

# HOUSEHOLD FINANCE COMMITTEE REPORT

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❖ Report consists of a broad set of recommendations, which are based on a substantial body of research. The research analyses household-level micro-data from India and six other countries.

- Indian exercise studies six different data sources, including both survey data and administrative information.
  - Conducts a detailed comparison of household balance sheets in India and those in other major world markets.
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❖ Indian household balance sheets have several distinctive features:

- High wealth (roughly 90% of assets) allocated to physical assets, such as gold and real estate.
    - Households holding high amounts of gold can realize an annual income gain of 3.4% by moving 25% of gold holdings to financial assets. Translates to a movement of roughly 5% up the Indian wealth distribution.
    - Real estate holdings high, mainly for wealthier households. Home loan takeup is low, and occurs late in life.
  - Under-investment in long-term insurance and pension products.
    - Median household can move up the Indian wealth distribution roughly 1% (realizing an annual income gain of roughly 1%) by avoiding unnecessary health emergency costs.
    - Suggest strengthened public health services or fair insurance take-up, as alternative to the high burden of emergency debt.
  - High reliance on unsecured debt from non-institutional sources (e.g. moneylenders).
    - Shifts to institutional debt can generate an annual income gain of roughly 3% (movement of roughly 4% up the wealth distribution).
  - Demographic projections shows these issues (especially pensions and insurance) become very serious as elderly cohort grows.
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❖ Underlying causes of these issues:

- High transactions costs and bureaucratic impediments faced by households.
- Trust gaps. Low income households often state that financial products are the prerogative of elite groups in society, have poor experiences with formal finance.
- Behavioural factors, and lack of self-confidence in engaging with formal finance.
- Traditional and cultural factors are important, and effective policies should recognise and harness traditional approaches.
- Household income for the poor is highly uncertain. Requires customized products with significant flexibility in payment/repayment periods.
- No unified framework for accessible financial advice.

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❖ Recommendations:

• **Mortgages:**

- Real-time reset of floating interest rates, common quotation conventions.
- Quoting loans to customers in the form of a market-wide standardised rate + spread as opposed to MCLR + spread, to facilitate cross-product comparison.
- Standardising the reset period across banks, to be immediate.
- Banks should quote the rate for every fixed rate product relative to the repo rate.
- Remove the tax exemption for income from house property to discourage real estate as an investment.
- Do not specifically tie tax exemption on sale of residential property to re-investment in the property sector.
- Increase incentives for *first-time* home buyers with a mortgage interest tax deduction.
- PSL-confirming home loan limit to be indexed to level of house prices.
- Granular loan-level data to be provided by banks and NBFCs to RBI to facilitate research.

• **CERSAI and SARFAESI**

- Digital interface of CERSAI should be recalibrated to minimise time and cost of regulatory compliance.
- Make SARFAESI applicable to small as well as large loan sizes.
- Allow digital transfer of titles for collateral, digitize physical NACH form for enabling repayment.

• **Gold**

- Propose variant of gold bonds introduced with default matrilineal inheritance.
- Propose variant of gold bonds that can be physically redeemed at choice of household.
- Improve state and municipal bond market, and wider publication of local inflation indexes to facilitate exchange-traded products against these indices.
- Offer tax incentives to investors in inflation-indexed bonds.
- Support creation of a spot gold exchange.
- Propose PAN card requirement for gold transactions from jewellers be extended to all transactions regardless of size.
- Make unsecured credit widely available to households at favourable rates in the event of emergencies.
- All gold transactions to be registered electronically.

• **Pensions**

- Enable digital end-to-end applications for pension products and authorise Aadhaar-enabled enrolment.
- Ease of switching and choice in annuity plans; segregate annuity investment from insurance investment.
- Increase transparency in annuity market in terms of expenses, commissions, annual fees and surrender charges.
- Investigate whether cap on NPS management fees is internationally comparable.
- Relax mandatory requirement that only point of presence (POP) entities can engage in sales, and allow digital marketing of pensions.

- **Insurance**

- Propose simple home insurance policy covering structure and contents at a low premium.
- Propose low-cost travel insurance plan for senior citizens.
- Mandatory catastrophe insurance with automatically triggered pay out in zones with high natural disaster (floods, etc.) risk.
- Publish highly granular insurance claims statistics in machine readable format.
- Rationalize distribution incentives, level commissions structures between initial sale and policy renewal, encourage renewal.
- Rationalize discrepancy in commissions between products, incentivise purchase of simple term insurance products.
- Make PoS disclosures simple and comprehensible.
- Continue clamping down on mis-selling.
- Permit redress using delegated representatives, especially in rural areas.

- **Financial advice**

- Uniform and consistently stringent standards across regulators for provision of financial advice. Insurance and mutual fund intermediaries brought under uniform advisory regulations.
- Advisory and distribution functions effectively segregated in a manner that avoids conflicts of interest.
- Unique license number for financial advisors. Information about financial advisors and standards of competence verified and available online.
- Fiduciary model for advice.

- **Financial technology**

- Robo-advice encouraged subject to checks and balances including granular data on ultimate financial advisor providing advice.
- RBI's account aggregator rules amended so that it is mandatory for financial institutions to share information on authorization from the customer.
- Support e-KYC, and elimination of all paper processes or wet signatures.
- Propose DigiLocker service be extended to brokers, insurance companies, and nationalised banks, and link CERSAI to DigiLocker.
- Seamless switching across financial products at the request of the consumer at low cost, portability of e-KYC across products.
- Further simple financial products to be seeded using PMJDY as a platform.
- More complicated financial products to require explicit "opt-in" by consumers.
- Support new data privacy framework to protect household data, using a rights-based approach.

- **Regulatory Sandbox**

- Propose establishment of a cross-regulator "Regulatory Sandbox", a safe space in which the regulator can facilitate small-scale tests by temporarily relaxing certain regulations to collect empirical evidence whilst containing risks.
- Report provides a detailed blueprint for the Sandbox.