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A STUDY ON STRATEGIES FOR IMPROVING CREDIT HEALTH AND ENHANCING AWARENESS OF CIBIL SCORES AMONG BANK CUSTOMERS

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1. ABSTRACT

The topic of credit scoring has gained significant attention lately, and for good reason. While it was once associated solely with big-ticket purchases like cars or homes, its influence now extends to various aspects of life. A credit score reflects an individual's financial discipline and creditworthiness, impacting not just major purchases but also insurance rates, phone plans, and even job opportunities. Despite its importance, many people in India remain unaware of their credit scores until they need to make significant financial decisions. This study aims to gauge individuals' awareness of their credit scores and their understanding of its importance. It investigates the relationship between monthly income and credit score awareness, as well as the correlation between credit score awareness and motivation to improve it. Using statistical tools like the Chi-Square Test, the study found a direct relationship between respondents' income levels and their knowledge of their credit scores. However, while most participants understood basic credit reporting concepts, many were unclear about how credit scores are used and by whom. The study suggests improving financial literacy to ensure consumers understand the significance of credit scoring and maintain financial discipline. Ultimately, the essence of finance lies in predicting risk, particularly borrowers' ability to fulfil their financial commitments. Keywords: Credit Score, CIBIL, Financial Discipline, Financial Diagnosis, Credit Report.

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2. INTRODUCTION

Understanding and managing credit health is crucial in today's financial landscape. The CIBIL score, ranging from 300 to 900, is essential for determining eligibility for loans, credit cards, and other financial products. Despite its importance, many customers lack awareness of CIBIL scores and strategies to improve credit health. This study aims to fill this

gap by exploring ways to enhance awareness and promote better credit health. Through surveys, interviews, and data analysis, the study assesses current awareness levels, identifies influencing factors, and proposes actionable strategies for financial institutions. The findings aim to provide valuable insights for policymakers and stakeholders to promote financial inclusion and empowerment.

3. REVIEW OF LITERATURE

Anupama Singh, Aarti Singh, Haresh Kumar Sharma (2023): This study highlights the critical role of the Indian banking sector in economic growth, particularly in home loan approvals. Using the Dominance-based Rough Set Approach (D-RSA), it proposes a preference-based "if ... then" decision rule to categorize customer attributes and mitigate loan repayment risks.

Kumar and Arputharaj (2023): This study explores factors influencing prospective home loan borrowers in Tamilnadu, emphasizing customer satisfaction with banking products. It aims to enhance consumer awareness regarding housing loans in selected public sector banks in Madurai City.

Kapil Kumar Tiwari and Rashmi Somani (2021): The research examines unsecured personal loans in Bhopal, focusing on trends and challenges related to loan defaults and NPAs. It uses a questionnaire survey to suggest measures for reducing defaults and strengthening market feasibility.

Dr. E. Punarselvam and Mr. S. Gopi (2020): The study proposes a web application to raise awareness about CIBIL scores by sending reminders for due dates and providing job opportunities to help clients maintain good CIBIL scores, in partnership with the CIBIL system.

Kulkarni and Dhage (2019): This research integrates traditional credit scoring with social media analysis to create an Advanced Credit Score, improving accuracy in predicting financial behavior by combining financial history with social media interactions and personality traits.

A. Senthil Kumar, S. Ramesh, and Rahul (2019): Conducted in Bengaluru, Karnataka, this study assesses public awareness and knowledge levels of credit scoring systems, revealing significant associations between demographic variables and credit score knowledge.

Soni and Bodiwala (2018): This study examines customer awareness and perception of Credit Information Reports (CIRs) and bankers' perspectives on creditworthiness assessment. It emphasizes the need for enhanced awareness of CIR content and utility.

Kapil Kumar Tiwari, Dr. Rashmi Somani, and Insha Mohammad (2018): The research investigates the impact of the Covid-19 pandemic on customers' financial conditions and CIBIL scores, highlighting the decline in scores due to loan moratoriums, restructuring, and defaults.

Dr. Saravanan Laxmanan and Dr. Sankaramuthukumar (2017): The study assesses individual awareness of credit scores in India, finding a correlation between income

level and credit score knowledge. It recommends enhancing financial literacy to increase awareness of credit scoring importance.

Daisy P.K (2016): This research emphasizes the significance of CIBIL scores in bank loan assessments, detailing how CIBIL collects and maintains records of loan and credit card payments to generate scores that assist lenders in evaluating loan applications.

Narang and Kaveri V.S (2015): The study discusses the challenges posed by rising non-performing advances (NPAs) in scheduled commercial banks, noting a significant increase in NPAs and stressed advances, especially in public sector banks.

Greeshma Sajan (2014): The research highlights the emergence of CIBIL in response to the 1997 financial crisis, focusing on assessing awareness of CIBIL scores among commercial bank customers in Central Kerala districts.

4. OBJECTIVES

- Evaluate bank customers' awareness and understanding of CIBIL scores in a specific region to identify knowledge gaps and misconceptions
- Identify common challenges and misconceptions faced by customers regarding their credit health and CIBIL scores to develop targeted educational interventions.
- Explore and implement effective strategies for enhancing customer awareness and education regarding credit health and CIBIL scores to improve financial literacy.
- Evaluate the impact of these strategies on customers' understanding and management of their credit profiles and CIBIL scores, providing actionable recommendations to SBI for sustained improvement in the Salem region.

5. CREDIT INFORMATION BUREAU INDIA LTD (CIBIL)

CIBIL stands as India's premier credit information agency, providing reports and ratings to individuals and businesses. Renowned for its stringent security standards, it holds the prestigious ISO 27001 certification. Established in 2004, the Consumer Bureau has witnessed remarkable growth, now housing over 460 million entries, the business database, established in 2006, manages over 22 million records. Partnered with global giants like TransUnion International and Dun and Bradstreet, CIBIL plays a pivotal role in aiding credit institutions to assess applicants' creditworthiness through thorough examination of CIBIL reports and scores. This not only facilitates faster credit access for consumers but also enables lenders to make informed decisions, thus driving credit penetration in the nation.

Significance of CIBIL Reports:

A Credit report is a crucial tool for banks and financial institutions to assess an individual's creditworthiness, drawing insights from their repayment habits and borrowing history. Its significance lies in several key aspects:

- Providing a comprehensive overview of past and present credit activities. Serving as the foundation for loan approvals.

- Assisting individuals in avoiding debt pitfalls.
- Offering detailed insights for enhancing financial management practices.
- Empowering individuals with a higher credit score to negotiate favorable interest rates.

Data Base for CIBIL Information

Member banks and credit institutions update the information provided to CIBIL on a monthly, typically taking 45-60 days from the end of each month to reflect in CIBIL's database. All major financial entities, including financial institutions with assets exceeding Rs.100 crore, are mandated to join CIBIL, while smaller institutions are encouraged to participate. This data is subsequently used to produce credit assessments, assisting financial institutions in evaluating and approving loan applications. See the simplified data processing mechanism of CIBIL below.

Distinction between CIBIL Reports and CIBIL Scores

- Provides comprehensive overview of an individual's past loans and credit card usage, compiled by credit bureaus like CIBIL, Experian, Equifax, or Highmark.
- Includes personal information and details of all loans and credit card applications, regardless of approval status.
- Displays payment track records, sanctioned amounts, outstanding balances, account opening dates, last payments, and any history of payment delays.

Determination of the Credit Score

The assessment of the score involves reviewing information from different sections of the report, highlighting various essential factors.

- **Usage of Available Credit:** Evaluating the extent to which the consumer is utilizing credit.
- **Non-payment:** Examining the number of accounts that are past due and the extent of delay.
- **Trade Attributes:** Considering the age of the consumer's lines of credit, the types of credit involved, and whether there's a balanced mix of credit or an overreliance on credit cards.

The score calculation incorporates the following elements:

- 1. Past Performance:** Prior performance in meeting debt obligations carries the most weight, accounting for approximately 30% of the value.
- 2. Types and duration of credit:** The type of credit obtained (whether collateralized or not) and the length of time credit has been utilized account for 25% of the value.
- 3. Credit risk exposure:** The complete credit liability, including the total credit amount,

contributes an additional 25%

4. Additional consideration: Other factors like credit usage and recent credit conduct constitute the remaining 20% of the assessment.

Factor that negatively affect CIBIL score

- Delayed or defaulted loan payments within the last three years. Consistently maxing out credit card limits each month.
- Having a high proportion of unsecured loans in the credit mix. Making numerous credit inquiries within a short timeframe.
- Limited or non-existent credit history.

6. RESEARCH DESIGN

Within this research, a descriptive study framework was employed to address specific research questions. The sample, representing the population, was carefully selected using an appropriate sampling method to ensure valid conclusions. Data gathering techniques encompassed surveys, interviews, observations, focus groups, experiments, and the analysis of secondary data. providing a comprehensive approach to gather relevant information. Primary data, which is original and firsthand, was collected directly from sources specifically for this research. This data is untouched by previous analysis, offering unique insights. Secondary data, on the other hand, was obtained from existing sources such as censuses, government departments, and organizational records, having been initially gathered for different purposes. The study utilized statistical tools such as basic percentage analysis, chi-square analysis, and correlation to analyze the value and support or refute research hypotheses. This meticulous approach ensures the research is systematic, yielding reliable and valid results.

METHODS OF STATISTICAL ANALYSIS

- Simple Percentage analysis
- Chi-square Analysis
- Correlation

PERCENTAGE ANALYSIS

SEX	RESPONDENTS	PERCENTAGE (%)
Male	81	67.5%
Female	30	25.0%
other	9	7.5%
TOTAL	120	100.0%

OCCUPATION BASED RESPONDENTS

OCCUPATION	RESPONDENTS	PERCENTAGE (%)
Business owner	47	39.2%
Employee	19	15.8%
Farmer	19	15.8%
Government Employee	12	10.0%
Homemaker	7	5.8%
Retiree	8	6.7%
No	5	4.2%
Other	3	2.5%
TOTAL	120	100.0%

KNOWLEDGE ABOUT CIBIL

AFFECTS	RESPONDENTS	PERCENTAGE (%)
Yes	63	52.5%
No	57	47.5%
TOTAL	120	100.0%

AWARENESS OF RESOLVING ERRORS IN THE CIBIL REPORT

TECHNOLOGIES	NO. OF RESPONDENTS	PERCENTAGE (%)
Yes	89	74.2%
No	12	10.0%
I have some knowledge but would like more information	14	11.7%
Not sure	5	4.2%
TOTAL	120	100.0%

STEPS TAKEN TO RESOLVE ERRORS RELATED TO THE CIBIL SCORE

RESOLVE ERRORS	NO. OF RESPONDENTS	PERCENTAGE (%)
Contacted the bank or financial institution	68	56.7%
Submitted a dispute with CIBIL	28	23.3%
Ignored the errors	15	12.5%
Not applicable	9	7.5%
TOTAL	120	100.0%

SUGGESTIONS FOR IMPROVING THE CIBIL METHODOLOGY

SUGGEST	NO. OF RESPONDENTS	PERCENTAGE (%)
Incorporating additional factors for a more comprehensive credit assessment	21	17.5%
Enhancing transparency in the calculation process	18	15.0%
Providing more accessible and understandable credit education resources	53	44.2%
No suggestions for improvement	13	10.8%
Not sure	9	7.5%
Other	6	5.0%
TOTAL	120	100.0%

FREQUENCY OF CHECKING THE CIBIL SCORE THROUGH NOTIFICATIONS

PREFER	RESPONDENTS	PERCENTAGE (%)
SMS	43	35.8%
Email/Gmail	25	20.8%
WhatsApp	16	13.3%
Phone call	18	15.0%
No, I do not want frequent updates on my CIBIL score	9	7.5%
Not sure	9	7.5%
TOTAL	120	100.0%

CHI-SQURE TEST

NULL HYPOTHESIS (H₀): There is no significant relationship between Age and number of credit inquiries initiated in the past 12 months.

ALTERNATIVE HYPOTHESIS (H₁): A significant correlation exists between age and the number of credit inquiries made in the past 12 months.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
AGE * CREDIT INQUIRIES INITIATED IN THE LAST 12 MONTHS	120	100.0%	0	.0%	120	100.0%

AGE * CREDIT INQUIRIES INITIATED IN THE LAST 12 MONTHS**Crosstabulation**

Count	CREDIT INQUIRIES INITIATED IN THE LAST 12 MONTHS					Total
	0	1-3	4-6	7-10	More than 10	
AGE Under 25	9	21	16	5	3	54
25-35	2	5	9	4	3	23
36-40	2	8	4	0	3	17
41-45	3	4	3	1	0	11
46-55	1	5	0	0	3	9
56 Above	0	3	2	0	1	6
Total	17	46	34	10	13	120

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.476 ^a	20	.315
Likelihood Ratio	27.701	20	.117
Linear-by-Linear Association	.275	1	.600
N of Valid Cases	120		

a. 23 cells (76.7%) have expected count less than 5. The minimum expected count is .50.

RESULT

Since the calculated value is less than the table value, to accept the null hypothesis that there is no significant relationship between age and the number of credit checks conducted in the past 12 months

CORRELATION

The data illustrates the relationship between respondents' occupations and the important factors for maintaining a good credit score.

Correlations

		OCCUPATION	IMPORTANT FACTORS FOR MAINTAINING A GOOD CREDIT SCORE
OCCUPATION	Pearson Correlation	1	-.023
	Sig. (2-tailed)		.799
	N	120	120
IMPORTANT FACTORS FOR MAINTAINING A GOOD CREDIT SCORE	Pearson Correlation	-.023	1
	Sig. (2-tailed)	.799	
	N	120	120

Result

This is a positive correlation. There are relationships between Occupation of the respondents and important factors for maintaining a good credit score.

7. LIMITATIONS OF THE STUDY

- Awareness of CIBIL scores is restricted to the study's time frame.
- Perceptions are confined to the specific location of the study.
- The conclusions are applicable only to the participants of the surveyed region

8. FINDINGS

- Majority of respondents are male.
- Business owners form the largest occupational group.
- Majority believe credit affects their ability to get loans.
- Majority are aware of how to resolve errors in their CIBIL report.
- Most resolved errors by contacting their bank or financial institution.
- Majority suggest improving credit education resources.
- SMS is the preferred method for checking CIBIL score updates.
- Positive correlation exists between age and number of credit inquiries.
- Relationships identified between occupation and maintaining good credit score factors.

9. SUGGESTIONS

To effectively build and maintain a healthy credit score, it is essential to have a balanced mix of secured and unsecured credits. By diversifying your credit portfolio, including both long-term and short-term loans, you can positively influence your credit score. This approach not only helps in building a solid credit history but also ensures quicker loan approvals at more favorable interest rates.

Customers should avoid making multiple hard inquiries within a short period, as this can significantly harm their credit score. Financial institutions may interpret frequent loan and credit inquiries as a sign of credit desperation, which is reflected negatively on your credit report. This perception can lead to a drastic drop in your credit score, making it more challenging to secure loans in the future.

It is crucial to manage credit inquiries and applications wisely. Instead of applying for numerous credit products simultaneously, plan your credit applications strategically to avoid unnecessary hard inquiries. This careful management of credit activity will help maintain a healthy credit score and enhance your financial reputation with lenders.

10. CONCLUSION

Reducing credit card use and paying off outstanding debt, especially unsecured loans, can help quickly improve your CIBIL score. Correcting any errors in your credit report can also be beneficial.

Lenders, including non-banking finance companies like IIFL Finance, consider the CIBIL score before approving loans for personal or business use. IIFL Finance offers quicker loan processing through an online platform.

Credit Information Reports (CIRs) from CIBIL are based on data from credit reports submitted by member banks like SBI. CIBIL is not responsible for any errors in the data provided by credit institutions. They also disclaim liability for the accuracy, completeness, or suitability of the information for any specific purpose. The information may be outdated as it reflects data available at the time of publication.

Additionally, a low CIBIL score suggests a high risk that the borrower might not repay the loan, possibly due to uncertain income or financial status.

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