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ANALYZING LOAN REPAYMENT DELAYS: CAUSES AND CONSEQUENCES FOR FINANCIAL INSTITUTIONS

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Abstract: **This study examines the reasons behind and effects of repaying loans delays with a particular focus on defaulters at Ruthvik Financial Solutions. It investigates the causes of repayment delays and their effects on financial stability using a survey. Finding out what influences borrowers' intention or competence to repay loans—such as personal problems and economic downturns—is the goal of the study. Consequences for financial institutions are also examined, including lower liquidity and higher risk exposure. The study intends to contribute to better risk management practices and policy creation in the financial industry by analyzing these interlinked variables and providing insights into ways for reducing delays and strengthening the durability of loan providers.**

Keywords: **Loan repayment, delays, reasons , consequences, loan providing companies, defaulters.**

I. INTRODUCTION

Delays in loan repayment present a significant difficulty for financial institutions worldwide, affecting their client relationships, profitability, and risk exposure. Numerous economic, societal, and regulatory factors—such as recessions, inadequate financial literacy, and borrower health concerns—are to blame for these delays. By putting into practice efficient risk management techniques, customising loan offerings, and boosting financial literacy programmes, financial companies can lessen these difficulties. Furthermore, maintaining client connections and addressing repayment challenges need active communication and interaction with borrowers.

Delays in loan repayment can affect society and the economy more broadly, increasing systemic risks in the financial system and sustaining cycles of inequality and poverty. Legislative structures that support accountability and openness in the lending process should strike a balance between handling risks and consumer protection.

1.1 Need/Importance of the topic:

- Recognizing repayment delays facilitates risk management by assessing the condition of the portfolio.
- Late repayments reduce earnings by resulting in interest losses and higher collection expenses.
- Resolving delays helps borrowers who are having financial issues, which maintains loyalty.
- Analysis guarantees compliance with rules, preventing fines and upholding confidence.
- Product innovation can remain competitive by having a thorough understanding of repayment trends.

1.2 The theoretical implication of the topic:

- Comprehending Delays and Their Effects: Investigating the Reasons Behind Client Payment Delays Aids in Customising Solutions, Such as Educational Initiatives. Risks that loan organisations must deal with include heightened exposure and delays that cause operational problems
- Correlation and Predictive Indicators: Predictive models can be created by connecting delay causes to outcomes. Financial stability is protected by early issue detection and mitigation.
- Consequences for Financial Theories: Delays help clarify agency tensions and risk management. Behavioural economics provides insights that guide interventions.
- Systemic risk assessment and regulatory policy are aided by theoretical models.

II. REVIEW OF LITERATURE

1. Pacifique Nininahazwe / Christopher Mutembei, October 2023: The study in Burundi analyzed credit management practices in microfinance institutions and

their impact on loan repayment. It found a significant association between credit collection policies and repayment performance, with client evaluation showing the highest positive correlation. The study recommends prioritizing robust credit risk control mechanisms and suggests further research for long-term effects.

2. Enock Omwenga Okero / Fredrick Warui Waweru, May 2023: This study focused on Kenya Industrial Estates (KIE) and how credit risk assessment influences loan repayment. It found that borrowers' character and capacity significantly impact repayment, emphasizing the need for thorough credit history screening in development financial institutions. The study aims to enhance repayment in KIE.
3. Anand Kumar Shrivastava/ Anil Vashisht, Jan 2024: This study in Himachal Pradesh explores the impact of financial literacy on loan repayment intentions in Self-Help Groups (SHGs). It confirms that financial awareness and skills strongly predict repayment intentions, while financial knowledge has a weaker influence. Improving financial understanding is crucial to reducing outstanding loans in SHGs.
4. Pranab Kumar Bhattacharya Md Ficpath / Rupsha Bhattacharya, May 2023: Despite the COVID-19 pandemic, Microfinance Institutions (MFIs) in India saw a significant increase in microloan disbursement. MFIs targeted women borrowers, with West Bengal, Bihar, and Tamil Nadu leading in loan distribution. Regulatory intervention and government support aimed to mitigate financial crises in the microfinance sector during challenging times.

III. RESEARCH METHODOLOGY

3.1 Statement of the problem

The purpose of the study is to examine the reasons behind loan repayment delays from the viewpoint of the clients and to examine the implications for the loan-providing organisations. It looks for links between these causes and the negative effects the companies experience. It also seeks to pinpoint any gaps that may exist between borrowers and lenders, and it makes recommendations for how to properly handle and alleviate the problem of loan repayment delays.

3.2 Research gap:

Few studies have been conducted on the implications for loan-providing organisations, and little is known about the reasons why borrowers put off loan repayments. Reducing this gap will help to streamline payback procedures and cut down on delays. In order to improve communication and find solutions that will benefit both parties in the loan payback process, research is required to determine the causes of delays and their effects on loan providers.

3.3 Research objectives

- To identify or know the reasons for delay in repayment of loans (clients perspective).
- To know more about the consequences faced by loan providing company due to delay in repayment of loans by clients.
- To know the correlation between the reasons in delay in repayment of loans by clients and consequences suffered by loan providing company due to it.

3.4 Scope of the study

- This research paper is done in order to know the correlation between the reasons in delay in repayment of loans by clients and consequences suffered by loan providing company due to it. This research paper can be helpful in analysing the various problems faced by clients in repayment of loans. This can also be helpful to loan providing companies to analyse the reasons in delay in repayment of loans by clients and can work on it, in order to improve their services. This can also be helpful in out mapping the problems faced by loan providing company due to delay in repayment of loans.
- The study is based on the sample of 100 individuals whose response will be collected using Questionnaire method. The study focuses specifically on the challenges that the loan providing companies face due to delay in repayment of loans by clients of the Ruthvik Financial Solutions.

3.5 Sources of data

- The study primarily focuses on relevant primary data which has been obtained from the following sources –
- Ruthvik Financial Solution's services were comprehensively understood through the mix of qualitative and quantitative approaches.
- Direct customer insights regarding the reasons for delay in loan repayment by clients of Ruthvik Financial Solutions were collected through the primary data collection method, which involved the use of Google Forms. It is quite helpful to understand the reasons and consequences faced by loan providing companies to get this direct feedback.
- Ruthvik Financial customers specially defaulters were the target audience, and the probability sampling procedure guaranteed that the sample closely reflected them. The results can be confidently extrapolated to a broader population using a sample size of 100 and a straightforward random sampling technique.
- The Chi-square test was employed to enable thorough statistical analysis and the investigation of correlations and dependencies among variables. Ruthvik Financials faced consequences which were correlated to the reasons for delay in loan repayment made possible by

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the clear overview of the data offered by the descriptive statistics.

3.6 Limitations of the study:

- Due to its limited sample size, the study may have constraints that limit the variety of reasons why loans are delayed and the range of repercussions that loan providing organisations may experience.
- Relying on customers' self-reporting for responses could lead to subjectivity and prejudice, which could compromise the accuracy of determining the real causes of loan payback delays.
- External variables that affect loan repayment, including recessions or unanticipated events, could go unnoticed, leaving a gap in our knowledge of the relationship between customer behaviour and business outcomes.
- The study may be restricted to a certain time period or snapshot in the lending process, which could make it more difficult to capture the long-term consequences or efficacy of suggested methods to address loan repayment delays.

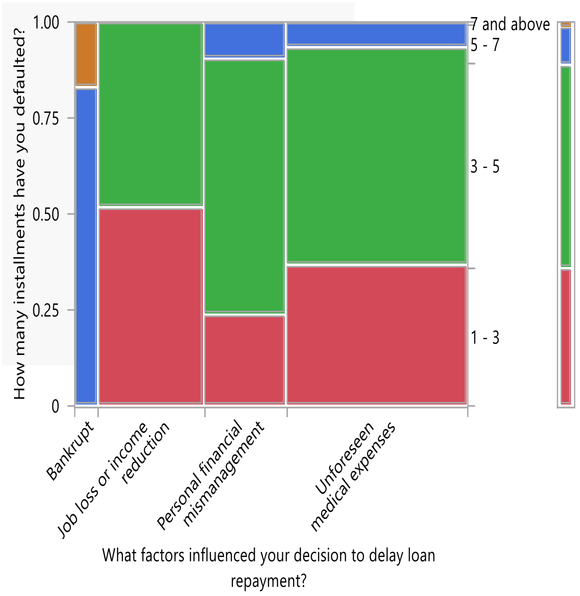
IV. ANALYSIS AND DISCUSSION

4.1 Hypothesis:

Null Hypothesis (H0): There is no significant relationship between clients' reasons for delay in loan repayment and their repayment behavior.
Alternative Hypothesis (H1): There is a significant relationship between clients' reasons for delay in loan repayment and their repayment behavior.

Contingency Analysis of How many installments have you defaulted? By What factors influenced your decision to delay loan repayment?

Mosaic Plot



4.2 Contingency Table

What factors influenced your decision to delay loan repayment? By How many installments have you defaulted?

Count Total % Col % Row %	1 - 3	3 - 5	5 - 7	7 and above	Total
Bankrupt	0 0.00 0.00 0.00	0 0.00 0.00 0.00	5 5.00 50.00 83.33	1 1.00 100.00 16.67	6 6.00
Job loss or income reduction	14 14.00 38.89 51.85	13 13.00 24.53 48.15	0 0.00 0.00 0.00	0 0.00 0.00 0.00	27 27.00
Personal financial mismanagement	5 5.00 13.89 23.81	14 14.00 26.42 66.67	2 2.00 20.00 9.52	0 0.00 0.00 0.00	21 21.00
Unforeseen medical expenses	17 17.00 47.22 36.96	26 26.00 49.06 56.52	3 3.00 30.00 6.52	0 0.00 0.00 0.00	46 46.00
Total	36 36.00	53 53.00	10 10.00	1 1.00	100

Tests

N	DF	-LogLike	RSquare (U)
100	9	19.157981	0.1954

Test	ChiSquare	Prob>ChiSq
Likelihood Ratio	38.316	<.0001*
Pearson	60.265	<.0001*

Warning: 20% of cells have expected count less than 5, ChiSquare suspect.

4.3 The final outcome

The significance level commonly used in statistical analyses, often represented as α (alpha), is typically set at 0.05. In this study, the obtained p-values for both the likelihood ratio and Pearson chi-square tests are well below this threshold (<0.0001). Consequently, we reject the null hypothesis and infer that there exists a statistically significant impact of loan repayment delays on the financial health and operational efficiency of loan providing companies.

V. CONCLUSIONS AND IMPLICATIONS

The study "Analysing Loan Repayment Delays" investigates the causes of loan repayment delays as seen by the clients and the effects they have on financial institutions. Economic downturns, unforeseen life circumstances, a lack of financial awareness, and intentional default are some of the factors. Lending institutions suffer financial losses, increased bad debt provisions, liquidity problems, and brand harm as a result of these delays. Correlation analysis demonstrates a direct relationship between the causes of delays and their effects, highlighting the significance of preventative steps like flexible repayment plans and financial education initiatives to reduce risks. Gaining an understanding of these dynamics is essential to building a robust lending environment that helps financial institutions meet obstacles and achieve inclusive growth.

VI. REFERENCES:

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