

Information Asymmetry and Customer Satisfaction: Insights from Bank Borrowers in Rural India

Tejinder Singh

Information asymmetry limits the potential of rural banking system in India. We are currently in a situation where banks are equipped with better access to the borrower's profile which includes details of land titles, assets, trade-credit linkages, fellow guarantees and history of transactions and default. The borrowers, on the other hand, are generally less endowed with vital information like awareness about their credit limit, clarity on loan eligibility criteria, benefits of timely repayments, and ways and means to tide over difficult times. The paper, based on small borrower's responses from household survey, shows that bank branches which reduced these information asymmetry generally have greater likelihood of satisfied customers. One major policy implication of the findings of this paper is that information diffusion may have a critical role in unleashing the full potential of our banking system.

I Introduction

Information asymmetry deals with the study of decisions in transactions where one stakeholder has access to more or better information than the other. The theoretical foundation for an understanding of the rural credit markets in developing countries is provided by information asymmetry prevailing in these markets. A large number of studies of India and other developing countries before the nineties demonstrated that there is imperfect information in the rural credit markets where most of the institutional lenders were not endowed with the borrower's credit history. Thus, the problem of screening of incentives and enforcement turned out to be one major contributory factor restricting the share of the institutional credit in these markets.

The situation has significantly changed since then. India has witnessed significant changes in the rural credit markets in the past two decades. Rural banks are now equipped to screen their customers with better access to the borrower's credit profile which includes details of land titles, assets, trade-credit linkages, fellow guarantees, and the history of transactions and defaults. The

Tejinder Singh, National Council of Applied Economic Research, Parisila Bhavan, II Indraprastha Estate, New Delhi 110002, India, email: tsingh@ncaer.org

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