The Indian Household Finance Landscape

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Household Finance

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  - How can we bring all of India into mainstream financial markets?
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  - Assets: Houses, gold, retirement savings, insurance.
  - Liabilities: Collateralized and unsecured loans.
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Indian Household Financial Decisions

- Four broad features visible in the All-India Debt and Investment Survey, 2012:
  - High allocation to non-financial assets (gold and real estate).
  - High levels of non-institutional-source borrowing.
  - Near complete lack of pensions.
  - Low levels of insurance penetration (life and non-life).

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  - difficult to rationalize using a canonical life-cycle model.
The average Indian household holds 77% of total assets in real estate, 11% in gold, 5% in financial assets, and hardly any retirement assets/pensions.
Mortgages are households’ largest liability in China, the US, the UK, and Australia, but account for a small part of total liabilities (23%) of Indian households. Most debt is unsecured (55%).
Participation over the life-cycle
Asset side of the household balance sheet

Source: Badarinza, Balasubramaniam and Ramadorai (2016)

- India and China: high rate of home-ownership and low participation rates in financial assets and pension accounts.
Participation over the life-cycle
Liabilities side of the household balance sheet

Source: Badarinza,Balasubramaniam and Ramadorai (2016)

- Significantly lower participation of households in all debt markets in both India and China.
- Reduction of debt as people approach retirement age less evident, or even reversed.
Allocation over the life-cycle
Asset side of the household balance sheet

- Over-exposure to non-financial assets, and pensions are a negligible fraction of assets.

Source: Badarinza, Balasubramaniam and Ramadorai (2016)
Allocation over the life-cycle
Liabilities side of the household balance sheet

- Intense reliance on unsecured debt, especially at young ages.
- In both India and China, life-cycle profiles are inconsistent with advanced economies, especially for mortgages.
Cross-country comparison: Blinder-Oaxaca Decomposition

- Cross-country differences aren’t well-explained by differences in household demographic characteristics.
The complexity of Indian household financial demands

- Cognitive capabilities, behavioural considerations.

- Idiosyncrasies arising from occupation, geographic location and traditional risk-sharing systems.

- These in turn lead to unique economic conditions and financial goals.

- Solutions?