

Consumer Issues and Challenges in Availing Loan Schemes from Public and Private Sector Banks in India: A Conceptual Review

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Abstract: *India's retail lending market grew at a compound annual growth rate (CAGR) of 24.8 per cent between March 2021 and March 2023 (RBI, 2023a), yet individual-level borrower outcomes remain deeply uneven. This paper presents a conceptual review of the literature on consumer issues in availing loan schemes from public and private sector banks in India, drawing on peer-reviewed studies, government surveys, and regulatory reports published between 2018 and 2025. Six challenge domains are identified and examined: documentation and eligibility barriers, processing delays, interest rate opacity, financial literacy gaps, grievance redressal inadequacies, and digital lending risks. The paper proposes a conceptual framework linking challenge intensity to borrower satisfaction and loan utilisation, mediated by bank type and financial literacy. The national financial literacy rate of 27 per cent (NCFE, 2019) and the finding that 42.9 per cent of India's population continues to borrow from informal sources (RBI, 2020) underscore the urgency of addressing these barriers. Five research gaps are identified for future empirical investigation*

Keywords: Consumer Issues, Loan Schemes, Public Sector Banks, Private Sector Banks, Borrower Satisfaction

I. INTRODUCTION

Access to institutional credit is a foundational pillar of household economic resilience in developing economies. In India, consumer loans — spanning personal, housing, education, vehicle, and business credit — enable borrowers to meet immediate needs, invest in assets, and smooth consumption over time. The country's banking sector, comprising 12 public sector banks (PSBs), 21 private sector banks, and 11 small finance banks as of 2024 (IBEF, 2024), is the primary channel through which retail credit reaches households.

The scale of India's retail credit expansion is substantial. The RBI's Financial Stability Report (2023a) documents that retail loans grew at a CAGR of 24.8 per cent between March 2021 and March 2023 — nearly double the 13.8 per cent CAGR for overall gross advances. Retail loans now constitute approximately one-third of total banking system gross advances. Asset quality has improved markedly: the overall GNPA ratio reached a 13-year low of 2.7 per cent in March 2024, while the retail loan segment posted a GNPA ratio of 1.2 per cent in September 2024 (RBI, 2024). Public sector banks recorded an aggregate net profit of Rs. 1.41 lakh crore in FY2023-24 — their highest ever — and reduced their GNPA ratio from a peak of 14.58 per cent in March 2018 to 3.12 per cent in September 2024 (Government of India, PIB, 2024).

Despite these system-level improvements, a paradox persists: 42.9 per cent of India's population continues to borrow from informal sources (RBI, 2020, as cited in IBEF, 2022), national financial literacy stands at only 27 per cent (NCFE, 2019), and satisfaction among public sector bank retail loan borrowers lags substantially behind that of private sector borrowers (Adethya & Surulivel, 2024). This gap between system-level success and individual-level experience



motivates the present review. The paper proposes a conceptual framework, analyses six challenge domains, compares public and private sector bank experiences, and identifies five research gaps for future empirical investigation.

II. LITERATURE REVIEW

2.1 Customer Satisfaction: Public vs Private Banks

Ali and Bisht (2018), in the Journal of Finance and Marketing, find that private banks consistently outperform public banks on service responsiveness, employee behaviour, and digital convenience, while public banks maintain satisfaction through trust, reliability, and lower charges. Neither sector fully meets borrower expectations: private banks are weakest on loans and insurance services; public banks lag on infrastructure and staff training. Arunpriya et al. (2024), in a comparative study of 120 Coimbatore banking customers, confirm that trustworthiness and reputation are the primary drivers of public bank patronage, while customer service quality is the defining factor for private bank customers, with no significant gender-based difference in satisfaction levels.

2.2 Loan Performance and Borrower Satisfaction

Adethya and Surulivel (2024), studying personal loan utilisation and satisfaction among 354 salaried employees across public and private sector banks in Chennai, Tiruchirappalli, and Thanjavur, find significant disparities between sectors: 62.2 per cent of private bank borrowers reported being somewhat satisfied or highly satisfied, compared to only 17.8 per cent of public sector borrowers, with 54.6 per cent of public sector respondents reporting dissatisfaction. Their correlation analysis reveals that loan approval time is strongly negatively correlated with overall satisfaction ($r = -0.727$), and that customer service quality ($r = 0.823$) and interest rates ($r = 0.685$) are the two strongest positive predictors of overall borrower satisfaction.

2.3 Home and Consumer Loan Procedures

Manju et al. (2025), in a comparative study of home loan procedures across SBI and HDFC among 160 borrowers in Coimbatore, find significant differences in loan approval speed ($t = 3.6$, $p < 0.001$, Cohen's $d = 0.571$), interest rate competitiveness ($t = 3.95$, $p < 0.001$, Cohen's $d = 0.627$), and customer service ($t = 3.41$, $p < 0.001$, Cohen's $d = 0.541$) — with HDFC consistently outperforming SBI. Kumar (2019, as cited in Manju et al., 2025), surveying 450 home loan borrowers, examines key factors in borrower evaluation including interest rates, loan sanctioning stages, processing time, and communication efficiency. Pandi Sasikala and Venkatesan (2023, as cited in Manju et al., 2025) find that simplified procedures and reasonable interest rates are the dominant choice criteria for SBI home loan borrowers in Ramanathapuram District.

2.4 Financial Literacy and Borrower Awareness

The NCFE-FLIS 2019 survey — conducted across 144 representative districts spanning all states and union territories — finds that India's national average financial literacy rate is 27 per cent, with the West, North-East, North, and South zones above this average (NCFE, 2019). Financial literacy is negatively associated with female gender and positively associated with education and income, creating a compound disadvantage: the borrowers who most need formal credit are the least equipped to navigate it effectively. Dash and Ranjan (2022) confirm through state-level empirical analysis that education level, income, and self-employment status are the principal determinants of financial literacy, and that financial literacy positively predicts debt management behaviour — financially literate borrowers are less likely to default.

2.5 Grievance Redressal and Digital Lending

Ali and Bisht (2018) document that public banks maintain more transparent grievance processes but resolve complaints slowly, while private banks offer faster access but less consistent resolution. NCFE (2019) identifies knowledge of consumer rights as among the lowest-scoring financial literacy dimensions nationally, meaning that borrowers who most need formal redressal are least aware it exists. On digital lending, Abdul Azeez and Akhtar (2022), in Cogent Economics and Finance, validate that digital knowledge, financial knowledge, awareness of digital risks, and knowledge of consumer rights are the four determinants of digital financial literacy in India. Users lacking these competencies face heightened risks of transaction failure, financial loss, and privacy breaches — risks intensified by



the RBI-documented growth of pre-approved algorithmic credit, which reached 25.3 per cent of scheduled commercial bank (SCB) credit by March 2024 (RBI, 2024).

III. PROPOSED CONCEPTUAL FRAMEWORK

Drawing on the reviewed literature, this paper proposes a three-stage framework linking borrower challenge domains, mediating factors, and outcome variables, summarised in Table 1.

Stage 1: Challenge Domains	Stage 2: Mediating Factors	Stage 3: Borrower Outcomes
D1: Documentation & Eligibility D2: Processing Delays D3: Interest Rate Opacity D4: Financial Literacy Gaps D5: Grievance Redressal D6: Digital Lending Risks	Bank Type (Public / Private) Borrower Income & Occupation Education Level Financial Literacy Level Geographic Location Digital Access & Capability	Borrower Satisfaction Effective Loan Utilisation Repayment Performance Trust in Formal Banking Future Credit Uptake
<p><i>Key proposition: Higher challenge intensity leads to lower satisfaction, poorer loan utilisation, and weakened trust in formal credit. Financial literacy mediates the relationship most strongly for D4 and D6.</i></p>		

Table 1: Conceptual Framework — Challenge Domains, Mediating Factors, and Borrower Outcomes

The framework advances three testable propositions: (i) challenge intensity is negatively associated with satisfaction and utilisation; (ii) bank type moderates this relationship — public sector borrowers experience higher intensity in D1 and D2, private sector borrowers in D3 and eligibility barriers; and (iii) financial literacy mediates the D4 and D6 pathways to outcome. These propositions have not been tested in a single integrated empirical study in the Indian context, representing the primary gap this paper identifies for future research.

IV. ANALYSIS OF KEY CHALLENGE DOMAINS

4.1 Documentation and Eligibility Barriers

Public sector banks demand extensive documentation — salary slips or income tax returns for three years, identity and address proof, asset statements, and collateral documentation for business loans — which is disproportionately burdensome for informal sector workers, self-employed individuals, and first-generation borrowers. Manju et al. (2025) confirm that documentation complexity is a primary deterrent to credit access in public banks. Private banks impose strict eligibility criteria — minimum CIBIL scores (typically 700 or above), minimum income thresholds, and minimum employment tenure — systematically excluding informal economy workers. This creates a two-pronged structural barrier: public banks exclude through procedural complexity; private banks exclude through eligibility stringency. Borrowers excluded by both mechanisms remain dependent on informal moneylenders, consistent with the finding that 42.9 per cent of India's population uses informal credit sources (RBI, 2020, as cited in IBEF, 2022).

4.2 Processing Delays

Ali and Bisht (2018) identify slower loan processing as a principal shortcoming of public sector banks, attributing it to multi-level approval hierarchies, manual verification, and inadequate staff training. Processing delays carry material consequences depending on loan purpose: delayed medical emergency credit exacerbates financial distress; delayed education loan disbursement can cause students to miss admission deadlines. Adethya and Surulivel (2024) confirm that loan approval time is strongly negatively correlated with overall satisfaction ($r = -0.727$) across all income groups. Private banks have substantially reduced timelines through automated credit appraisal engines and electronic Know



Your Customer (e-KYC), though borrowers who do not meet automated criteria face manual review with uncertain timelines.

4.3 Interest Rate Opacity and Hidden Charges

Consumer loans in India carry rates determined by the Marginal Cost of Funds-based Lending Rate (MCLR) or Repo-Linked Lending Rate (RLLR) plus a credit risk premium. While RBI guidelines require full fee disclosure, Adethya and Surulivel (2024) find that interest rate satisfaction is strongly positively correlated with overall satisfaction ($r = 0.685$) — indicating that perceived pricing fairness, not merely rate level, is what borrowers evaluate. Private banks are more frequently associated with inadequately disclosed charges: processing fees (typically 1 to 3 per cent of loan amount), forced insurance bundling, and prepayment penalties. The RBI (2024) raises specific concerns about dark patterns in digital lending interfaces — hidden auto-renewals, obscured penalties, and confusing consent mechanisms — that systematically disadvantage borrowers who do not read agreements in full.

4.4 Financial Literacy Gaps

The NCFE-FLIS 2019 survey finds that India's national average financial literacy rate is 27 per cent. This demographic profile — female gender, low income, limited formal education — maps directly onto the profile of borrowers most in need of formal credit. While awareness of basic banking services exceeds 90 per cent, awareness of loan eligibility norms, interest computation methods, and grievance escalation procedures is substantially lower (NCFE, 2019). Dash and Ranjan (2022) find that financially literate borrowers are less likely to default and more likely to restructure debt proactively — establishing financial literacy not merely as a welfare benefit for individual borrowers but as a systemic banking stability investment.

4.5 Grievance Redressal Inadequacies

Ali and Bisht (2018) document that public banks maintain more transparent grievance processes but resolve complaints slowly, while private banks provide faster access but less consistent resolution. The RBI Integrated Ombudsman Scheme (2021) provides a regulatory backstop, but its effective use requires financial and digital literacy that many affected borrowers lack. NCFE (2019) identifies knowledge of consumer rights and grievance mechanisms as among the lowest-scoring financial literacy dimensions nationally. The RBI (2024) raises further concerns about dark patterns in digital banking interfaces constituting a new consumer protection frontier not adequately addressed by existing frameworks.

4.6 Digital Lending Risks

Abdul Azeez and Akhtar (2022) validate that digital knowledge, financial knowledge, digital risk awareness, and knowledge of consumer rights are the four determinants of digital financial literacy in India, finding that users lacking these competencies face heightened risks of transaction failure, financial loss, and privacy breaches. The RBI (2024) documents that unsecured loans reached 25.3 per cent of SCB credit by March 2024, driven partly by pre-approved algorithmic credit. The RBI raised risk weights in November 2024 and noted instances of top-up loan proceeds being redirected to stock markets — indicating inadequate post-disbursement oversight. Frictionless digital credit creates overborrowing risk most acutely among the low-literacy borrowers that financial inclusion policy seeks to reach.

V. COMPARATIVE ANALYSIS: PUBLIC VS PRIVATE SECTOR BANKS

Table 2 synthesises key differences in borrower challenge intensity across the six domains.

Domain	Public Sector Banks	Private Sector Banks	Evidence
Documentation	Extensive; burdens informal and first-generation borrowers	Strict CIBIL/income criteria; narrower eligible base	Manju et al. (2025)
Processing Speed	Slower; manual approval; multi-level hierarchies	Faster; automated engines; e-KYC workflow	Ali & Bisht (2018); Adethya & Surulivel



Domain	Public Sector Banks	Private Sector Banks	Evidence
			(2024)
Pricing Transparency	Simpler fee structures; MCLR/RLLR-linked; no forced bundling	Processing fees (1-3%); insurance bundling; prepayment penalties	RBI (2024)
Customer Service	Lower responsiveness; trust-based loyalty; crowded branches	Higher responsiveness; digital channels; dark pattern risks	Ali & Bisht (2018); Arunpriya et al. (2024)
Grievance Redressal	More transparent process; resolution slow	Faster access; less consistent resolution	Ali & Bisht (2018); NCFE (2019)
Inclusion Reach	1,60,501 branches; 63% in rural/semi-urban areas	Urban-concentrated; high-income focus; digital-first	GoI PIB (2024); IBEF (2024)
Borrower Satisfaction	17.8% satisfied; 54.6% dissatisfied in personal loan segment	62.2% somewhat or highly satisfied (personal loans)	Adethya & Surulivel (2024)

Table 2: Comparative Borrower Challenge Profile — Public vs Private Sector Banks in India

Neither sector provides a fully satisfactory borrower experience. Public banks perform better on pricing simplicity and geographic inclusion but lag on processing speed, service quality, and digital capability. Private banks excel on speed and technology but restrict access through eligibility barriers and impose less transparent charges. Both sectors share a critical neglect of post-disbursement borrower engagement — the informational and advisory support that helps borrowers utilise loans productively and manage repayment effectively.

VI. RESEARCH GAPS AND FUTURE RESEARCH AGENDA

6.1 Absence of Longitudinal Studies

Almost all existing empirical studies are cross-sectional. The credit relationship spans application, disbursement, repayment, and potential default — phases that may carry different challenge profiles. Longitudinal designs tracking borrowers across the full loan lifecycle would reveal whether early negative experiences predict eventual default and whether post-disbursement bank engagement shapes repayment outcomes. No such study currently exists in the Indian retail banking context.

6.2 Underrepresentation of Tier-2 and Tier-3 Cities

Most studies are conducted in metropolitan centres or rural settings. Tier-2 and Tier-3 cities — such as Indore, Bhopal, Nagpur, and Coimbatore — represent an important intermediate category with expanding banking infrastructure, mixed formal and informal employment, and demographic diversity spanning high-income professionals and first-generation borrowers simultaneously. Challenge profiles in these cities likely differ from both extremes, and policies calibrated for either may not serve them adequately.

6.3 Inadequate Treatment of Mediating Variables

Existing studies typically report bivariate correlations without controlling for financial literacy, income, education, or prior banking experience. Structural equation modelling or hierarchical regression designs explicitly testing the mediation pathways proposed in Section 3 would identify which borrower segments are most vulnerable to specific challenge domains and which targeted interventions are most effective.



6.4 Missing Supply-Side Perspective

The literature is almost entirely demand-side. Why banks design loan products with specific documentation requirements, how credit officers understand borrower challenges, and what institutional constraints shape appraisal norms remain unaddressed. Mixed-methods studies combining borrower surveys with bank credit officer interviews would provide a complete and actionable picture of the challenge landscape.

6.5 Digital Lending Consumer Protection

The challenges of digital lending — algorithmic opacity, consent without comprehension, overborrowing through pre-approved credit, and dark pattern manipulation — are distinct from traditional lending challenges and require dedicated research designs. The RBI's November 2024 regulatory response addresses systemic risk but does not directly protect individual borrowers. This frontier is the most urgent gap in the existing literature.

VII. POLICY IMPLICATIONS AND CONCLUSION

This review has identified six recurring challenge domains constraining consumer experience in bank loan schemes in India. The macro-level paradox is instructive: retail loan growth at a CAGR of 24.8 per cent, GNPA ratios at 13-year lows, and record public sector bank profits coexist with a 27 per cent national financial literacy rate, 42.9 per cent informal credit dependence, and satisfaction rates as low as 17.8 per cent among public sector retail loan borrowers. System-level success has not yet translated into individual-level experience.

Three priority policy interventions emerge. First, documentation rationalisation: a simplified framework for standard consumer loans, with differential treatment for informal sector workers, women borrowers, and first-generation credit seekers. Second, standardised cost disclosure: a mandatory Annual Percentage Rate (APR) incorporating all fees, insurance components, and penalties, enabling genuine like-for-like comparison. Third, just-in-time financial literacy: banks should be required to provide product-specific, plain-language explanations of repayment schedules, penalty structures, and grievance procedures at the point of application — integrating financial education into the loan process itself.

The conceptual framework proposed in this paper provides a testable foundation for the five-point research agenda identified in Section 6. Realising India's potential as a consumer credit market requires shifting the measure of banking success from disbursement volumes and NPA ratios to borrower satisfaction, effective loan utilisation, and sustainable financial inclusion.

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