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A Study on the Expansion of No-Cost EMI Schemes and Their Impact on Consumer Spending in India: A Secondary Data Analysis

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Abstract:

The growing availability of no-cost Equated Monthly Instalment (EMI) schemes has significantly influenced consumer purchasing behaviour in India. These schemes allow consumers to buy goods and services in interest-free instalments, making high-value and discretionary products more accessible. This study uses secondary data to examine the expansion of no-cost EMI schemes and their effect on consumer spending across different sectors and demographic groups.Data for the study is drawn from reputable sources such as the Reserve Bank of India (RBI), National Sample Survey (NSS), industry reports, and financial institutions. The analysis focuses on trends in the adoption of no-cost EMI schemes, sectoral distribution, and changes in spending patterns over recent years.Findings suggest a substantial shift from traditional credit options to interest-free EMI-based financing, driven by rising disposable incomes, the growth of digital lending platforms, the increasing presence of non-banking financial companies (NBFCs), and the widespread use of consumer electronics, vehicles, and lifestyle products. The study also highlights how digital innovations and app-based credit solutions have expanded access to credit, particularly among young and first-time borrowers. Overall, no-cost EMI schemes have boosted consumer spending, reshaped purchasing behaviour, and enhanced financial inclusion, while also raising concerns about over-indebtedness and repayment pressures.

Keywords — **No-cost EMI, Consumer spending, Retail credit, Household borrowing, Digital finance, Financial behaviour, Financial inclusion**

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I.INTRODUCTION

BACKGROUND OF THE STUDY

Consumer credit plays a crucial role in modern economies by enabling households to manage cash flows, spread expenditures over time, and access goods and services that may not be affordable through immediate income. In emerging markets like India, the growth of consumer credit has closely followed rising incomes, urbanisation, technological advancement, and reforms in the financial sector. Over the past decade, no-cost Equated Monthly Instalment (EMI) schemes have emerged as a prominent form of consumer credit, reshaping borrowing patterns and spending behaviour among retail consumers.

No-cost EMI plans allow consumers to purchase products and services in interest-free instalments, reducing the upfront financial burden. These schemes have become increasingly popular across sectors such as consumer electronics, automobiles, housing, education, healthcare, and digital services. Flexible repayment options, instant credit approvals, and promotional schemes have further boosted their adoption. Consequently, consumer behaviour in India has gradually shifted from purely necessity-based purchases to discretionary and lifestyle-oriented spending.

The rise of non-banking financial companies (NBFCs), fintech platforms, and digital lending solutions has been instrumental in expanding access to no-cost EMI schemes. These innovations have particularly benefitted young consumers, first-time borrowers, and individuals with limited access to traditional banking services. Digital financing models and app-based credit offerings have simplified borrowing, improved transaction convenience, and contributed to broader financial inclusion. Regulatory support, wider credit coverage, and the adoption of systems like the Unified Payments Interface (UPI) have further strengthened the consumer credit ecosystem.

Despite these benefits, the rapid growth of no-cost EMI financing raises concerns about increasing household debt, overextension of borrowers, and potential repayment stress. Limited financial literacy combined with easy access to credit can lead to financial strain for consumers and may pose challenges to overall economic stability. These developments highlight the need for responsible lending practices and informed consumer behaviour.

In this context, the present study undertakes a secondary data analysis of the expansion of no-cost EMI schemes and their impact on consumer spending in India. By examining institutional, regulatory, and industry data, the study seeks to identify growth trends, sectoral adoption, and emerging challenges in the consumer credit market. It aims to contribute to the existing literature by providing a comprehensive understanding of how no-cost EMI schemes are shaping India's consumption patterns, offering insights for policymakers, financial institutions, and academic researchers.

2.2 Problem Statement

The rapid expansion of no-cost Equated Monthly Instalment (EMI) schemes in India has significantly influenced how consumers make purchases and manage their finances. While these interest-free instalment plans have made it easier for households to afford high-value goods and discretionary products, their widespread adoption raises important questions about the long-term sustainability and potential risks of such credit-driven consumption.

Most existing research focuses on overall consumer credit trends or institutional lending patterns, but there is a lack of in-depth analysis specifically examining the growth and impact of **no-cost** EMI schemes using secondary data. The rise of these schemes has introduced new challenges, including increased household debt, repayment pressure, and the risk of overextension, particularly among young consumers and first-time borrowers.

Despite regulatory frameworks, improved financial infrastructure, and greater digital access, there remains limited understanding of how no-cost EMI schemes have changed spending patterns across different sectors, income groups, and demographic segments. Without a detailed study, policymakers, financial institutions, and fintech companies may find it difficult to assess the broader economic implications and potential risks associated with this form of credit. Addressing this gap is essential for promoting responsible lending, ensuring financial stability, and helping consumers make informed borrowing decisions in India's evolving retail credit environment.

2.3 Explicit Contribution and Significance

This study adds to the existing literature by providing a focused analysis of the expansion of no-cost EMI schemes and their influence on consumer spending in India, an area that has not been thoroughly explored. By using secondary data from regulatory bodies, industry reports, and government sources, the study examines growth patterns, sectoral adoption, and changing consumer behaviour associated with interest-free EMI financing.

The findings are valuable for policymakers and regulators, enabling them to better understand the implications of rising household borrowing and to formulate guidelines that ensure financial stability. For banks, NBFCs, and fintech companies, the study provides insights to design responsible lending practices and consumer-friendly credit products.

From an academic perspective, the study enhances understanding of India's credit-driven consumption patterns, contributes to research on retail finance and financial inclusion, and offers a foundation for future studies on the sustainability of innovative consumer credit instruments like no-cost EMI schemes.

3. REVIEW OF LITERATURE

This chapter reviews previous research to understand how the role of consumer credit in India has evolved, particularly with the rise of no-cost EMI schemes. The literature shows a transition from traditional views of credit as a simple tool for meeting financial needs to a more comprehensive understanding that includes behavioural, structural, and technological factors affecting spending decisions. The studies indicate that interest-free instalment schemes are reshaping how consumers make purchases and manage finances.

3.1 Early Understanding: Credit as a Tool to Manage Household Spending

Initially, research on consumer credit in India focused on its role in helping households smooth consumption and manage income fluctuations. Early scholars emphasised that access to formal credit allowed families to afford essential goods and services. At that time, borrowing was largely linked to housing loans and financing of durable items, with EMIs seen mainly as a practical method to spread payments over time.

Consumer behaviour was considered stable, and EMI financing was treated as a uniform mechanism without much variation between borrowers or sectors. Aspirational or discretionary spending was not the main focus, and issues such as repayment stress or behavioural biases received little attention. These early studies provided a static perspective on credit, reflecting a period before retail credit markets expanded rapidly.

3.2 Changing Focus: Growth of No-Cost EMI and Lifestyle Spending

With economic growth and higher disposable incomes, researchers began studying how EMIs influence aspirational purchases and lifestyle consumption. Access to consumer credit allowed middle-class households to purchase products beyond basic needs. Industry reports from RBI, ICRA, and CRISIL highlighted the rise in consumer loans, personal loans, and retail financing.

During this period, no-cost EMI schemes started gaining attention. These plans, often offered by e-commerce platforms and retailers, allowed consumers to make purchases without explicit interest costs. Studies noted that these schemes encourage consumers to buy higher-value items, make discretionary purchases, and spend more freely than with traditional loans. However, most research used short-term or cross-sectional data, limiting understanding of how these trends affected long-term consumer behaviour.

3.3 Role of NBFCs, Fintech, and Digital Platforms

The entry of NBFCs, fintech companies, and digital platforms has transformed consumer credit access. These institutions provide easy-to-use, app-based EMI products that reach young consumers, first-time borrowers, and those underserved by traditional banks. Research shows that digital credit scoring, instant approvals, and online checkout integration have accelerated the adoption of no-cost EMI schemes.

No-cost EMI options are no longer limited to large purchases. They are now available for everyday products such as electronics, educational courses, healthcare services, and online subscriptions. While these changes have increased financial inclusion, scholars also note potential risks like over-borrowing, impulsive spending, and rising defaults among younger consumers.

3.4 Behavioural Aspects and Household Debt

Recent studies increasingly incorporate behavioural finance perspectives to explain credit usage. Research highlights that mental accounting and present bias influence consumer decisions under no-cost EMI schemes. Small monthly payments make the borrowing seem less burdensome, often causing consumers to underestimate their total repayment obligations.

RBI household surveys show rising debt-to-income ratios, suggesting that some consumers may face repayment pressures even when income growth is stable. Marketing strategies, easy digital access, and promotional offers contribute to higher discretionary spending. Scholars argue that while no-cost EMIs increase affordability, they can also encourage over-consumption and create financial vulnerability if borrowers lack adequate financial literacy.

3.5 Research Gap

Despite extensive studies on consumer credit, most research remains fragmented. Previous work often focuses either on institutional credit supply, short-term trends, or behavioural aspects individually. There is limited secondary data analysis that specifically studies no-cost EMI schemes, their growth, sectoral adoption, and direct influence on consumer spending within a unified framework.

The existing literature also treats EMI financing effects as uniform across consumers, whereas evidence suggests that outcomes vary depending on borrower type, sector, and economic conditions. This highlights the need for a comprehensive study that examines the expansion of no-cost EMI schemes and their impact on consumer spending patterns while considering emerging financial risks. The present study addresses this gap using multiple secondary sources to provide a holistic view of how these schemes influence consumption in India.

4. OBJECTIVES OF THE STUDY

a. To explore the expansion and adoption trends of no-cost EMI schemes in India using secondary data sources.

b. To examine the sectoral distribution of no-cost EMI usage across key consumption categories such as consumer electronics, automobiles, housing, education, and digital services.

c. To analyse the role of banks, NBFCs, and digital lending platforms in promoting and facilitating access to no-cost EMI financing for consumers.

d. To assess the impact of no-cost EMI schemes on consumer spending behaviour, household debt, repayment patterns, and overall financial well-being.

5. RESEARCH METHODOLOGY

This study adopts a structured secondary data research methodology to examine the growth and impact of no-cost EMI schemes on consumer spending in India. The approach is both explanatory—aiming to understand the evolving nature of EMI-based consumer borrowing—and analytical, providing evidence-based insights into its implications for household debt, repayment behaviour, and financial stability. By combining a systematic review of existing literature with quantitative analysis of secondary data, the study offers a comprehensive view of trends in India's retail credit market.

5.1 Research Design

The research addresses limitations in existing studies by integrating multiple perspectives into a clear analytical framework. It follows a two-stage approach:

Stage 1: A detailed review of academic literature, government reports, and industry publications. This stage maps the evolution of consumer credit research in India, highlighting how early perspectives saw EMI financing primarily as a tool for managing consumption, while modern studies raise concerns about over-borrowing, financial stress, and behavioural risks. The review identifies key themes, structural changes, and gaps in current research, particularly regarding the rise of no-cost EMI schemes.

Stage 2: Quantitative analysis of secondary data obtained from credible sources such as the Reserve Bank of India (RBI), National Sample Survey (NSS), credit bureaus, and reports from banks and NBFCs. The study employs time-series analysis and comparative trend evaluation to investigate growth patterns, sector-wise adoption, and changes in consumer behaviour related to no-cost EMI financing. This approach captures the dynamic and context-dependent nature of consumer credit usage across economic cycles and institutional frameworks. By integrating literature review with empirical data analysis, the study provides a robust assessment that supports informed policymaking and financial decision-making.

5.2 Data Collection Sources

The study relies entirely on secondary data from multiple reliable sources to ensure a comprehensive and accurate understanding of no-cost EMI schemes and their impact on consumer spending in India. Key sources include:

- Academic Databases**:** Scholarly articles, research papers, and review studies on consumer credit, installment-based financing, digital lending, and household borrowing in India were reviewed. These sources provide insights into consumer behaviour, credit adoption patterns, and financial inclusion.

- Government and Regulatory Publications: Reports and data from regulatory and government institutions such as the RBI, Ministry of Finance, and other official bodies were used. These documents offer reliable information on credit growth, retail lending trends, and policy initiatives affecting EMI-based financing.
- Industry Reports and Market Surveys: Reports from banks, NBFCs, fintech firms, and consulting agencies provided valuable insights into no-cost EMI penetration, consumer preferences, sectoral adoption, and the role of digital platforms in facilitating installment-based credit.
- Financial and Consumer Data Sources: Secondary statistical data on consumer credit growth, loan disbursements, repayment patterns, and interest rates were obtained from publicly available financial databases and institutional publications to support trend analysis.

5.3 Sampling Technique

The study uses a purposive sampling method to select secondary data sources. This non-probability approach involves deliberately choosing research studies, reports, and statistical publications that are directly relevant to no-cost EMI schemes and consumer spending trends in India. Only sources providing empirical evidence, quantitative data, or systematic analyses of retail credit, installment-based financing, and digital lending were included. This sampling technique is appropriate because the goal is not to generalize across all financial literature but to extract relevant, recent, and context-specific insights. By focusing on publications from reputable academic journals, government bodies, and industry sources, the study ensures methodological rigor while capturing important trends and developments in EMI-based consumer credit in India.

5.4 Data Analysis Methods

Alongside reviewing existing literature, the study employs a range of quantitative data analysis methods to examine the expansion of no-cost EMI schemes and their impact on consumer spending in India.

Time series analysis is used to track changes in retail credit growth, loan disbursements, and adoption of no-cost EMI plans over time. This method helps identify long-term trends, cyclical patterns, and structural shifts influenced by economic conditions, digitalization, and regulatory developments.

Regression analysis is applied to investigate relationships between key factors such as income levels, digital payment adoption, interest rates, and the growth of no-cost EMI financing. Where relevant, comparative and ratio analysis is conducted to assess differences in EMI usage across various sectors and to understand shifts in consumer borrowing behaviour. These analytical approaches provide a robust foundation for the study, helping to validate trends in consumer credit growth and the increasing reliance on interest-free, installment-based financing in India.

6. SUMMARY OF FINDINGS

The secondary data analysis reveals several key insights into the changing landscape of consumer credit in India and the growing prominence of no-cost EMI schemes:

- Widespread Adoption of EMI Financing: No-cost EMI schemes have emerged as a major method for consumers to access credit. Their growth is driven by rising consumer expectations, easier access to formal credit, and the increasing availability of installment-based payment options for products and services such as electronics, automobiles, education, healthcare, and digital subscriptions.
- Steady Growth in Retail Credit: Time series data shows a continuous rise in retail lending, with EMI-based loans playing a central role. This expansion has been accelerated by fintech innovations, digital lending platforms, and faster, simplified credit approval processes.

- Influence of Macroeconomic Conditions: The study finds a strong connection between economic conditions and EMI adoption. During periods of financial uncertainty or income pressure, consumers increasingly rely on installment-based financing to manage expenditures and smooth short-term cash flow challenges.
- Changing Consumer Behaviour: Young and urban populations are the key drivers of EMI growth. The appeal of affordable options, quick approvals, and low upfront costs has encouraged higher borrowing, sometimes without a full awareness of long-term repayment obligations.
- Financial Inclusion and Potential Risks: While no-cost EMI schemes have enhanced financial inclusion and increased purchasing power, the findings also highlight rising household indebtedness and the risk of over-leverage. The popularity of digital EMI options has, in some cases, encouraged impulsive borrowing. This underscores the need for responsible lending practices, financial literacy initiatives, and effective regulatory oversight.

7. INTERPRETATION OF FINDINGS: A PROPOSED FRAMEWORK

7.1 A Conditional Framework for No-Cost EMI Usage

Based on the study's findings, a Conditional Framework for No-Cost EMI Usage is proposed to explain consumer borrowing behaviour under two distinct scenarios: Planned Consumption and Credit Stress.

- Planned Consumption: Consumers utilize no-cost EMI schemes in a structured and deliberate manner, consistent with their income levels. This strategy supports affordability, smoothens spending, and maintains manageable household debt. Repayment risks in this regime are relatively low.
- Credit Stress**:** This scenario arises due to external shocks such as income uncertainty, inflation, or rising interest rates. Consumers tend to rely more on EMIs and digital credit to meet immediate needs, leading to rapid debt accumulation and higher default risk.

7.2 Interpretation of Results

The framework indicates that easy access to no-cost EMIs and digital credit can increase borrowing, particularly during periods of financial pressure. What begins as a convenient payment option may evolve into a financial necessity, heightening household vulnerability. These insights suggest that conventional, static assessments of consumer credit risk may underestimate exposure during stressful economic periods, emphasizing the need for continuous credit monitoring and responsible lending practices.

Table 1: Conditional Framework for No-Cost EMI Usage

Dimension	**Planned Consu**
EMI Adoption	Moderate, plann
Consumer Behaviour	Rational, budget-
Household Debt	Manageable, aligned
Default & Delinquency Risk	Low and stable
Role of Digital Credit	Convenience-dri

8. LIMITATIONS OF THE STUDY

While this study provides valuable insights into the expansion of no-cost EMI schemes in India, certain limitations exist:

1. The study relies solely on secondary data, limiting its ability to capture real-time consumer perceptions, attitudes, and borrowing behaviours. Aggregated data may also overlook regional, demographic, and income-based differences in EMI adoption.

2. Rapid innovations in digital lending platforms and evolving regulations may

affect the applicability of some findings over time.

3. The analysis identifies associations and trends but does not establish direct causal relationships between variables.

These limitations suggest that findings should be interpreted cautiously. Future research incorporating primary data and detailed behavioural analysis could provide deeper insights into consumer borrowing behaviour with no-cost EMIs.

9. CONCLUSION AND RECOMMENDATIONS

9.1 Conclusion

The analysis of secondary data indicates that no-cost EMI schemes have become a significant driver of consumer credit in India. Growth is fueled by rising aspirations, increased use of digital payment platforms, and greater credit availability from both traditional banks and NBFCs. EMI financing has expanded beyond durable goods to include everyday purchases such as electronics, fashion, travel, education, and even groceries, reflecting a shift in consumer behaviour where credit is increasingly viewed as a consumption tool rather than a last-resort option.

Digital innovations such as Buy Now Pay Later (BNPL) programs, app-based instant credit, and fintech-driven credit assessments have lowered barriers for younger consumers and first-time borrowers. While these developments enhance financial inclusion and stimulate spending, they also raise concerns about household debt, overborrowing, and limited financial literacy among some consumer segments.

Secondary data trends suggest that, although EMI financing drives consumption growth and broader inclusion, it also exposes weaknesses in credit risk management, particularly in unsecured lending. Delinquencies in digital EMI and BNPL products underscore the need for stronger regulatory oversight and responsible lending practices. Overall, no-cost EMI schemes have become a pivotal component of India's consumer credit ecosystem, offering both opportunities and challenges.

9.2 Recommendations

- Strengthening Financial Literacy**:** Policymakers, financial institutions, and educational bodies should promote consumer financial education, focusing on responsible borrowing, understanding repayment obligations, and long-term debt implications. Clear communication regarding EMI terms, fees, and credit score impacts is essential to prevent over-indebtedness.
- Responsible Lending Practices: Banks, NBFCs, and fintech firms should adopt robust credit assessment methods, balancing growth with risk management. Incorporating alternative data in credit evaluation should be accompanied by careful underwriting to ensure borrowers can meet repayment obligations, particularly for unsecured EMI and BNPL products.
- Enhanced Regulatory Oversight: Regulatory bodies should monitor emerging credit products, especially digital EMI and BNPL models, to ensure transparency, consumer protection, and data security. Standardized disclosure requirements across lenders can increase clarity and foster trust.
- Product Innovation with Safeguards**:** Financial institutions should design EMI products with built-in safety measures such as spending limits, cooling-off periods, and alert systems for repayment difficulties. Flexible repayment options can help consumers navigate temporary financial challenges.
- Future Research Scope: Future studies could incorporate primary research to examine consumer perceptions, behavioural biases, and repayment habits related to EMI usage. Longitudinal studies may also explore the long-term impact of EMI financing on household financial stability.

In summary, while no-cost EMI schemes have significantly expanded consumer credit in India, sustainable growth will depend on informed consumers, responsible lending, and balanced regulatory frameworks.

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