

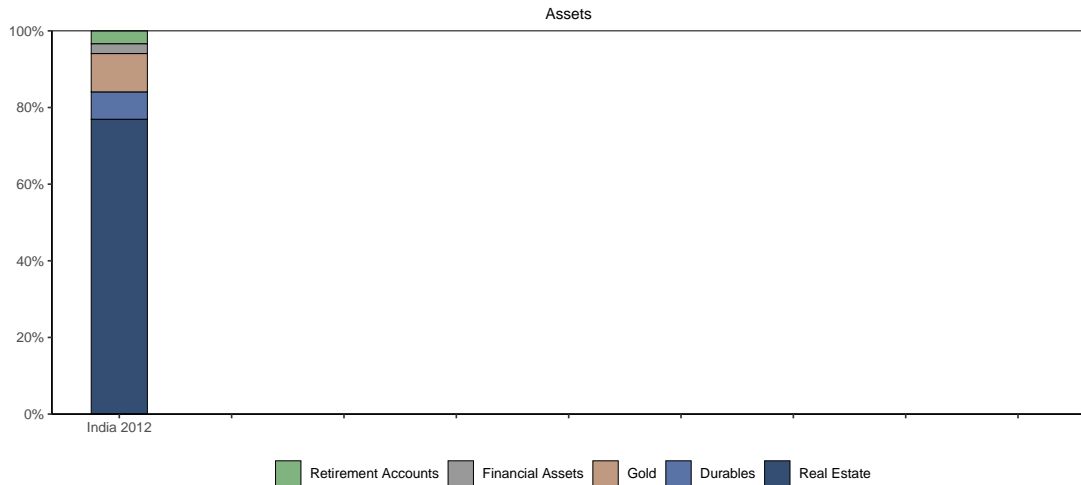
Indian Household Finance: Past, Present, and Future

HOUSEHOLD FINANCE ACROSS THE LIFECYCLE
NBER-ISB CONFERENCE 2025

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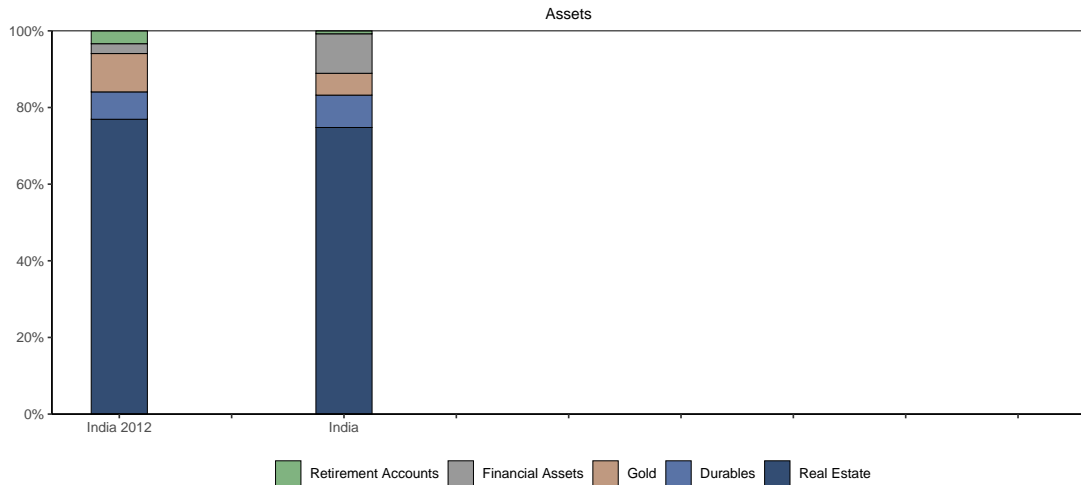
December 13, 2025

India in 2012 (Assets)



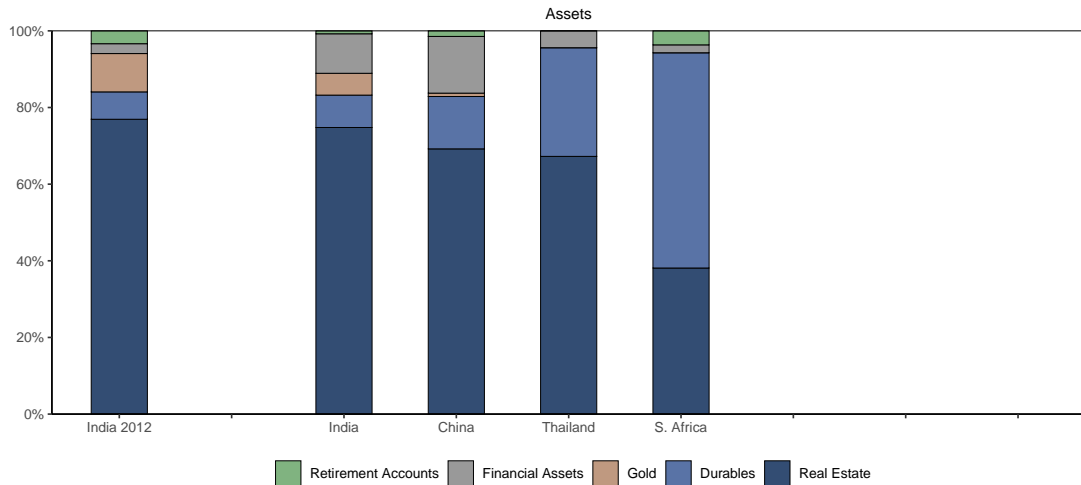
Data from All India Debt and Investment Survey, Chinese, Thai, European and South African Household Finance Surveys and the US Survey of Consumer Finances. Source: Badarinza, Balasubramaniam and Ramadorai 2019, Campbell and Ramadorai 2025

India: Past vs. Present (Assets)



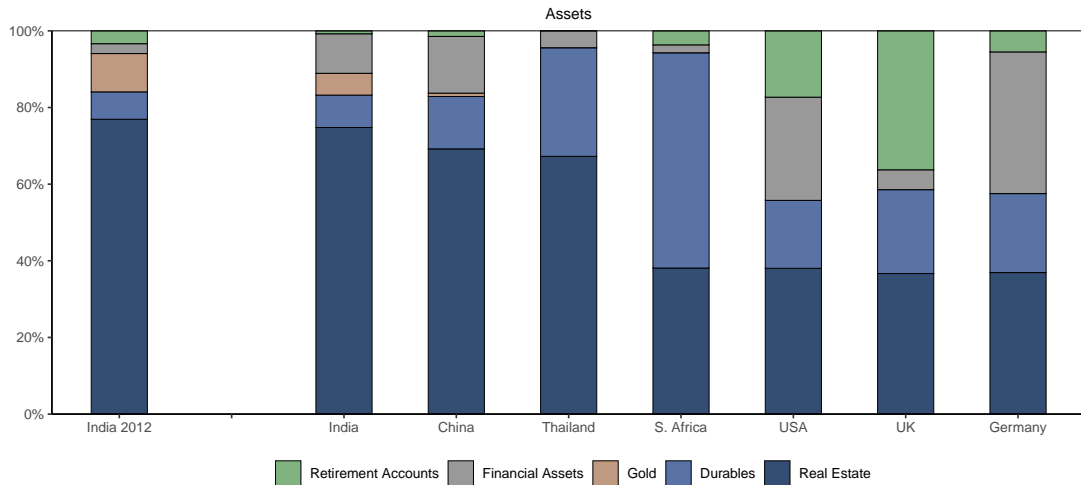
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India and its peers (Assets)



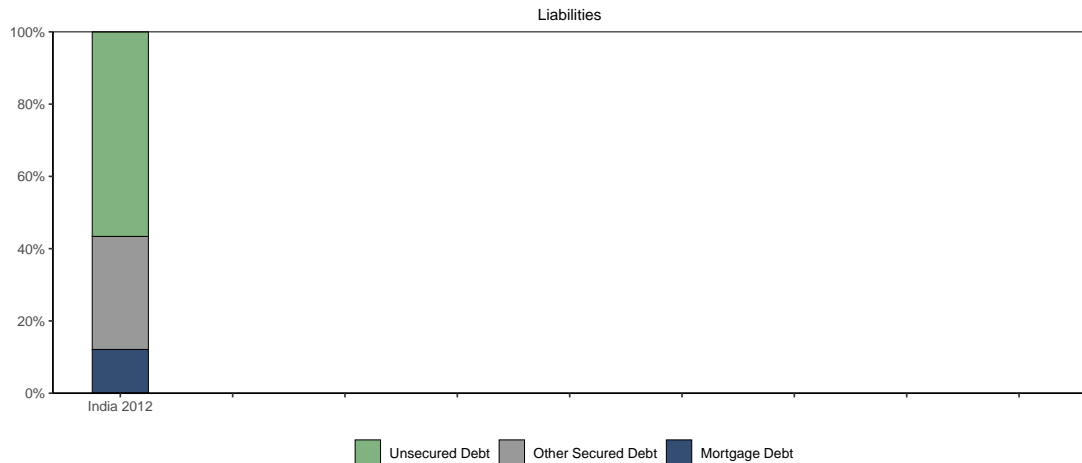
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A good beginning, but there is still a long distance to travel



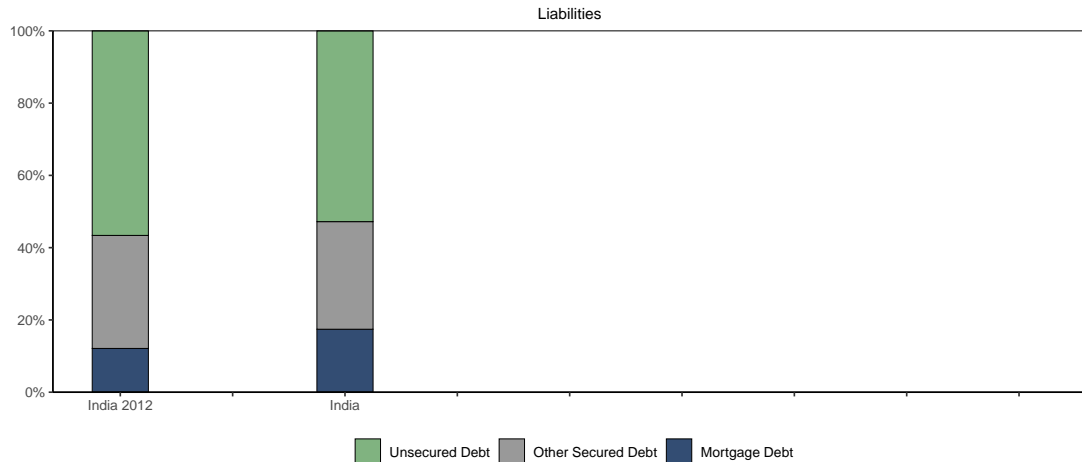
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India in 2012 (Liabilities)



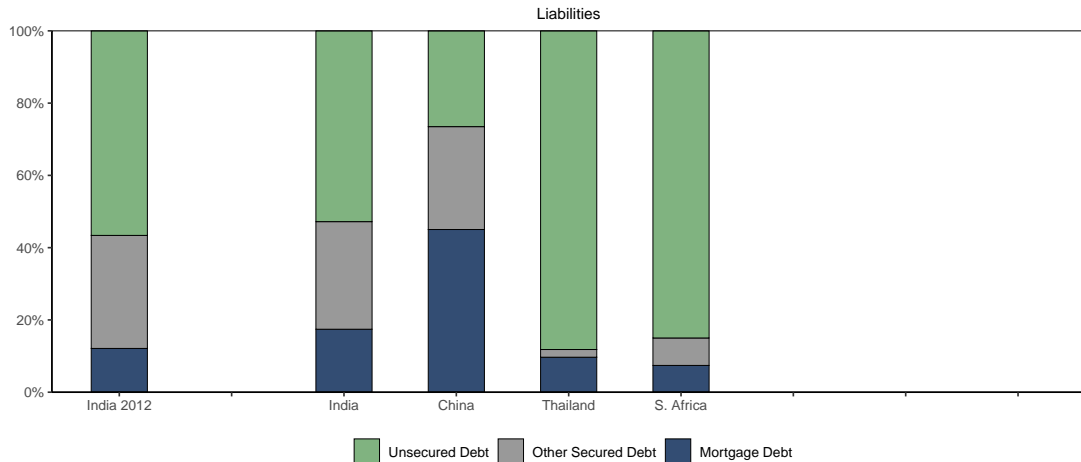
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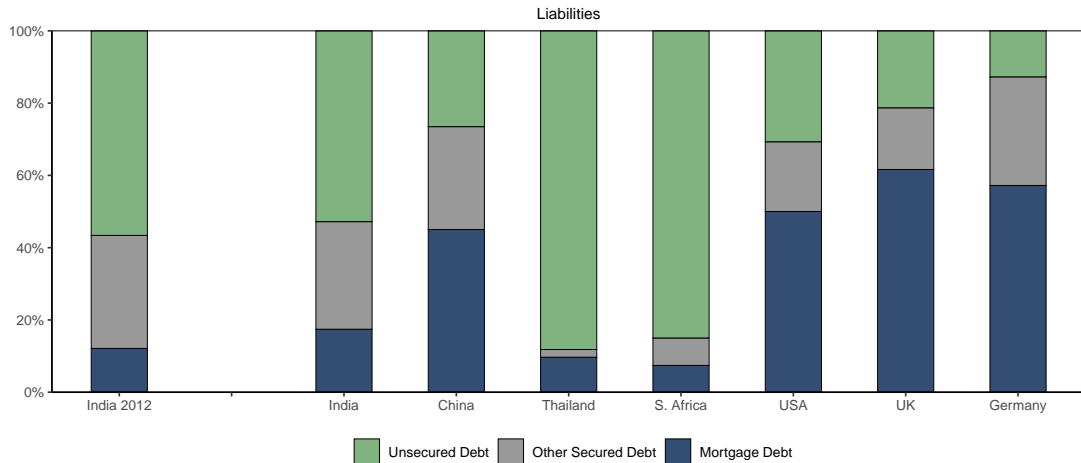
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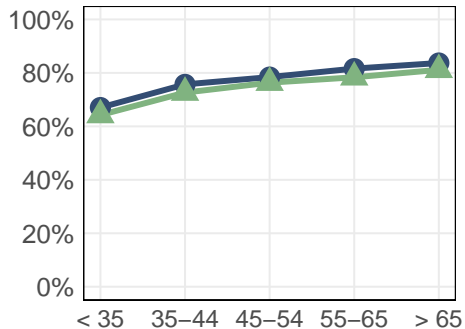
Need to stimulate mortgage market growth



Data from All India Debt and Investment Survey, Chinese, Thai, European and South African Household Finance Surveys and the US Survey of Consumer Finances. Source: Badarinza, Balasubramaniam and Ramadorai 2019, Campbell and Ramadorai 2025

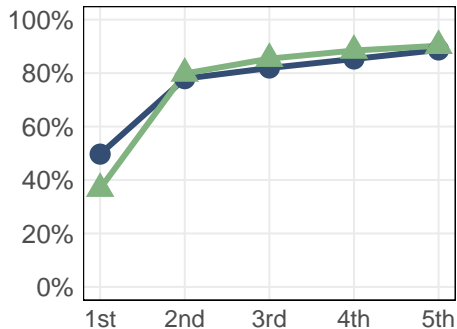
Life Cycle Profile: Real Estate

By Age



—●— 2012 —▲— 2022

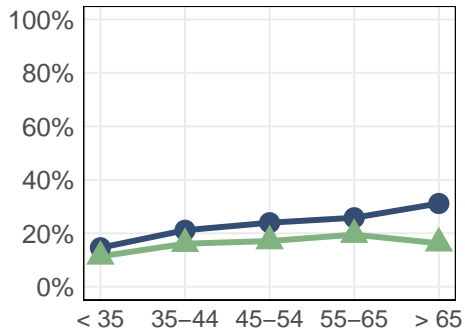
By Wealth



—●— 2012 —▲— 2022

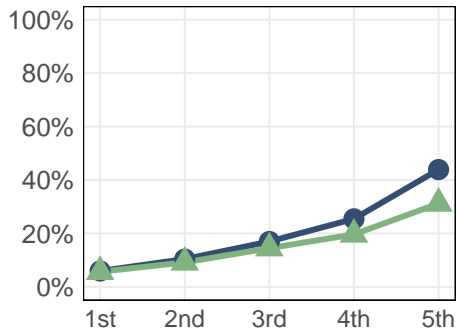
Life Cycle Profile: Mortgage Debt

By Age



—●— 2012 —▲— 2022

By Wealth



—●— 2012 —▲— 2022

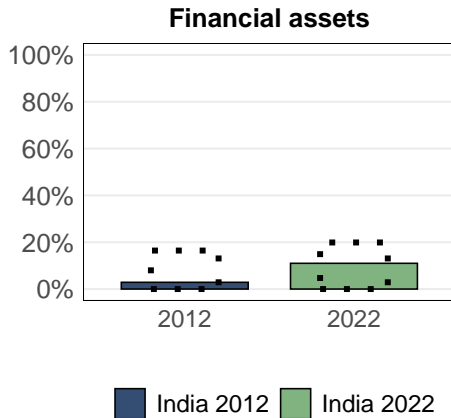
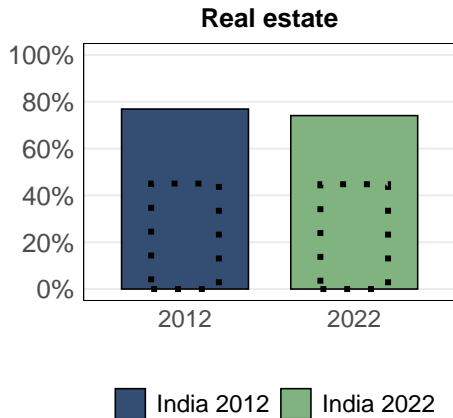
Blinder-Oaxaca Decomposition

- Decompose differences between India and other countries (China, Germany, UK, USA).
- Predict what differences are explained by India's different demographics (age, wealth), and what remains unexplained.
- Predicted counterfactual: India's allocation patterns, assuming the estimated relationship between demographics and portfolio choices translates across borders.

Caveats:

- “Unexplained” component captures many possible sources of differences (institutional, cultural, policy...).
- Not causal—identified associations, not mechanisms.

Assets: Real Estate and Financial Assets



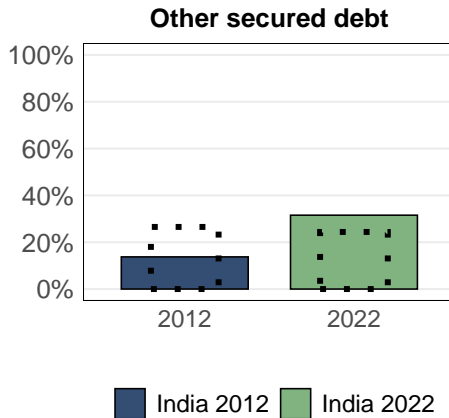
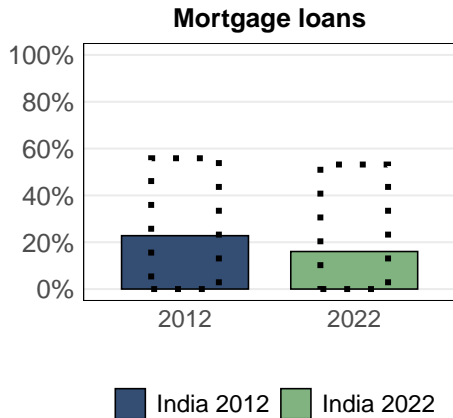
- **Dotted lines:** Predicted based on peer country patterns
- Real estate dominance continues.
- Financial assets remain below peer-implied levels, but movement in the right direction.

Assets: Retirement Accounts



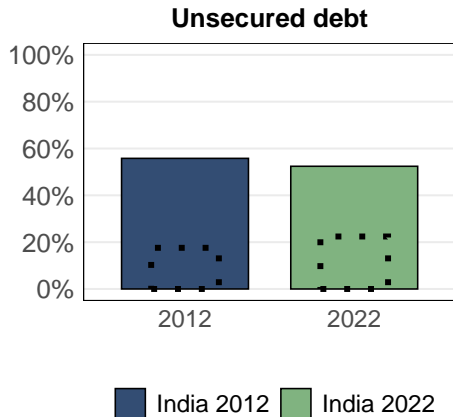
- Retirement account penetration remains extremely low.
- Slightly declined 2012–2022.
- Far below what demographics would predict.
- Potentially connected to excessive real estate accumulation.
- Policy opportunity for pension reforms.

Liabilities: Mortgage vs. Other Secured Debt



- Mortgage debt decline (but life cycle patterns suggest in the correct age cohort).
- Other secured debt (vehicles etc.) increased to similar levels as peers.

Liabilities: Unsecured Debt



- Unsecured debt share remains high.
- Driven by credit cards, personal loans, fintech (and informal borrowing).

Status Report

1. Improve mortgage functioning through external common benchmark to report lending rates. ✓
2. Electronic KYC to enable seamless payment mechanism. ✓
3. Account aggregator framework to provide comprehensive view of household finances to a household. ✓
4. “Starter Kit”: Some government provided solutions including PM Suraksha Bima Yojana, PM Jeevan Jyoti Bima Yojana for insurance, and Atal Pension Yojana for pensions. ✓/X

Persistent challenges

- Rapidly expanding middle class: Enormous demands on the personal finance system.
 - Longer lives, nuclear families, urbanization, formalization.
 - Shift from traditional support systems to formal financial markets.
 - **Yet, mortgage penetration is low and real estate excessively high.**
 - **Yet, retirement savings low; excessive reliance on intergenerational transfers.**
- Solving these issues is not easy:
 - Low financial literacy and limited sophistication.
 - Predatory suppliers and mis-selling of complex products.
 - Regulatory gaps and weak consumer protection.
 - High informal debt, low insurance penetration.

There is so much research to be done

- What frictions prevent emerging financial markets from effectively meeting the largest needs? **Mortgages**, education, **retirement savings**, insurance.

E.g.: Campbell, Ranish, Ramadorai, 2015, Anagol, Cole, Sarkar, 2017, Dos Santos, 2025

- How can technology help, and when does it hurt? Moving beyond digital payment systems to lowering fixed costs and search costs; customized financial products.

E.g.: Mishra, Prabhala and Rajan 2021, Ghosh, Vallee, Zheng, 2025

- How should we conduct consumer financial regulation and enforcement in developing financial markets? How to improve trust and reduce corruption? What are the limits of financial education? E.g.: Breza and Liberman, 2017, Breza and Kinnan 2021 , Agarwal et al., 2019, Balakina et al., 2025

Why
Personal
Finance
Is Broken and
How to
Make It Work
for Everyone



Fixed

John Y.
Campbell
and
Tarun
Ramadorai



- **Part I.** The problem: A fixed financial system.
- **Part II.** The specifics: What goes wrong in personal finance.
- **Part III.** The solution: Fixing personal finance.
- **Today:** Applying these insights to Indian household finance challenges.

Why do households find financial decisions so difficult?

- **Human intuition fails in finance calculations.**
 - Extrapolate from personal experience, neglect base frequencies.
 - Anchor, fail to understand exponential growth and compounding.
- **Reinforcement learning fails:**
 - Outcomes are delayed and uncertain.
 - We confuse luck with skill.
- **Social learning also fails:**
 - Even widely shared experiences can be misleading: **correlated shocks**.
 - People don't talk honestly about money (especially true in Indian context).
- **Temptation** thwarts the right action even if you know what it is.
- Overall: Financial decisions are taken **intermittently** and **emotionally**.

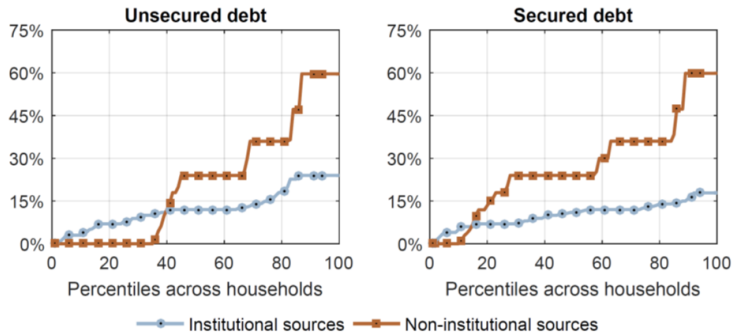
The corruption of finance

- Since finance is so difficult, households make big mistakes:
 - Misperceive benefits; misperceive costs; fail to search; mismanage financial products.
- **Does the power of competition undo these errors? No!**
- Suppliers provide products that are demanded, not those that objectively serve customers' interests:
 - In India: Complex ULIPs, high-commission products, unclear loan terms.
- Instead of competing to reduce prices and increase quality:
 - Suppliers engage in unproductive competition (bank branches, insurance agents).
 - Actively obfuscate: Complex and bundled products make comparison shopping even harder.

Your good deal is someone's bad deal

- Product mismanagement can lead to **the poor subsidizing the rich**:
 - Late payment fees and penalty charges subsidize zero-balance accounts.
 - Credit card late payment fees subsidize high-end reward cards.
 - Life insurance lapseders subsidize those who can pay premiums regularly.
- Financially unsophisticated households miss **conflicts of interest**:
 - Commission-driven agents, tied agents, opaque pricing structures.
- When people figure it out, they are rightfully angry and lose trust:
 - The financial industry suffers from low trust in India.
 - High-cost informal loans persist despite formal credit availability even for the unconstrained.
 - Where there is transparency, India is witnessing greater retail participation (financial assets in equities).
 - Must translate this understanding into design of mortgage and retirement savings markets.

Out of the frying pan...

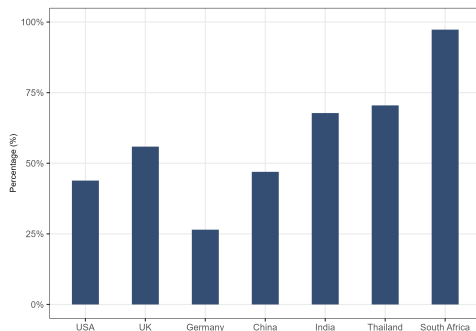


Source: RBI Committee on Household Finance 2017

- Some respond by **opting out of formal finance altogether**:
 - Credit and insurance from family and friends.
 - Moneylenders charging 24-36% interest.
 - Chit funds and informal savings groups.
- Indian economy needs formal finance to allocate capital efficiently.

Managing the ups and downs

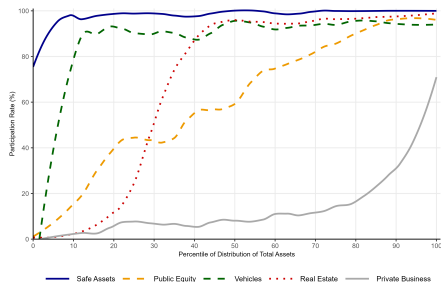
- Volatile income (especially agriculture, informal sector) and limited savings create financial vulnerability.
- Lack of insurance means high-cost short-term emergency borrowing.
- Medical shocks are a major driver of informal debt in India.
- Debt mismanagement can lead to a debt trap:
 - Ignoring the problem.
 - Rolling over high-cost loans.
 - Limited bankruptcy/restructuring options.



Fraction of households with liquid financial assets below three months of average consumption. Source: Campbell and Ramadorai 2025

Making investments

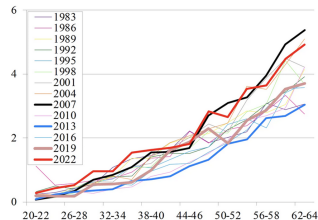
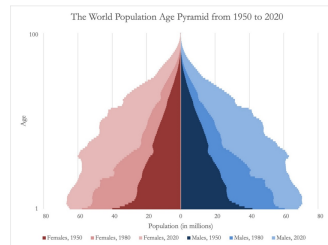
- People just don't invest enough in stocks despite clear benefits.
- Large investments (housing and education) also problematic:
 - Choosing a mortgage (provider, FRM/ARM, fees).
 - Refinancing a mortgage.
 - Choosing a good education provider and financing education.



Participation rates in US (fraction of households that hold the given asset) by asset class (different lines) at each level of total assets (along the horizontal axis). Source: Campbell and Ramadorai (2025)

The retirement challenge in India

- Major demographic and macro trends:
 - Aging population (elderly cohort expands by 2030s).
 - Nuclear families replacing joint family system.
 - Shift needed to formal retirement planning.
 - Near-total absence of pension wealth (seen earlier).
- Households face multiple challenges:
 - Low coverage: APY has only 75 million enrollments.
 - Confusion about retirement needs and products.
 - Sluggish shift from real estate to financial assets.
 - Housing wealth hard to monetize.



Technology? Financial education? Nudge?

- **Technology** promises lower costs plus customization. But:
 - Targeting weaknesses (e.g., gamified stock trading, crypto scams).
 - Price discrimination using personal data.
 - Evading regulation (deposit insurance).
 - Algorithmic discrimination.
- **Financial education** is highly recommended. But:
 - Obsolescence.
 - Context dependence (learning to drive by reading a manual).
- **Nudges** have been highly successful. But:
 - Can be weak medicine.
 - Unintended consequences (debt rises because oblivious to auto-deduction)

Shove: What does India need?

- **The basics: financial infrastructure, disclosures, complaints.**
 - Digital infrastructure: Aadhaar, UPI, Account Aggregator. ✓✓
 - Transparent disclosures: APR vs. rupee costs, insurance claims statistics. ✕ ✕
 - Effective grievance redressal: Multiple points of failure, fragmentation, high hassle factors.
✕ ✕
- **Intervention:**
 - Coordinated regulatory intervention (RBI, SEBI, IRDAI, PFRDA). ✕ ✕
 - Publicized action on complaints and mis-selling; willingness to “name and shame.” ✓/✕
 - Tools to change prices, e.g., better tax treatment of annuity income given low annuitization.

Shove: How to implement?

- **General principles:**
 - **Fight biases with biases:** Prize-linked savings, commitment devices.
 - **Curb market power:** Require standardized product offers.
 - **Clamp down on conflicts of interest:** Separate advice and distribution. RIA certification good, but harmonization needed.
 - **Automate financial decisions:** Self-refinancing mortgages, lifecycle-based investment defaults.
- **Without going too far:**
 - Balance innovation with consumer protection.
 - Leverage regulatory sandbox for testing new approaches.
 - Build on digital infrastructure successes (UPI model with competition for other products).

We can do better: India's starter kit

- A positive vision of a better personal finance system for India. **Government sets design templates, private sector solves for cost, distribution.**
- Guided by design principles: **Simple, Cheap, Safe, and Easy.**
- Private-sector provided **personal finance starter kit.**
 - Building on PMJDY foundation (550 million accounts opened).
 - In each financial product category, it should be **mandatory to offer** starter kit products (other products can also be offered).
 - The most important starter-kit products should be **mandatory to choose.**
 - **Standardized easy-to-manage product designs** with **transparent price structures** for easy comparison shopping.

India's starter kit: Specific products

- **Transaction accounts:** ✓✓
 - Interest-bearing accounts with transparent fee structure, digital access.
- **Home loans:**
 - EBLR-linked floating rates or simple fixed rates, auto-refinancing when rates fall.
- **Single portable retirement account (expand APY):**
 - Automatic enrollment at first formal employment, follows worker across jobs.
 - Simple life-cycle defaults with low costs.
- **Lines of credit:**
 - Fixed fees and interest rates, no hidden charges or prepayment penalties.
 - Linked to employment and digital payments history.
- **Insurance:**
 - Transparent claims and quick payouts, wider coverage.
 - Mandatory automatic catastrophe insurance in high-risk areas.