A Study on Credit System and its Impact on Customers

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ABSTRACT:

India's credit system has drastically changed over time, from hand loans to loans from digital apps. This study observes how changes in the credit system is affecting the customers' consumption of credit from different resources over the last 5 years. After receiving the literature, it is observed that the majority of the research papers lack research on how customers utilise the credit system. Thus it is considered as one of the objectives for this research paper. This study evaluated if customers are aware of the credit system and its changes during changing times. Observes how the availability of credit to customers is evaluated using variables like CIBIL score, timely repayment of debt, income of customer etc., Focuses on how individuals plan their finances by optimally utilising their credit availability, are they willing to forego additional amount of interest to obtain specific product or services by taking it on credit is one of the major aspect of this study. Primary data is collected through questionnaires, which consist of a sample of 170 respondents. Since the topic deals with the credit system, only those with regular income are considered for quality input. The sampling technique and Sampling method used is convenience sampling. Used analytical tools like chi-square, ANOVA and regression to analyse the collected data. Data analysis is done using SPSS software. Based on the outcomes of the study, suggestions will be proposed for the research.

Keywords: *CREDIT SYSTEM, CIBIL SCORE, DIGITAL APPS, CREDIT, LOANS.*

INTRODUCTION:

A credit system is one of the essential components of a contemporary economy, providing a link between debtors that require money either for personal use or investment purposes and creditors who have extra money available to lend. Without credit, business activities would be greatly hindered, because most people, companies, or even governments do not have sufficient funds available at their disposal to conduct business. Credit allows citizens to plan their spending, companies to grow their business, and governments to invest in developmental projects. Therefore, the functioning of a credit system can serve as an indicator of a nation's financial stability.

The core principle of the credit system is trust. Credit transactions assume the willingness of debtors to repay loans according to certain terms and conditions. Credit has historically started off from the basic practice of informal dealings with trust. Credit has now developed into an organized practice with banks, NBFCs, and credit bureaus involved in the process. Though the entire system has become complex in nature, trust still forms the base of it all. If the level of trust remains intact, the entire credit cycle goes off without any hassles, but a disruption in it leads to turbulence in the system.

Credit operations in the early days had very simple features and little documentation involved in them. In those days, credit arrangements were personal in nature, and money lenders played a significant role. Though this approach helped in raising money as early as possible, there were issues with the system regarding transparency, resulting in high-interest rates.

The setting up of banks was a milestone event. Banks brought professionalism in lending, with interest calculation and payment plans being more systematic. Public savings were channeled into productive areas through their loan and advance facilities. The evolution of the financial markets system improved the credit framework even further, as financial products such as term loans, working capital, overdrafts, and credit cards were developed.

During the modern period, the system of credit has seen immense diversity and technological involvement. There is an array of credit products such as personal loans, mortgage loans, vehicle loans, student loans, microloans, and online credit available for various social strata. Technology has played a huge role in enhancing access to credit products. Procedures that used to take much effort on account of paperwork and more time have been greatly simplified due to smartphones.

At the same time, the new system poses a few problems. Easy access to credit has made it possible for people to borrow too much money or spend impulsively and without much planning. Borrowers may not know much about interest rates and extra charges as well as future consequences, leading to stress. Therefore, while credit is helpful, it may become stressful as well.

As regards the Indian experience, the growth of the credit system is associated with various socio-economic processes. Following India’s independence, the majority of the population in rural areas relied on the services of informal lenders because they had no access to the conventional banking system. It led to exploitation of borrowers, and thus, in order to address this problem, the government initiated certain reforms – nationalization of banks in 1969, rural banking programs, as well as priority sector lending aimed at ensuring credits for agriculture and the poor.

Economic reforms in the early 1990s led to yet another change. With the increasing role played by private and foreign banks, the efficiency of operations grew and new types of credits appeared. One of the major changes related to the increased role of retail credits including personal and mortgage lending.

During the last decade, financial technology and digitalization have transformed the realm of credit. The extensive use of smartphones, internet connection, and digital money transfer systems has increased financial inclusion through the use of different sources of information about creditworthiness of borrowers. Financial technology used by lenders has made it possible to reach those people who earlier had been unable to obtain credits.

Courage Oko-Odion and Omogbeme Angela (2025), Current risk management approaches continue to be reactive and incapable of real-time adaptation amidst fast-changing economic changes and financial challenges.
These frameworks usually fail to integrate emerging risks (Artificial Intelligence, climate, geopolitical) and have little practical testing in actual financial institutions.

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Shamli Sharma, Kamal Preet & Neema Gupta (2025),Presently, there is no consideration of ethics, transparency, governance, and regulation of AI applications in banking.

Also, there is little emphasis on incorporating the AI risks and readiness of the organization in one coherent framework of banking and risk management.

REVIEW OF LITERATURE:

1. Bhupinder Singh, Pushan Kumar Dutta, Christian Kaunert (2025), "Deep Diving into Financial Frauds via Ad Click, Credit Card Management and Document Dispensation in E-Commerce Transactions", This research paper discusses the new financial fraud trends that are prevalent in online business, such as ad click fraud, credit card fraud, and document fraud. These are discussed in detail, identifying any inherent weaknesses in the system that require more robust fraud prevention tools.

2. Ministry of Statistics & Programme Implementation (2025), **"***Provisional Estimates of GDP for 2024-25", This research article offers an initial analysis of the GDP of India in the years 2024-25, paying particular attention to its effect on sectors and the economic conditions of the country. This research paper studies the trends, causes, and different macroeconomic aspects of growth.*

3. Jaskirat Singh, Gurdip Singh Batra, Sarvjeet Kaur Chatrath (2025), "Harnessing Fintech for Poverty Alleviation: Enhancing Credit Utilization and Livelihoods in Urban Slums of North-western India through the Capability Approach and Sustainable Livelihoods Framework", The effect of financial technology on the problem of poverty facing the slum population through credit facilities and livelihoods is explored in this paper. From this study, it is found that although financial technology makes inclusiveness easier, there is need for policies to be developed.

4. Prerna Ahuja (2025), "Impact of Digital Payment System on Consumer Behaviour in India ", This research analyzes the effect of digital payment technologies on the consumer behavior in India in terms of convenience, expenditure behavior, and trust. This study finds that there is a trend towards cashless society due to the increasing use of digital payments technologies.

5. Prafulla Kumar Dwibedi, Manoj Kumar Sahoo (2024), "ARTIFICIAL INTELLIGENCE IN BANKING: SHAPING NEW PATHS FOR FINANCIAL INCLUSION IN INDIA", The paper focuses on analyzing the use of artificial intelligence in banking, especially its importance in ensuring that people in India gain access to financial services. The paper explores the advantages of using artificial intelligence, as well as the challenges associated with it.

RESEARCH METHODOLOGY:

In this research, the primary data was gathered by conducting a questionnaire survey while the secondary data was gathered by conducting a review of the literature. The type of sampling adopted in the study is non-probability sampling while the method of sampling employed was convenience sampling. There were 170 respondents involved in the study, chosen depending on their income level. This research made use of various analytical tools such as Chi-Square, ANOVA, and Regression.

STATISTICAL TOOLS:

- Basic Statistical tools:

Cross-tabulation: It is used to see distributions

- Inferential statistical tools:

Chi-square test: it is used to examine the association between categorical variables

ANOVA: It is used to compare mean scores across more than two groups

- Multivariate tools:

Correlation and simple regression to study the relationship between variables.

DATA ANALYSIS:

Hypothesis 1:

H0: There is no significant impact of access to easy loans on access to credit options to meet obligations

HA: There is a significant impact of access to easy loans on access to credit options to meet obligations

Chi Square Tests			
	Value	Degree of freedom	Asymp. Significance (2-sided)
Pearson Chi Square	10.197[a]	16	0.856
Likelihood Ratio	10.755	16	0.824
Linear-by-Linear Association	0.333	1	0.564
N of Valid Cases	170		

Table 1

Inference:

It is observed that the value is 10.197 and its corresponding significant value is .856 which is more than 0.05, hence an alternative hypothesis is accepted . i.e., there is an impact of access to easy loans on access to credit options to meet your obligations

Hypothesis 2:

H0: There is no significant difference between access to easy loan and access to credit options to meet obligations

HA: There is significant difference between access to easy loan and access to credit options to meet obligations

Symmetric Measures					
		Value	Asymp. Standard Error	Approx. T[b]	Approx. Significance value
Interval by Interval	Pearson's R value	.044	.083	.576	.565[c]
Ordinal by Ordinal	Spearman Correlation value	.070	.080	.904	.367[c]
N of Valid Cases		170			

Table 2

Inference:

It is observed that the value is 0.044 and its corresponding significant value is 0.565 which is more than 0.05, hence an alternative hypothesis is accepted . i.e., there is an impact of access to easy loans on access to credit options to meet your obligations.

Hypothesis 3:

H0: There is no difference between access to credit options to meet obligations being dependent on access to easy loan.

HA: There is difference between access to credit options to meet obligations being dependent on access to easy loan

ANOVA						
Model		Sum of Squares	Degree of freedom	Mean of Square	F	Significance value
1	Regression value	.386	1	.386	.332	$.565^b$
	Residual value	195.619	168	1.164		
	Total value	196.006	169			

Table 3

Inference:

It is observed that the value is 0.332 and its corresponding significant value is 0.565^b that is greater than 0.05, hence alternative hypothesis i.e., HA is accepted i.e., there is a difference between easy access to credit options to meet obligations being dependent on access to easy loan.

CONCLUSIONS:

• The study concludes that people show a considerable level of awareness about the credit system, and the increasing ease of access to loans has been one of the most significant factors in the increasing use of credit facilities. Over the past five years, the use of credit facilities has been increasing steadily. This is primarily due to the increasing number of digital lending apps that provide access to loans at low interest rates with minimal documentation and fewer security requirements. This has increased the number of people using credit facilities, especially those belonging to low- and middle-income groups. Although there are many benefits and rewards being offered, they are not the key factors that are influencing the increasing use of credit facilities. However, the key factors are convenience, speed, and accessibility, which are more influential in the increasing use of credit facilities. Nevertheless, the study concludes that having a good CIBIL score is crucial, which has a direct impact on the ability of the individual to access future credit facilities.

• The impact of the credit system on the improvement of individual financial planning is limited. This is because, despite the increasing evolution of the credit system, people are not showing good financial discipline. This is because people are not properly assessing their ability to pay the loan before availing themselves of the credit facilities. This is clearly seen in the cases where people are using credit facilities to pay off existing debts. This shows the lack of proper financial planning and the awareness of the risks involved in excessive borrowing. This clearly indicates that the increasing evolution of the credit system has not impacted the lives of people to the extent of showing good financial discipline. Although the credit system has increased in its evolution and has become more accessible and user-friendly, people are not showing the required impact of the credit system in their lives.

Abbreviations

Nil

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Author Contributions

All authors have been personally and actively involved in substantial work leading to the paper and will take public responsibility for its content.

Conflict of Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Ethics Approval

Not applicable.

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