free – if taken one time in a year, Rs.550 for one-month access, 6 and 12 months' subscription for Rs.800 and Rs. 1200 respectively.	Taken one time in year, it is Free. Credit report with credit scores costs Rs.399.	Free – if taken one time in a year. Report with credit scores costs Rs.399. But if only credit report is required then cost is Rs.138.	Taken one time in year, it is Free. Report showing credit scores costs Rs. 400. Report only for credit costs Rs.138.

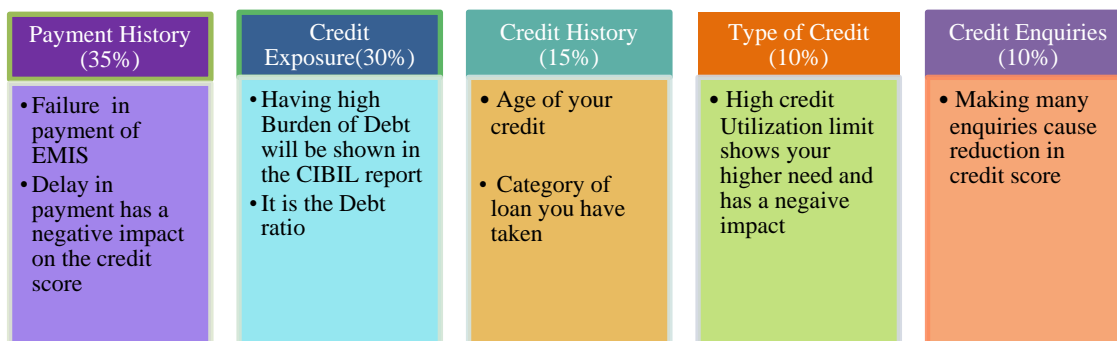
Source: www.paisabazaar.com

Table 2: Rating and meaning of various credit score

Range of Credit score	Rating	Interpretation
750 and more	Borrower's credit history is positive	Quicker process of Approval of loan and borrower is eligible for lower interest rates.
700-749	good score	Loan process will be quick but interest rate charged will be higher
649-699	Reasonable score	The borrower is eligible for loan but will be offered limited options.
600-649	Suspicious case	Inside rates will be higher than normal for the loan seeker.
Lower than 600	Certain actions are required	Loan Approval is very difficult and will require many documentations.

Source: www.experian.com

The CIBIL score is made of several components and each of the components have a different weightage as portrayed in the chart 1 below.



Source: Author's figurative explanation.

Chart 1: Component of CIBIL Score

As these components or factors affect your CIBIL score so you need to be careful and avoid a couple of mistakes that can negatively affect the CIBIL score as discussed below:

- Not paying bills on time
- Maintaining a high credit utilization ratio
- Availing several unsecured loans
- Making multiple credit enquiries
- Having no or low credit history
- Not checking your CIBIL report
- Closing old credit cards
- Not using your credit card

REVIEW OF LITERATURE

(Sajan, 2021) opines that there has been a substantial change in the way the credit life cycle is run in the present era both, by the lenders and the loan seekers due to the advent of CIBIL Score rating. The present study is an attempt to surface the consciousness about the CIBIL score among the Bank loan borrowers.

(Tiwari et al., 2021) undertakes a discussion on the CIBIL score of the customers and how the Covid-19 pandemic impacted it. The important causes for drop in the CIBIL score like Loan moratorium, Default in loan payment, Loan restructuring is reviewed at length.

(Tiwari & Somani, 2021) the author attempted to evaluate the satisfaction level for personal loans obtained from HDFC and SBI. T-test is applied on perception level, process of loan and several other variables, to find out difference between male- female perception about the same. The research concluded that customers are more satisfied by the service provided by HDFC than SBI.

(Senthil Kumar et al., 2019) studies the credit score system and examines the awareness level about CIBIL score. Demographic variables' effect on the knowledge and awareness is analyzed using primary data from 237 respondents in the state of Karnataka, by employing chi-square test stating that there exists significant association between the level of knowledge on credit score system while considering gender of respondents as well as their number of dependents.

(Ismail et al., 2013) states that Malaysian citizens are burdened with household debt in spite of the government providing benefits. Amongst all other loans, personal loan accounts for highest ratio. Five determinants of personal loan are considered and using questionnaire, the analysis affirms that religious belief and media awareness has the most influence on the borrowing of personal loan in Malaysia.

(Avery et al., 2004) stresses that credit score is essential for lending purpose but it is also important to incorporate situation circumstances which affects the borrower's qualification for the credit risk. However, there are practical difficulties in developing model that can include situation data.

(Putman & Samples, 2002) the most extensively used credit score- CIBIL is highlighted in the study. But it does not provide to calculate score for the new users. So this paper attempts to provide methods to compute score for the old and the new users.

OBJECTIVE OF THE STUDY

To quantify the awareness level about Credit score system (CIBIL SCORE) amid people of Vadodara city, Gujarat.

HYPOTHESIS

H0: There is no significant relationship between demographic variables and extent of awareness of CIBIL Score amid people of Vadodara city.

RESEARCH METHODOLOGY

Present study has employed the Secondary data to highlight the theoretical aspect of CIBIL scores. Primary data is also used to prove the research objective and testing of the hypothesis regarding awareness of CIBIL Score amongst people of Vadodara.

DATA COLLECTION

To measure the level of awareness amongst people of Vadodara city, Questionnaire were distributed, using Google forms. Out of the total of 122 responses only 72 valid responses were received. From the total responses received, 13 did not possess credit card and 37 individuals had not taken any loan. So after eliminating the forms of these individuals only 72 responses that were valid are considered for analysis and to draw inferences.

LIMITATIONS OF THE STUDY:

- The subject matter selected for the study is a very wide and because of constraint of time, a detailed study could not be undertaken.
- There is a possibility of getting variation in the population and the respondent's perception from one time to another hence the results may also vary.

DATA ANALYSIS

The following table no.3 depicts the demographic profile of the respondents.

Table 3: Respondent's Profile

		Frequency	Percent
Gender	Male	42	58.3
	Female	30	41.7
Age	18-30	24	33.3
	31-40	13	18.1
	41-50	22	30.6
	51-60	9	12.5
	Above 60	4	5.6
Education	UG	27	37.5
	PG	39	54.2
	Other	6	8.3
Marital Status	Married	44	61.1
	Unmarried	24	33.3
	Divorced	4	5.6
No. of Dependents	1 to 2	38	52.8
	3 to 4	23	31.9
	Above 4	5	6.9
	No dependent	6	8.3
Occupation	Private Sector	30	41.67
	Professional	14	19.44
	Government Sector	12	16.67
	Business	16	22.22
Annual Income	Up to 2.5Lakhs	41	56.9
	2.5 Lakhs to 5 Lakhs	9	12.5
	Above 5 Lakhs	22	30.6

Source: Primary Data and Author's computation

When asked for the Availability of Pan card, Bank account accessibility and whether holding a credit card all the included 72 respondent's response was positive, hence they are included for the analysis of the awareness level about of the CIBIL score.

Table 4: Information about Loans Availed

Loans Availed	Frequency	Percent
Personal Loan	11	15.30
Vehicle Loan	15	20.80
Home Loan	11	15.30
Education Loan	2	2.80
Personal Loan, Education Loan, Home loan	3	4.20
Personal Loan, Vehicle Loan, Home loan	6	8.33
Vehicle and Home loan	7	9.72
Home loan, Education loan	4	5.60
Personal loan and Home loan	5	6.94
Personal, Education, Vehicle and Home loan	4	5.60
Personal loan, Education loan, Vehicle loan	1	1.40
Personal and Vehicle loan	3	4.20
Total	72	100.0

Source: Primary Data and Author's computation

Table 7 highlights the percentage of loans availed so far. The distribution is as follows: Vehicle loan (20.80%), Personal loan (15.30%), Home loan (15.30%) and Education Loan (2.80%). There are many respondents who have taken more than one loan of different category which is displayed in the table 4 above.

Descriptive Analysis

Table 5: Analysis of Awareness of Credit Score System (CIBIL Score).

Sr. No.	Credit Score System Awareness Dimensions	Average	Rank
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1	Benefits of linking Aadhar card and PAN Card on CIBIL, I am aware of this fact.	0.19	8
2	Do you Think PAN card is compulsory for CIBIL Score	0.42	7
3	Does Income of a person impact Credit rating	0.69	5
4	Eligibility for processing loan is 750+ CIBIL score.	0.92	3
5	Carrying many credit cards but having no loans may affect my credit score	1.24	1
6	If Credit Score is checked continuously, will it hurt the Credit Report?	0.79	4
7	Does each consumer have only one Generic Credit Score	0.94	2
8	Does Credit score really matters?	0.46	6

Source: Primary Data and Author's computation

Interpretation: Table 5 displays the extent of awareness of Credit score system (CIBIL SCORE) of the respondents. The highest rank is achieved by the 5th variable that is 'Carrying many credit cards but having no loans may affect my credit score' followed by 'Does each consumer have only one Generic Credit Score' at second rank and on third rank is 'Eligibility for processing loan is 750+ CIBIL score', it indicates that the respondent is judiciously aware about the CIBIL Score.

Demographic variables considered and its association with the extent of awareness on credit scoring system are portrayed in Table 6 which is tested using the Pearson's Chi-Square test. The following Hypothesis is statistically tested.

H₀: There is no significant relationship between demographic variables and extent of awareness of CIBIL Score amid people of Vadodara city.

Table 6: Demographic variables vs. Awareness on Credit Scoring System - Chi-square test.

Demographic Variables	Chi-Square	Df	P Value
Gender	21.399	15	0.125
Age	64.036	60	0.337
Education	39.718	30	0.110
Marital Status	28.928	30	0.521
No. of Dependents	48.276	45	0.342
Occupation	48.982	45	0.316
Annual Income	45.919	30	0.032

Source: Primary data and Author's computation

Interpretation: From the table 6 it is found that all of the demographic variables except one do not have a significant relationship with the awareness level of credit scoring system as P value is greater than alpha level of 0.05 ($p > .05$). Only the demographic variable of Annual Income is displaying a significant relationship with the awareness level of CIBIL score. Therefore, it can be concluded that null hypothesis (H₀) is not rejected for Gender, Age, Education, Marital Status, No.of. Dependents and Occupation. That is to say that the first six demographic variables mentioned in the table do not show a significant relationship between the extent of awareness and the credit score system at 5% level of significance as tested using Pearson's Chi-Square test of independence and the analysis infers to accept the null hypothesis. But the null hypothesis is rejected for last demographic variable of 'Annual Income' inferring that there exists a significant relationship between the awareness level about the credit score system and the Annual income of the respondents.

FINDINGS AND CONCLUSION

Awareness of Credit Score System was undertaken in this paper by distributing questionnaire to respondents of Vadodara city, Gujarat. It is found that most of the respondents are known to the system of CIBIL Score in the Loan process. Majority of the respondents answered correctly to the question that, loans not taken and having many credit cards will affect their credit score. Whereas, very few were aware of the benefits of linking Aadhar card with PAN Card on CIBIL. Also, by applying Pearson's Chi-Square test it infers that six out of the seven demographic variables included in the questionnaire show no association with the level of awareness of CIBIL Score. Only Annual Income of the respondents showed a significant relation with the awareness level of Credit Score System. The paper presents us with a thought that if CIBIL Score is so highly acclaimed in the credit giving system, then Banks and government should further their efforts to spread its awareness among people which in-turn will lead to benefit the loan givers and the loan borrowers.

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