

## **SBI Research**

### **Analysis of SCBs Deposits Growth: This time its different!**

**Banking sector deposit growth since FY22 is at Rs 61 trillion outpacing credit growth at Rs 59 trillion....myth of flagging deposit growth does not stand data scrutiny...CASA deposits are prone to UPI transactions and thus could be moving across the banking system...Growth in Reserve Money, Leakages from the Banking System and Regulatory dispensation could be holding up a faster deposit growth...Important to have a fair treatment of taxes on interest from deposits**

Issue # 13, FY25 19-August-2024

- In FY23, ASCBs registered the highest amount of absolute growth in deposits and credit since 1951-52. Deposits grew by Rs 15.7 lakh crore and credit by Rs 17.8 lakh crore, which pushed the incremental CD Ratio to 113%. The story continued in FY24 (deposits grew by Rs 24.3 lakh crore and credit by Rs 27.5 lakh crore)
- Thus, the myth of a flagging deposit growth appears as just a statistical myth with credit growth outpacing deposit growth being tom-tommed as a deceleration in deposit growth...Incremental deposit growth at Rs 61 trillion has outpaced incremental credit growth at Rs 59 trillion since FY22...what is thus important is the pricing of deposits and not the quantum....
- Historically, there have been episodes of credit and deposit growth divergence persisting for 2 to 4 years...As per a RBI study, we are in the 26<sup>th</sup> month of credit and deposit divergence as on June 24....analysing past data, the end of the divergence cycle could be June 2025 –October 2025..Beyond such time, deposit growth could inch up and credit growth should decelerate significantly which signals a rate reversal cycle.....**growth slowdown to some extent looks on the cards**
- **Another interesting trend in banking system is the decline of CASA deposits** (41.0% in FY24 from 43.5% in FY23) **as SB deposits declined even though it is somewhat aligned to pre-pandemic level of 42%**...additionally with SB deposits now being used as a purely transaction motive and mostly for UPI transactions, the SB deposits now move across the banking system....stability of SB could be an issue
- Further, rising return on term deposits has been driving the compositional shift in bank deposits: the share of term deposits in total deposits has risen **to 59.0% in FY24 from 56.5% in FY23** (to be read with decline in CASA deposits). **On an incremental basis, term deposits accounted for nearly 78% of the total deposits in FY24 though the shares of CASA deposits has declined from its 2023 levels.** This is obvious as in an increasing interest rate scenario, CASA moves to time deposits

- Among the population group-wise, the share of RURAL & URBAN areas in deposits has almost remain flat at ~10% and ~21% respectively during FY14-FY24, while the share of SEMI-URBAN in total deposits has increased to 15.7% in FY24 from 14.3% in FY14...**The trend clearly indicate a compositional shift of deposits from Metro to Semi-urban areas, which may be due to the migration of people to Metro from Semi-Urban areas**
- **PSBs are at the forefront of mobilizing low ticket deposits across the banking spectrum....The average ticket size of SB/Term deposits of Public Sector Banks comes to Rs 72,577... as against Rs 1.60 lakhs of Private Sector Banks and Rs 10.5 lakhs for Foreign Banks...PSBs are also more active in RUSU region...this has also helped deposits by women jump as a mass movement across the banking sector...the SHG linkage is becoming more pronounced**
- **Change in Ownership of deposits of ASCB in the last decade reveal formalization of banking system....** Nonfinancial corporations share has jumped up. Increased share of Government deposits indicate an efficient DBT transfer system with zero leakages

- Clearly, the **Extent of Deposit Growth Problem (or the lack of it!)** & Resources Available with Banks for Lending needs new perspectives...We believe the issue needs to be seen along three pillars namely **Growth in Reserve Money, Leakages and Regulatory Dispensation**
- **Reserve Money (RM) growth has declined to 5.6% YoY in March 2024 as against 7.8% a year ago, which may be due the decline in CIC to 3.9% in FY24, compared to 7.8% in FY23** (withdrawal of Rs 2000 banknotes too contributing to the decline)...also the digitization is resulting in less usage of cash....The yearly growth of RM in the last two fiscals is less than the decadal average growth. This may be one of the reasons for the low deposits growth as base money is not increasing...Further, **Growth in Reserve Money creates Supply of Money in Economy through Money Multiplier**
- Leakages (Efflux) are another interesting perspective to look at deposits growth....SCBs have garnered deposits worth Rs 24.3 trillion in FY24, of which 55% came from households (~Rs 14.1 trillion)...**However, there are leakages from deposits in various forms, as also deposits being appropriated rendering them unavailable for discretionary commercial lending by SCBs....Basis our calculations, the leakages from the system could be around Rs 7.5 trillion under base case scenario, out of which Rs 2.1 lakh crore could be due to tax on interest income on deposits (Rs 76,000 crore) and self assessment tax (Rs 1.29 lakh crore)**
- **Entering the regime of regulatory dispensation slightly unconventionally**, after deducting all the pre-emptive regulations like CRR, SLR, LCR etc, banks are left with only Rs 41.9 for commercial lending with every deposit of Rs 100...Of this Rs 41.9, almost Rs 15 leakage in the form of currency with public + Government cash balances takes place.....In the last 2-years, RBI has tightened many guidelines to ensure banks maintain sufficient liquidity to handle sudden cash outflows. So, the systemic LCR has declined by ~17% to 130% in Mar'24 from 147% in Mar'22....With the new LCR guidelines on digital banking channels, which may become effective from April 1, 2025, may lead to a short-term impact on credit growth
- On a global comparison, **Indian Banks are resilient with clear focus on stable retail deposits as opposed to wholesale deposits globally....this makes it imperative to have a fair and differential tax treatment of retail deposits as opposed to other geographies....**Deciphering ITR returns data, the distribution is more evenly scattered for interest income implying bank deposits benefitting a larger cross section of society across tiers

- Bank deposits, despite faring much better than riskier assets on safety and liquidity aspects, fare low on returns parameter.... **Remarkably 47% of term deposits are now held by Senior Citizens, implying younger cohort is increasingly shying away from traditional avenues like bank deposits... in contrast, median age of all investors in capital markets is now 32 years with ~40% of investors being less than 30 years.. Clearly, in line with MF/equity markets, we are of the considered opinion that Government should tweak the ‘tax on interest on deposits and delink tax treatment at the highest income bucket....and tax treatment should be at redemption and not at accrual basis for bank depositors....**
- The conversion of depositors to investors is gaining currency sure....AMFI data shows MF investor accounts (folios) growing from around 3.95 crore in Mar’14 to 19.10 crore as of June 2024, a jump of near 5X even though the number of unique investors remains around 4.7 crore (June’24) against ~3.83 crore in June’23. This is around half of the investors count for NSE (~10 crore) which signifies those having direct equity exposure could eventually align with MF route (a barrage of NFOs from MFs is pulling in more new faces)
- To see the sensitivity of deposits due to taxes, we used the annual data of per-capita income (PCI) on deposits from 1970-71 to 2023-24 wherein the individual income tax is used as a control variable.....The results indicate that if per-capita income increases by Rs 1000 then deposits will increase by Rs 613 by considering tax as a control variable in the model. Otherwise, deposits could have increased by Rs 652. So, tax has a net impact of 7% on deposits of the banks in India....**This makes the case for sincerely thinking about treating deposits uniformly as a different asset class...Our simulation results show that a uniform tax treatment like a short and long term will have minimal impact on Government revenues....**
- As a counter cyclical measure, we find that in the states with lower per capita income (PCI) than national average the preference is more towards CASA deposits while the % share of term deposits is higher mainly in the states with per capita income higher than national average...The results are quite consistent with the current demographic profile of the states also. We found that the states with per capita income higher than national average have more elder population. Subsequently, these states rely more on term deposits compared to CASA deposits....Such divergences could imply that banks in India in future need to evolve towards products that could cover the life cycle needs of the customer. **Separately, since states in India exhibit different characteristics, it might be a better idea to think of having bespoke products specifically suited to the customers of different states....Possible differentiation types could be along Age based / Geography based / Environmental preferences / Interest rates types –fixed vs floating and new forms of Gold deposits**
- Meeting Net Zero Targets would require substantial channeling of household resources / deposits to finance the transition

# Indian Banking – Policy Reforms & Growth during the Last Decade....



## CHALLENGES

Credit Saturation of Informal Micro entities / Bottom strata

Funding the net-zero Climate Goals

Keeping the pricing curve of lending aligned with economic landscape

## Key Banking Indicators

| Parameters             |         | FY14 | FY20 | FY23 | FY24 | FY24 over FY14 (Times) |
|------------------------|---------|------|------|------|------|------------------------|
| Credit Growth          | (₹ Trn) | 60   | 103  | 137  | 164  | 2.7x                   |
|                        | (YoY%)  | 13.9 | 6.1  | 15.0 | 20.2 |                        |
| Deposits Growth        | (₹ Trn) | 77   | 136  | 180  | 205  | 2.7x                   |
|                        | (YoY%)  | 14.1 | 7.9  | 9.6  | 13.5 |                        |
| Net Profit             | (₹ Bn)  | 809  | 109  | 2632 | 3206 | 4.0x                   |
| CRAR                   | %       | 13.0 | 14.8 | 17.1 | 16.8 | --                     |
| GNPA Ratio             |         | 3.8  | 8.3  | 3.8  | 2.8  |                        |
| NNPA Ratio             |         | 2.1  | 2.9  | 1.0  | 0.6  |                        |
| PCR                    |         | 44.7 | 66.2 | 74.0 | 76.4 |                        |
| Return on Assets (RoA) |         | 0.8  | 0.1  | 1.1  | 1.3  |                        |
| Return on Equity (RoE) |         | 9.5  | 1.2  | 12.3 | 13.8 |                        |
| NIM                    |         | 2.7  | 2.9  | 3.7  | 3.6  |                        |

Source: RBI,SBI Research

|  | FY14   | FY24         |
|--|--------|--------------|
| Total Number of Banks/FIs in India               | 12175  | 9471         |
| <i>of which, PSBs</i>                            | 27     | 12           |
| Private Banks                                    | 20     | 21           |
| Foreign Banks                                    | 43     | 45           |
| Small Finance Banks                              | -      | 11           |
| Payment Banks                                    | -      | 6            |
| RRBs   | 56     | 43           |
| NBFCs  | 12029  | 9327         |
| Total Branches                                   | 123277 | 167671(1.4x) |
| ATMs   | 160055 | 218815(1.4x) |
| Financial Inclusion (Number of PMJDY a/cs in Cr) | -      | 52.99*       |

Consolidation leads to bigger and stronger Banks/FIs (12 PSBs)

New type of Banks opening new vistas for customers on the periphery

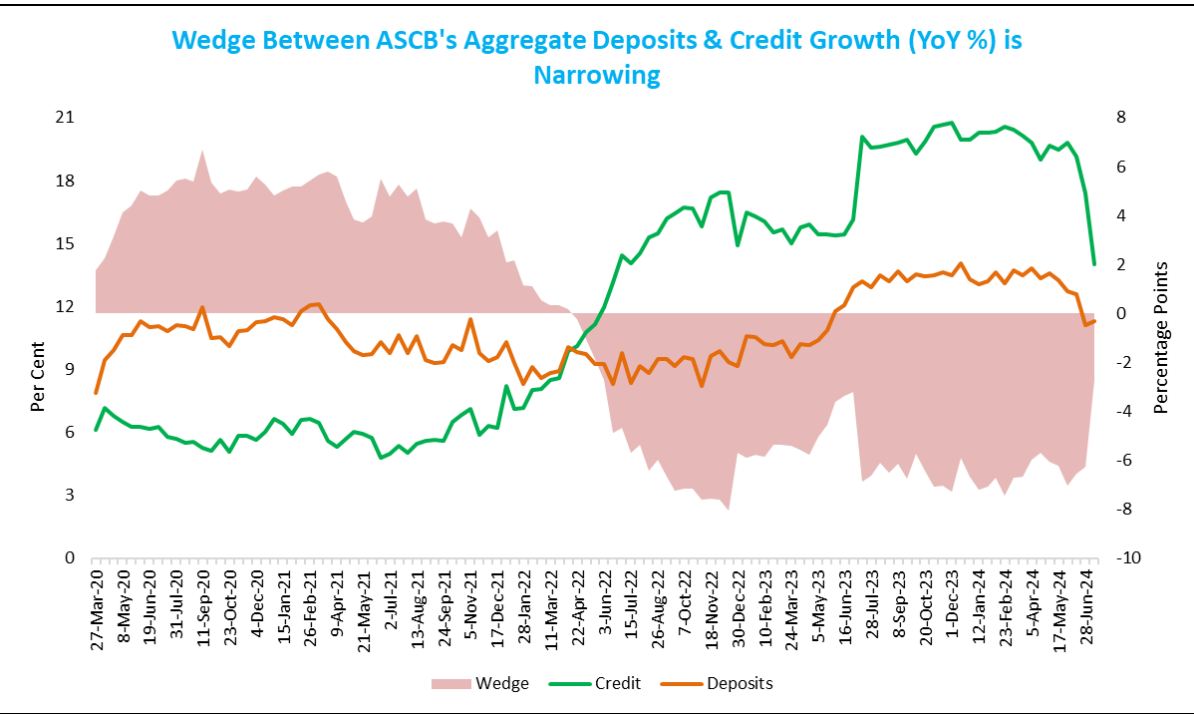
Consolidation leads to more profitable non-Bank players in synergy with Banks

Biggest Financial Inclusion plan in the world to bring the unbanked under ambit of Banking and Social Securities



# The Deposit and Credit growth conundrum: Much ado about nothing /something??

- Its interesting times for the banking system With continued economic activity in post-pandemic period, the credit cycle has reversed in Dec'2021 and continue to grow upward. Deposits growth also reaching an all time high in FY23 but credit growth surpassed deposits due to higher demand for bank credit
- In FY23, ASCBs had registered the highest amount of growth in deposits and credit since 1951-52. Deposits grew by Rs 15.7 lakh crore and credit by Rs 17.8 lakh crore, which has pushed the incremental CD Ratio to 113%. The same story continued in FY24, and deposits grew by Rs 24.3 lakh crore and credit by Rs 27.5 lakh crore. The incremental CD ratio again surpassed 100% and stood at 113%. Thus, the myth of a flagging deposit growth is only a statistical myth with credit growth outpacing deposit growth being tom-tommed as a deceleration in deposit growth...Incremental deposit growth at Rs 61 trillion has outpaced incremental credit growth at Rs 59 trillion since FY22...what is thus important is the pricing of deposits and not the quantum....**
- During FY14 to FY25 (Till July 2024), ASCBs deposits grew by Rs 144 lakh crore, while credit by Rs 116 lakh crore, exactly CD ratio of 79.9%**



| SCBs Deposits & Credit Growth |                    |                 |       |                 |                 |       |                      |          |
|-------------------------------|--------------------|-----------------|-------|-----------------|-----------------|-------|----------------------|----------|
| Year                          | Aggregate Deposits |                 |       | Bank Credit     |                 |       | Incremental CD Ratio | CD Ratio |
|                               | Level (O/S)        | Growth          |       | Level (O/S)     | Growth          |       |                      |          |
|                               | (Rs Lakh crore)    | (Rs Lakh crore) | YoY % | (Rs Lakh crore) | (Rs Lakh crore) | YoY % |                      |          |
| FY14                          | 77                 | 10              | 14.1  | 60              | 7               | 13.9  | 77%                  | 78%      |
| FY15                          | 85                 | 8               | 10.7  | 65              | 5               | 9.0   | 66%                  | 77%      |
| FY16                          | 93                 | 8               | 9.3   | 72              | 7               | 10.9  | 90%                  | 78%      |
| FY17                          | 108                | 14              | 15.3  | 78              | 6               | 8.2   | 41%                  | 73%      |
| FY18                          | 114                | 7               | 6.2   | 86              | 8               | 10.0  | 117%                 | 75%      |
| FY19                          | 126                | 11              | 10.0  | 98              | 11              | 13.3  | 100%                 | 78%      |
| FY20                          | 136                | 10              | 7.9   | 104             | 6               | 6.1   | 60%                  | 76%      |
| FY21                          | 151                | 15              | 11.4  | 109             | 6               | 5.6   | 37%                  | 72%      |
| FY22                          | 165                | 14              | 8.9   | 119             | 9               | 8.6   | 70%                  | 72%      |
| FY23                          | 180                | 16              | 9.6   | 137             | 18              | 15.0  | 113%                 | 76%      |
| FY24                          | 205                | 24              | 13.5  | 164             | 28              | 20.2  | 113%                 | 80%      |
| FY25 (Till 26 Jul)            | 212                | 7               | 11.0  | 168             | 4               | 13.7  | 56%                  | 77%      |

Source: RBI, SBI Research

# As per RBI study, episodes of credit and deposit growth divergence is recurring phenomenon and can persist for 2 - 4 years....

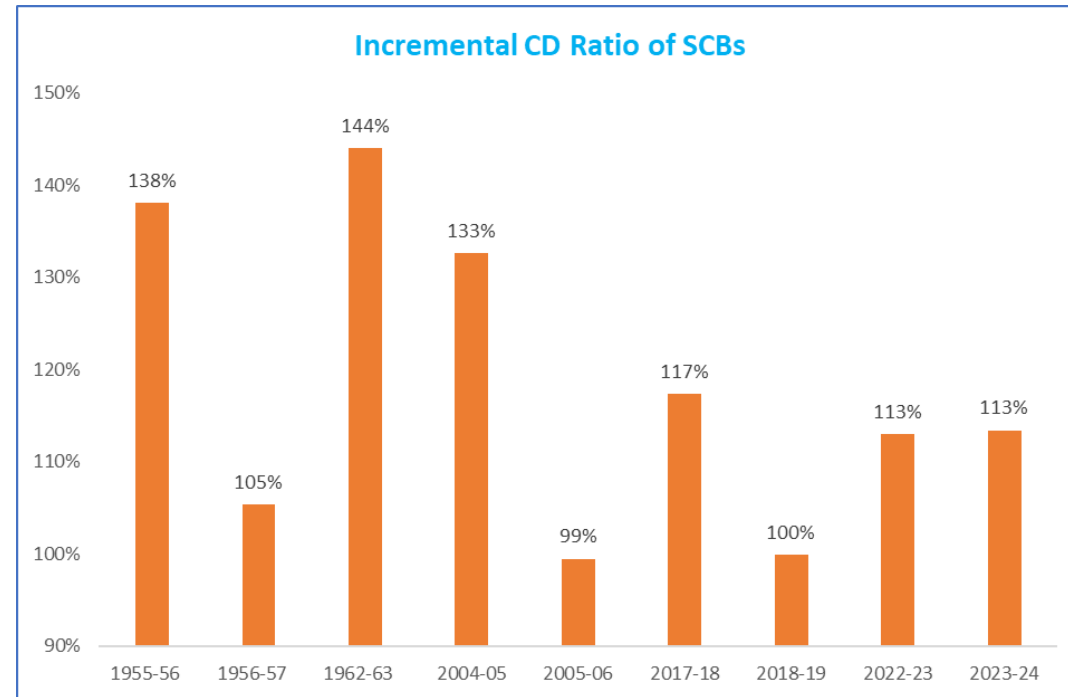
- There have been episodes of credit and deposit growth divergence persisting for 2 to 4 years...
- As per the RBI study, we are in the 26<sup>th</sup> month of credit and deposit divergence as on June 24....going by past data.. taking the outer limit....the end of the divergence cycle could be June 2025 –October 2025..Beyond such time, deposit growth could inch up and credit growth significantly decelerating...this would also mean a rate reversal cycle.....growth slowdown

| Credit and Deposit – Divergence and Convergence |           |                  |  |  |   |                               |   |  |                                |
|---|-----------|------------------|--|--|---|-------------------------------|---|--|--------------------------------|
| Identifying Period                              |           |                  |  | Credit Growth  |   |                               | Deposit Growth  |  |                                |
| Start Month                                     | End Month | Number of Months | Average Growth Gap: Credit Deposit (bps) | Peak of Credit Growth during that period (y-o-y; per cent) | Credit Growth after 12 months after end month (y-o-y; per cent) | Change in Credit Growth (bps) | Deposit Growth in the month when credit growth peaked (y-o-y; per cent) | Deposit Growth after 12 months after end month (y-o-y; per cent) | Change in Deposit Growth (bps) |
| Apr-04  | Jun-07    | 39               | 1071                                     | 36   | 26  | -961                          | 20  | 22   | 232                            |
| Apr-10  | Oct-13    | 43               | 332                                      | 24   | 11  | -1382                         | 17  | 11   | -555                           |
| Nov-17  | Aug-19    | 21               | 432                                      | 15   | 6   | -958                          | 9   | 11   | 173                            |
| Apr-22  | Jun-24    | 26               | 400                                      | 17   | -   | -                             | 13  | -  | -                              |

Source: RBI FSR, Jun'24

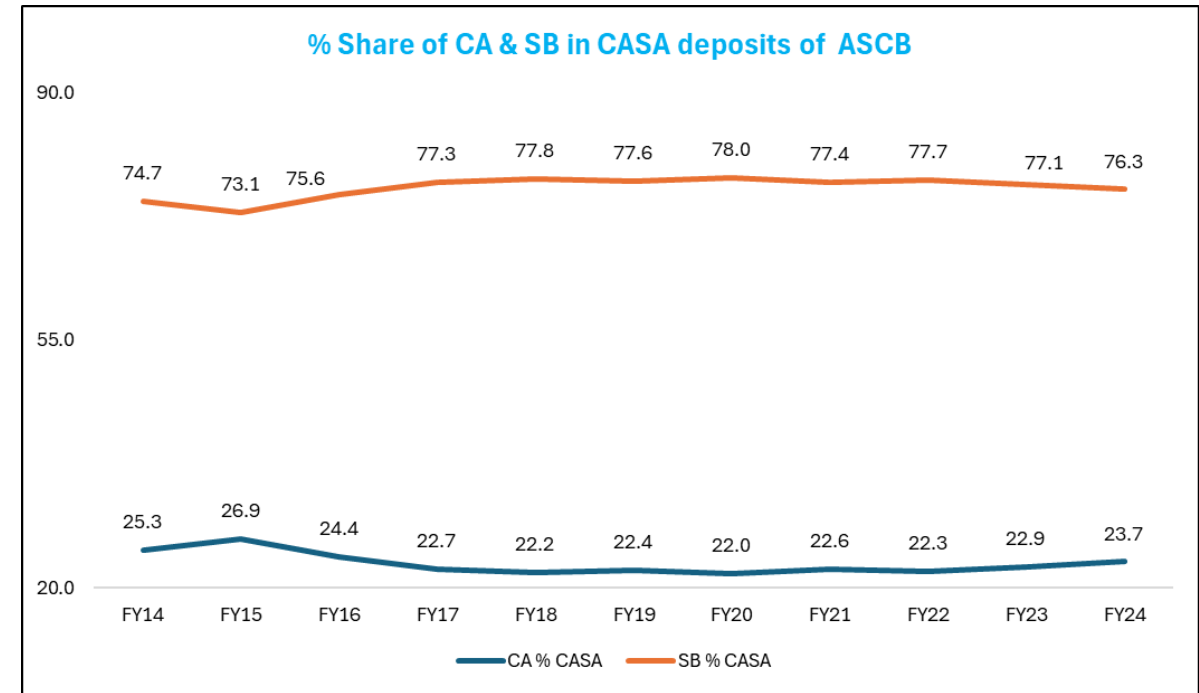
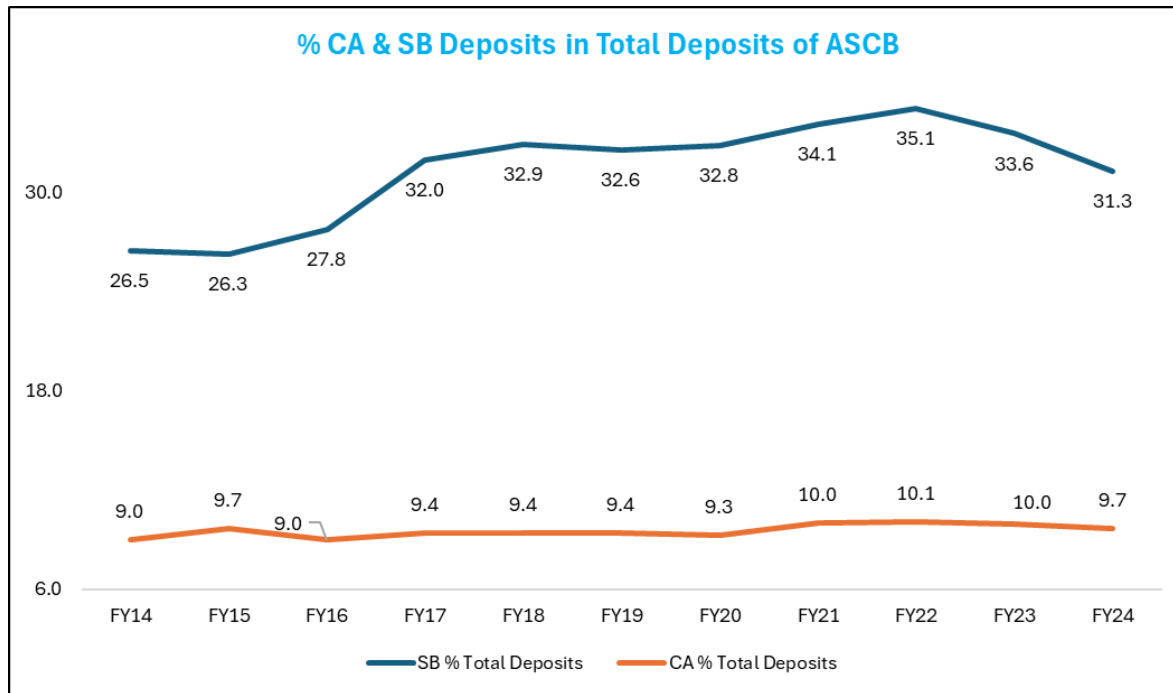
# Does higher CD Ratio Leads to Rise in Interest Rates?

- Since 1950-51, there are 8 instances/year, when the incremental CD ratio has crossed 100% and in 2005-06 it touched 99%
- As bank financed the increasing credit needs of the Economy through other resources, it is expected that both deposits and lendings rates should increase. However, the interest rates in all the years shows a mixed results
- **For example**, during 2017-18 and 2018-19, incremental CD ratio crossed 100% but interest rates of deposits declined first and then increased, which is in line with the movement in policy repo rate and RBI's stance on liquidity
- While, in FY23 & 24, both deposits and lending rates increased, despite RBI's repo rate remains constant at 6.5% since Feb'2023. This may be due to the rise in CRR by RBI to reduce the money supply

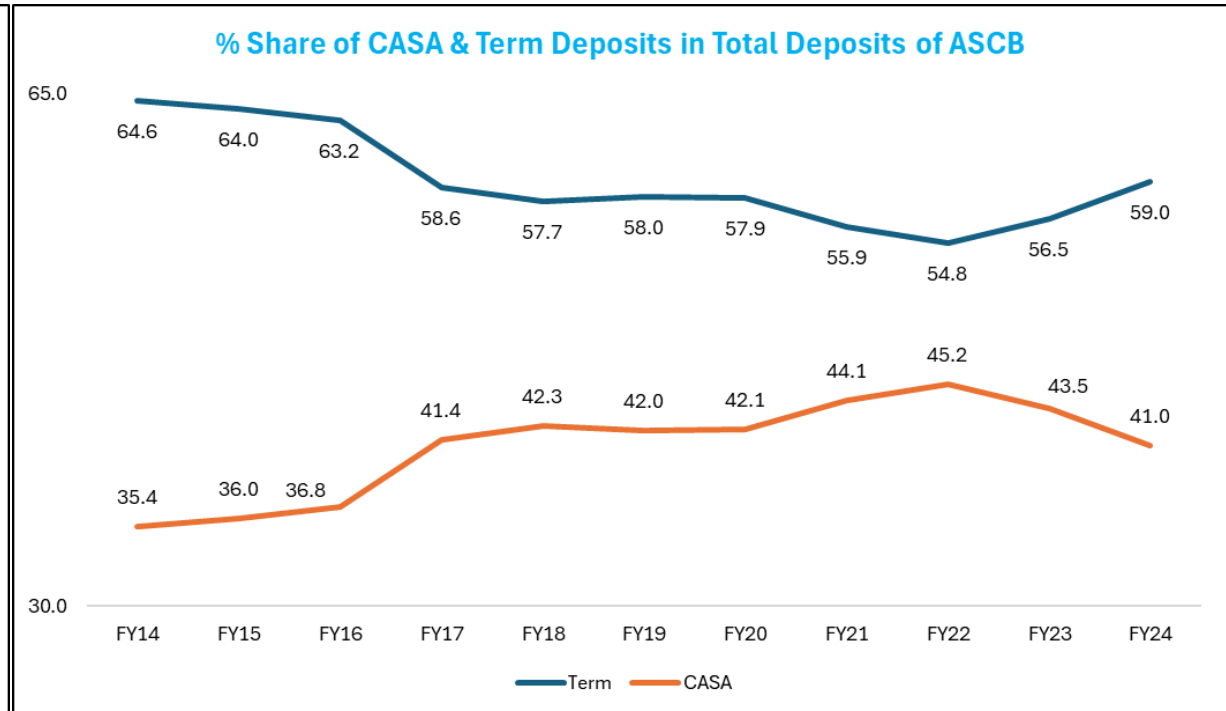
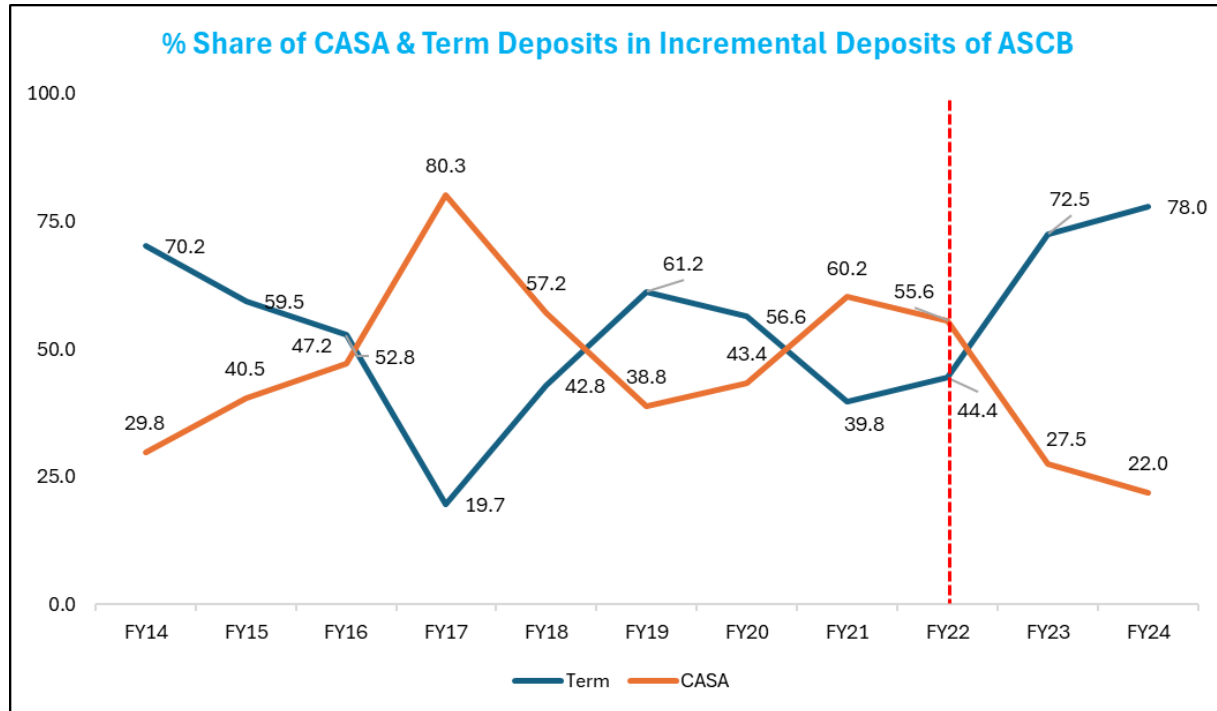


# Compositional Change in CASA Deposits towards CA....

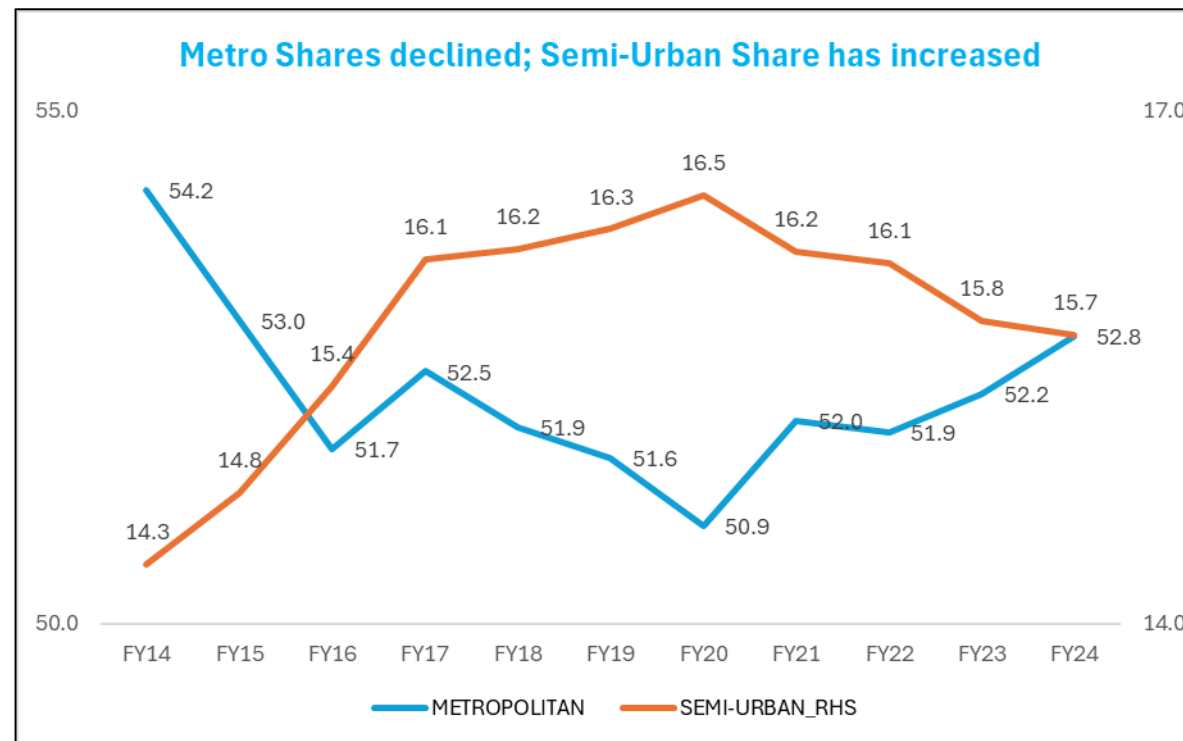
- ❑ CASA deposits declined to 41.0% in FY24 from 43.5% in FY23, mostly due to the 2.5% decline in SB deposits during the same time.... **However, the 41% share is marginally adrift of the pre pandemic level at 42%**
- ❑ CA share in total deposits remain almost flat at 9.7%...while the share of SB deposits in total deposits has increased 4.8% to 31.3% in FY24 from FY14
- ❑ **Within CASA deposits, the share of SB % CASA deposits has increased by 1.6% to 76.3% in FY24 from 74.7% in FY14.**
- ❑ **PMJDY deposits of Rs 2.3 lakh crore also helped banks in rising savings bank deposits**



- ❑ Rising return on term deposits has been driving the compositional shift in bank deposits: the share of term deposits in total deposits increased to 59.0% in FY24 from 56.5% in FY23. **On the other hand, CASA deposits declined to 41% in FY24 from 43.5% in FY23..**
- ❑ **On an incremental basis, term deposits accounted for nearly 78% of the total deposits in FY24 and the shares of CASA deposits has declined..**this is obvious as in an increasing interest rate scenario, CASA moves to time deposits



- Among the population group-wise, the share of RURAL & URBAN in deposits has almost remain flat at ~10% and ~21% respectively during FY14-FY24. While the share of SEMI-URBAN in total deposits has increased to 16.5% in FY20 from 14.3% in FY14, though declined thereafter to 15.7% in FY24. On the other hand, deposits share in METRO has declined to 50.9% in FY20 from 54.2% in FY14 and now at 52.8% in FY24
- **The trend clearly indicate a compositional shift of deposits from Metro to Semi-urban areas, which may be due to the migration of people to Metro from Semi-Urban areas**



- % share in deposits O/S has declined in States like Maharashtra, Delhi, West Bengal and totaling to 579 bps from FY14 to FY24
- However, states like Haryana, Karnataka, UP, Rajasthan, Gujarat, Odisha, Kerala, Andhra Pradesh, Telangana, Uttarakhand, MP and Bihar , % share in total deposits has increased from FY14 to FY24
- **Migration in no of deposits accounts shifted from major states like Andhra Pradesh, Tamil Nadu, Karnataka, and Maharashtra to Delhi, Bihar, Haryana, Rajasthan, Madhya Pradesh etc.**

| State wise % share in Deposits amount and accounts |                           |        |               |                        |        |               |
|--|---------------------------|--------|---------------|------------------------|--------|---------------|
| States   | Outstanding deposits(amt) |        |               | Deposits accounts (no) |        |               |
|  | Mar-24                    | Mar-14 | Change in bps | Mar-24                 | Mar-14 | Change in bps |
| Maharashtra  | 22.0%                     | 25.5%  | -354          | 10.1%                  | 11.1%  | -101          |
| Nct Of Delhi                                       | 8.7%                      | 10.2%  | -151          | 5.8%                   | 3.0%   | 274           |
| Uttar Pradesh                                      | 8.2%                      | 7.5%   | 70            | 13.9%                  | 13.8%  | 16            |
| Karnataka  | 7.9%                      | 6.7%   | 117           | 5.6%                   | 6.6%   | -103          |
| Tamil Nadu   | 6.3%                      | 6.3%   | 4             | 6.5%                   | 8.0%   | -147          |
| Gujarat  | 5.6%                      | 5.2%   | 41            | 4.6%                   | 5.3%   | -72           |
| West Bengal  | 5.4%                      | 6.0%   | -65           | 7.0%                   | 6.9%   | 16            |
| Kerala   | 3.8%                      | 3.5%   | 24            | 3.6%                   | 4.3%   | -73           |
| Haryana  | 3.7%                      | 2.4%   | 128           | 4.5%                   | 2.6%   | 190           |
| Telangana  | 3.7%                      | 3.5%   | 19            | 3.0%                   | 4.0%   | -96           |
| Rajasthan  | 3.2%                      | 2.5%   | 63            | 4.6%                   | 3.9%   | 66            |
| Madhya Pradesh                                     | 2.9%                      | 2.8%   | 8             | 5.0%                   | 4.7%   | 37            |
| Punjab   | 2.9%                      | 2.9%   | 1             | 2.9%                   | 3.3%   | -44           |
| Bihar  | 2.5%                      | 2.4%   | 7             | 6.0%                   | 4.5%   | 157           |
| Odisha   | 2.5%                      | 2.1%   | 39            | 3.1%                   | 2.9%   | 19            |
| Andhra Pradesh                                     | 2.3%                      | 2.0%   | 24            | 3.8%                   | 5.6%   | -173          |
| Jharkhand  | 1.6%                      | 1.5%   | 7             | 2.2%                   | 2.0%   | 15            |
| Chhattisgarh                                       | 1.1%                      | 1.1%   | 4             | 1.8%                   | 1.4%   | 35            |
| Uttarakhand  | 1.0%                      | 1.0%   | 9             | 0.9%                   | 1.0%   | -7            |
| Assam  | 1.0%                      | 1.1%   | -2            | 2.2%                   | 1.8%   | 41            |
| Jammu & Kashmir                                    | 0.8%                      | 0.8%   | -1            | 0.9%                   | 1.1%   | -12           |
| Himachal Pradesh                                   | 0.7%                      | 0.7%   | 5             | 0.6%                   | 0.8%   | -13           |
| Goa  | 0.5%                      | 0.6%   | -4            | 0.2%                   | 0.4%   | -15           |
| Tripura  | 0.2%                      | 0.2%   | 1             | 0.2%                   | 0.3%   | -7            |
| Meghalaya  | 0.2%                      | 0.2%   | -2            | 0.1%                   | 0.1%   | 0             |
| Puducherry   | 0.1%                      | 0.1%   | 2             | 0.1%                   | 0.2%   | -3            |
| Arunachal Pradesh                                  | 0.1%                      | 0.1%   | 4             | 0.1%                   | 0.1%   | 1             |
| Nagaland   | 0.1%                      | 0.1%   | 0             | 0.1%                   | 0.1%   | 0             |
| Mizoram  | 0.1%                      | 0.1%   | 1             | 0.1%                   | 0.1%   | 1             |
| Manipur  | 0.1%                      | 0.1%   | 1             | 0.1%                   | 0.1%   | 3             |
| Sikkim   | 0.1%                      | 0.1%   | 0             | 0.0%                   | 0.1%   | 0             |

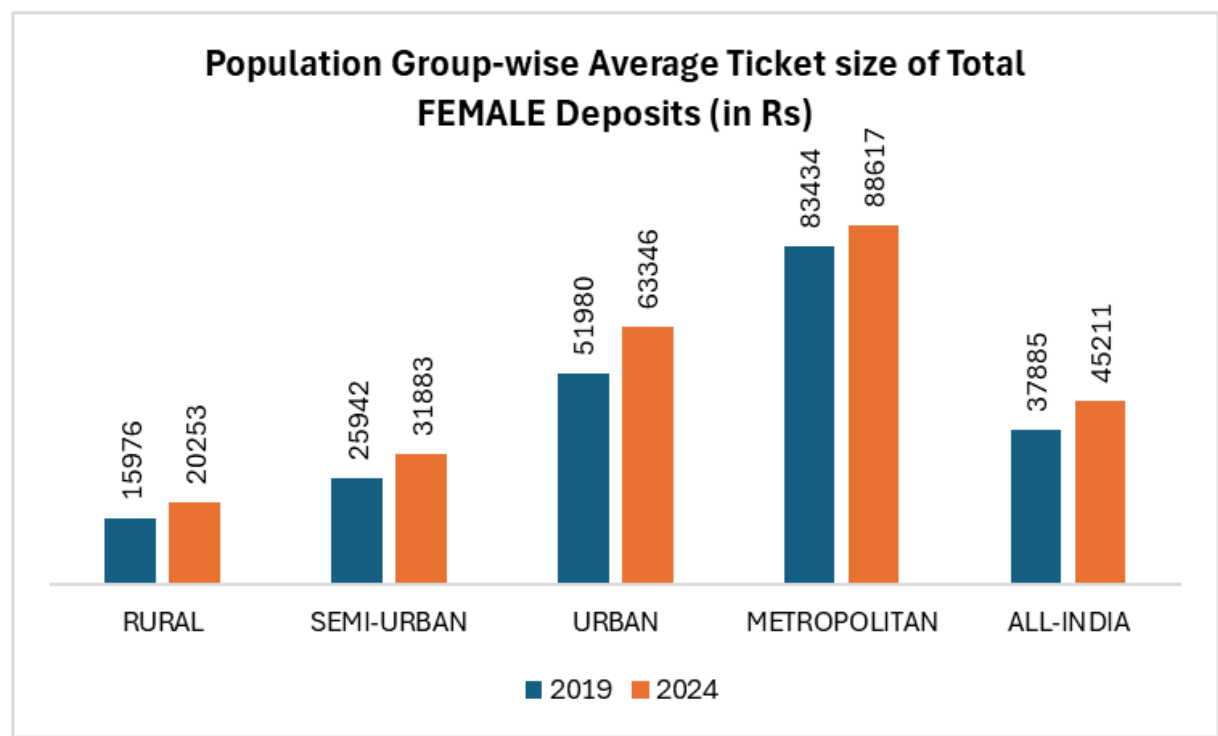
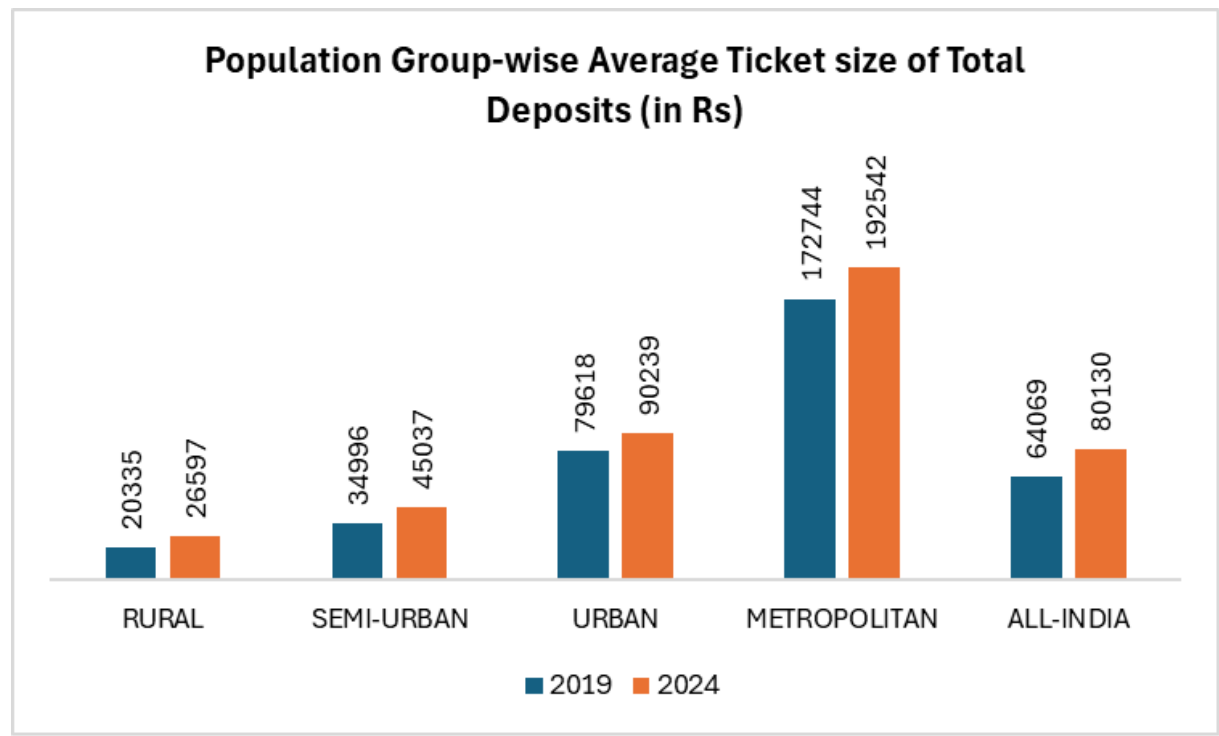


- Government has made a strong pitch recently for banks to find novel ways to attract deposits, advocating a return to the ‘old-fashioned approach’ of raising small sums from many savers rather than pursuing bulk corporate deposits that might constitute ‘very lazy’ banking habits eventually
- **The average ticket size of SB/Term deposits of Public Sector Banks are Rs 72,577... as against Rs 1.60 lakhs of Private Sector Banks and Rs 10.5 lakhs for Foreign Banks...Thus PSBs are at the forefront of mobilizing low ticket deposits across the banking spectrum....**

| Bank Group-wise Average Ticket Size of Deposits (in Rs) |              |              |             |               |                 |               |                |              |              |
|---|--------------|--------------|-------------|---------------|-----------------|---------------|----------------|--------------|--------------|
| Major States  | SB Deposits  |              |             | Term Deposits |                 |               | Total Deposits |              |              |
|   | 2024         | 2019         | Change      | 2024          | 2019            | Change        | 2024           | 2019         | Change       |
| Public Sector Banks                                     | 30319        | 23532        | 6787        | 413717        | 250318.5        | 163398        | 72577          | 56001        | 16575        |
| Private Sector Banks                                    | 59041        | 48255        | 10786       | 561182        | 494716.8        | 66466         | 160854         | 129949       | 30905        |
| Foreign Banks   | 93505        | 118826       | -25321      | 2288756       | 3481918         | -1193162      | 1048079        | 864540       | 183539       |
| Regional Rural Banks                                    | 12529        | 9625         | 2904        | 173936        | 111360.4        | 62576         | 21522          | 16861        | 4661         |
| Small Finance Banks                                     | 15813        | 10614        | 5198        | 321402        | 395139          | -73737        | 48542          | 49036        | -494         |
| Payments Banks  | 890          | -            | -           |               |                 | -             | 888            | -            | -            |
| <b>ASCBs</b>  | <b>30059</b> | <b>25056</b> | <b>5003</b> | <b>457471</b> | <b>295122.7</b> | <b>162348</b> | <b>80130</b>   | <b>64069</b> | <b>16061</b> |

Source: RBI; SBI Research

- ❑ The rural and semi-urban (RUSU) areas have almost 60% of total bank branches, with PSBs have the largest chunk in it.....**RUSU region is where most small ticket deposits are garnered by banks**
- ❑ **The average ticket size of rural and semi-urban region is ~25% and 50% of urban region, respectively....Same trend is visible in the case of female depositors**



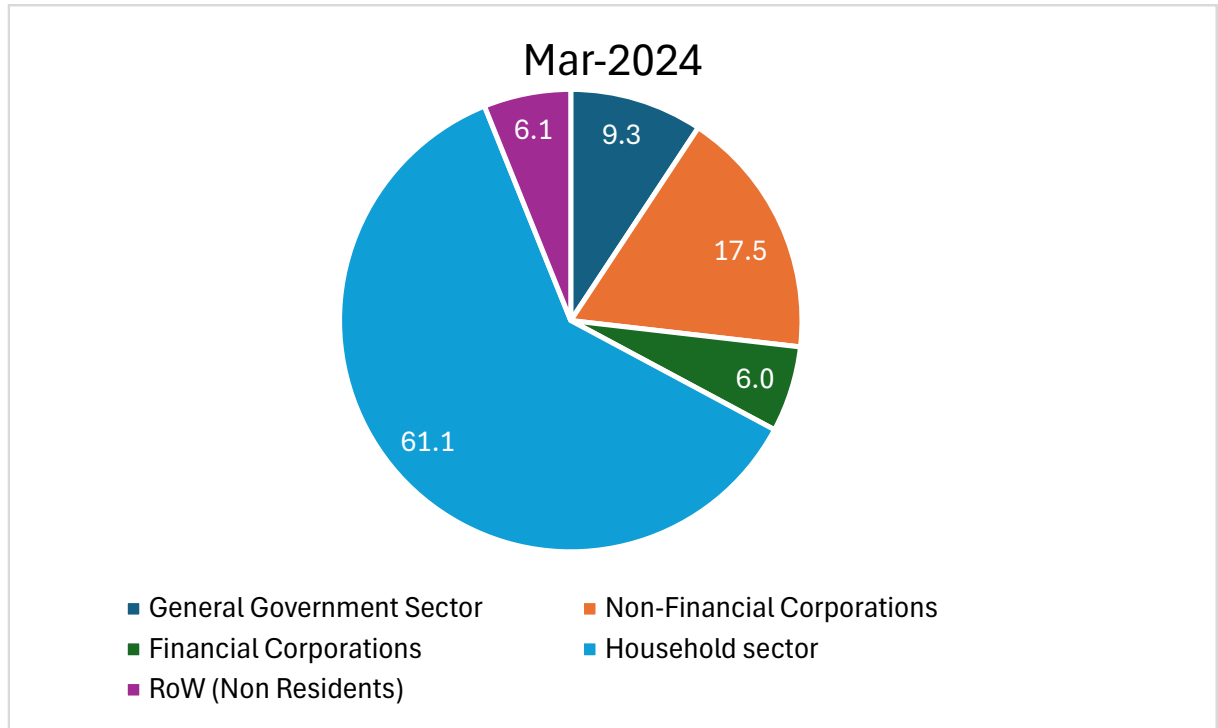
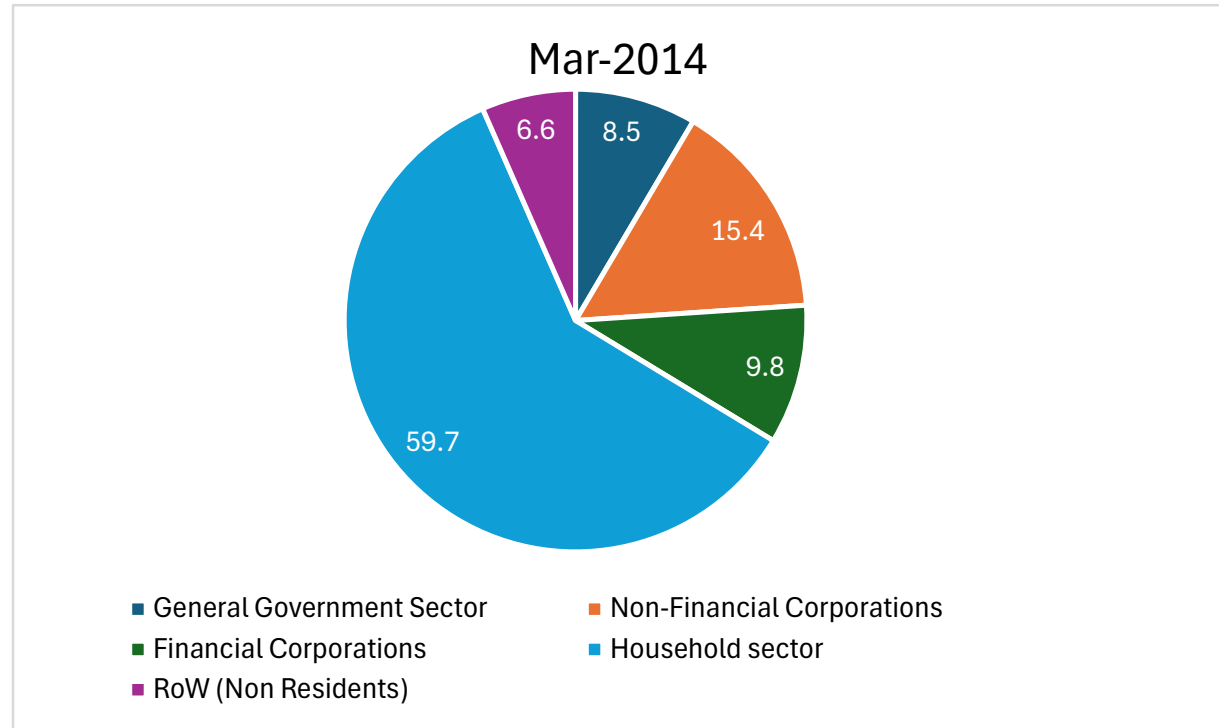
## Average ticket size of SB/TD in most of the states are less than national average

- Our analysis of state-wise average ticket size of SB deposits indicate that out of 23 major states, in 14 states the average ticket size is less than the national average in 2024
- In the case of Term deposits only 5 states out of 23 states have average ticket size more than national average
- This clearly indicate that it is still the small savers that are in preponderance in the banking system.....with the efforts of PSBs...**

| State-wise Average Ticket Size of Deposits (in Rs) |              |              |             |               |               |               |                |              |              |
|--|--------------|--------------|-------------|---------------|---------------|---------------|----------------|--------------|--------------|
| Major States                                       | SB Deposits  |              |             | Term Deposits |               |               | Total Deposits |              |              |
|  | 2024         | 2019         | Change      | 2024          | 2019          | Change        | 2024           | 2019         | Change       |
| Andhra Pradesh                                     | 21419        | 14934        | 6486        | 282811        | 191732        | 91079         | 47273          | 32775        | 14498        |
| Assam  | 22279        | 20020        | 2259        | 238781        | 165298        | 73483         | 38183          | 35871        | 2312         |
| Bihar  | 21596        | 18653        | 2943        | 215905        | 127073        | 88833         | 32814          | 28059        | 4755         |
| Chhattisgarh                                       | 28838        | 18960        | 9878        | 286767        | 165940        | 120827        | 52027          | 35959        | 16069        |
| Delhi  | 29712        | 71780        | -42068      | 854682        | 681171        | 173510        | 121428         | 237975       | -116546      |
| Goa  | 70620        | 49311        | 21310       | 404334        | 278505        | 125829        | 172807         | 123016       | 49791        |
| Gujarat  | 39388        | 28699        | 10689       | 370808        | 221330        | 149478        | 99031          | 68333        | 30697        |
| Haryana  | 24212        | 39015        | -14803      | 525372        | 312624        | 212748        | 66749          | 79964        | -13215       |
| Himachal Pradesh                                   | 44469        | 36807        | 7662        | 262440        | 187674        | 74766         | 89527          | 70949        | 18579        |
| Jammu & Kashmir                                    | 38264        | 29163        | 9102        | 261953        | 187487        | 74466         | 71259          | 54532        | 16727        |
| Jharkhand  | 28212        | 22007        | 6206        | 342703        | 208480        | 134223        | 58665          | 47868        | 10797        |
| Karnataka  | 39240        | 27193        | 12047       | 531897        | 326160        | 205737        | 113597         | 74679        | 38918        |
| Kerala   | 29661        | 25110        | 4551        | 450792        | 336086        | 114706        | 85076          | 67455        | 17621        |
| Madhya Pradesh                                     | 21855        | 16776        | 5079        | 284725        | 157883        | 126842        | 46343          | 34961        | 11382        |
| Maharashtra  | 41792        | 31324        | 10468       | 853695        | 631590        | 222104        | 174487         | 131784       | 42702        |
| Odisha   | 28645        | 22450        | 6195        | 341467        | 214203        | 127264        | 64024          | 49825        | 14200        |
| Punjab   | 40062        | 31100        | 8962        | 360503        | 245881        | 114623        | 80753          | 63706        | 17047        |
| Rajasthan  | 26569        | 20246        | 6323        | 303523        | 209101        | 94422         | 55589          | 41451        | 14138        |
| Tamil Nadu   | 28418        | 22028        | 6390        | 451400        | 276000        | 175400        | 77474          | 56619        | 20856        |
| Telangana  | 35766        | 26034        | 9732        | 600123        | 351692        | 248431        | 97526          | 67379        | 30147        |
| Uttar Pradesh                                      | 25271        | 21900        | 3371        | 300470        | 183181        | 117289        | 47297          | 38540        | 8757         |
| Uttarakhand  | 49893        | 35863        | 14030       | 300474        | 223617        | 76857         | 91758          | 70429        | 21329        |
| West Bengal  | 26056        | 22230        | 3826        | 294926        | 188928        | 105998        | 61166          | 52878        | 8288         |
| <b>All-India</b>                                   | <b>30059</b> | <b>25056</b> | <b>5003</b> | <b>457471</b> | <b>295123</b> | <b>162348</b> | <b>80130</b>   | <b>64069</b> | <b>16061</b> |

Source: RBI; SBI Research

- There has been a change in the ownership of deposits in the last 10 years with a shift in deposit base towards non-financial corporations and government sector
- The share of non-residents has declined in FY24 compared to FY14



# **The Extent of Deposit Growth Problem or the lack of it & Resources Available with Banks for Lending**

- ❑ Growth in Reserve Money
- ❑ Leakages
- ❑ Regulatory Dispensation

# Growth in Reserve Money

- Reserve Money (M0) is sum of primarily 2-components: (i) Currency in Circulation (CIC); (ii) Bankers' Deposits with RBI /Cash Reserves by Banks held with RBI as regulatory dispensation (R)...(*...Other' Deposits with RBI also counted is minimal....*)
- To produce Demand Deposits, counted at money at par with currency, banks have to maintain R, a part of Base Money.... **Reserve Money (RM) growth has declined to 5.6% YoY in March 2024 as against 7.8% a year ago, which may be due the decline in CIC to 3.9% in FY24, compared to 7.8% in FY23...**The decline in CIC was due to the withdrawal of Rs 2000 banknotes....also the digitization is resulting less usage of cash....
- The yearly growth of RM in the last two fiscals is less than the decadal average growth This may be one of the reason for the low deposits growth as base money is not increasing

| Reserve Money and components (Rs Lakh Crore) |               |       |                         |       |                            |       |
|--|---------------|-------|-------------------------|-------|----------------------------|-------|
| FY   | Reserve Money | YoY%  | Components of RM        |       |                            |       |
|  |               |       | Currency in Circulation | YoY%  | Bankers' Deposits with RBI | YoY%  |
| FY12   | 14.3          | 3.6   | 10.7                    | 12.4  | 3.6                        | -15.9 |
| FY13   | 15.1          | 6.2   | 11.9                    | 11.6  | 3.2                        | -10.0 |
| FY14   | 17.3          | 14.4  | 13.0                    | 9.2   | 4.3                        | 34.0  |
| FY15   | 19.3          | 11.3  | 14.5                    | 11.3  | 4.7                        | 8.3   |
| FY16   | 21.8          | 13.1  | 16.6                    | 14.9  | 5.0                        | 7.8   |
| FY17   | 19.0          | -12.9 | 13.4                    | -19.7 | 5.4                        | 8.4   |
| FY18   | 24.2          | 27.3  | 18.3                    | 37.0  | 5.7                        | 3.9   |
| FY19   | 27.7          | 14.5  | 21.4                    | 16.8  | 6.0                        | 6.4   |
| FY20   | 30.3          | 9.4   | 24.5                    | 14.5  | 5.4                        | -9.6  |
| FY21   | 36.0          | 18.8  | 28.5                    | 16.6  | 7.0                        | 28.5  |
| FY22   | 40.7          | 13.0  | 31.3                    | 9.8   | 8.8                        | 25.4  |
| FY23   | 43.9          | 7.8   | 33.8                    | 7.8   | 9.3                        | 6.1   |
| FY24   | 46.3          | 5.6   | 35.1                    | 3.9   | 10.3                       | 10.2  |
| Average (ex FY17 & FY18)                     | 28.4          | 10.7  | 21.9                    | 11.7  | 6.1                        | 8.3   |
| Source: RBI; SBI Research                    |               |       |                         |       |                            |       |



- In its simplest form, the money-multiplier approach is based on

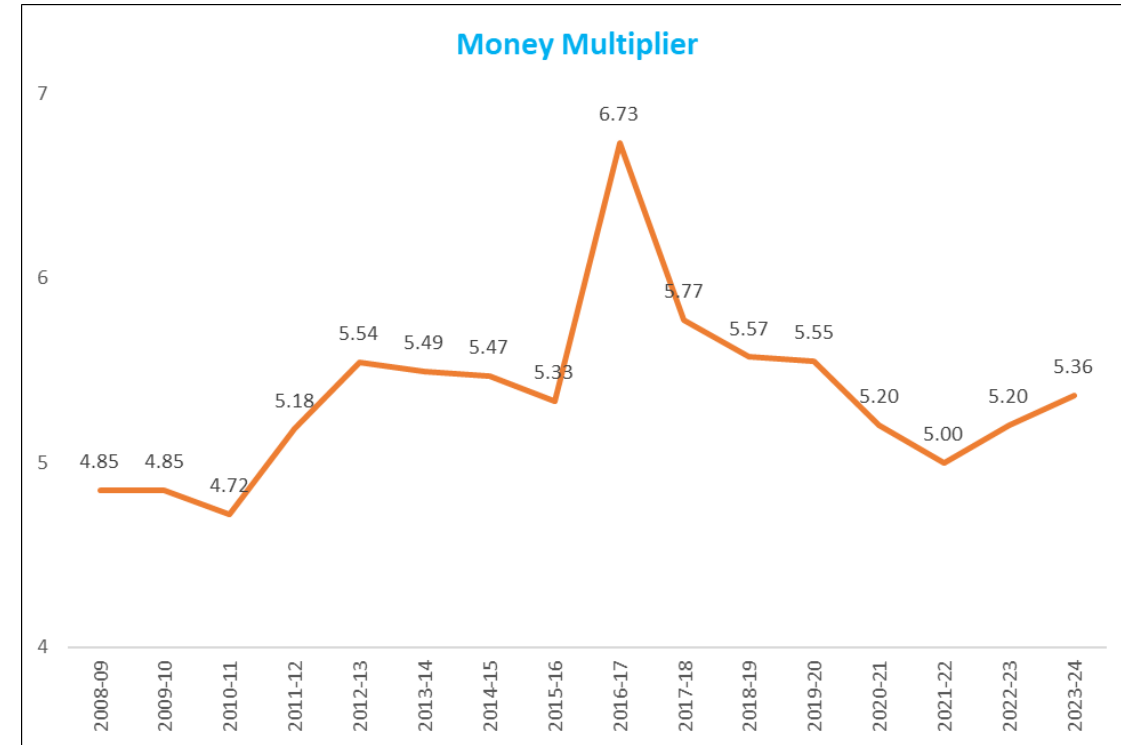
$$M3 = m * M0$$

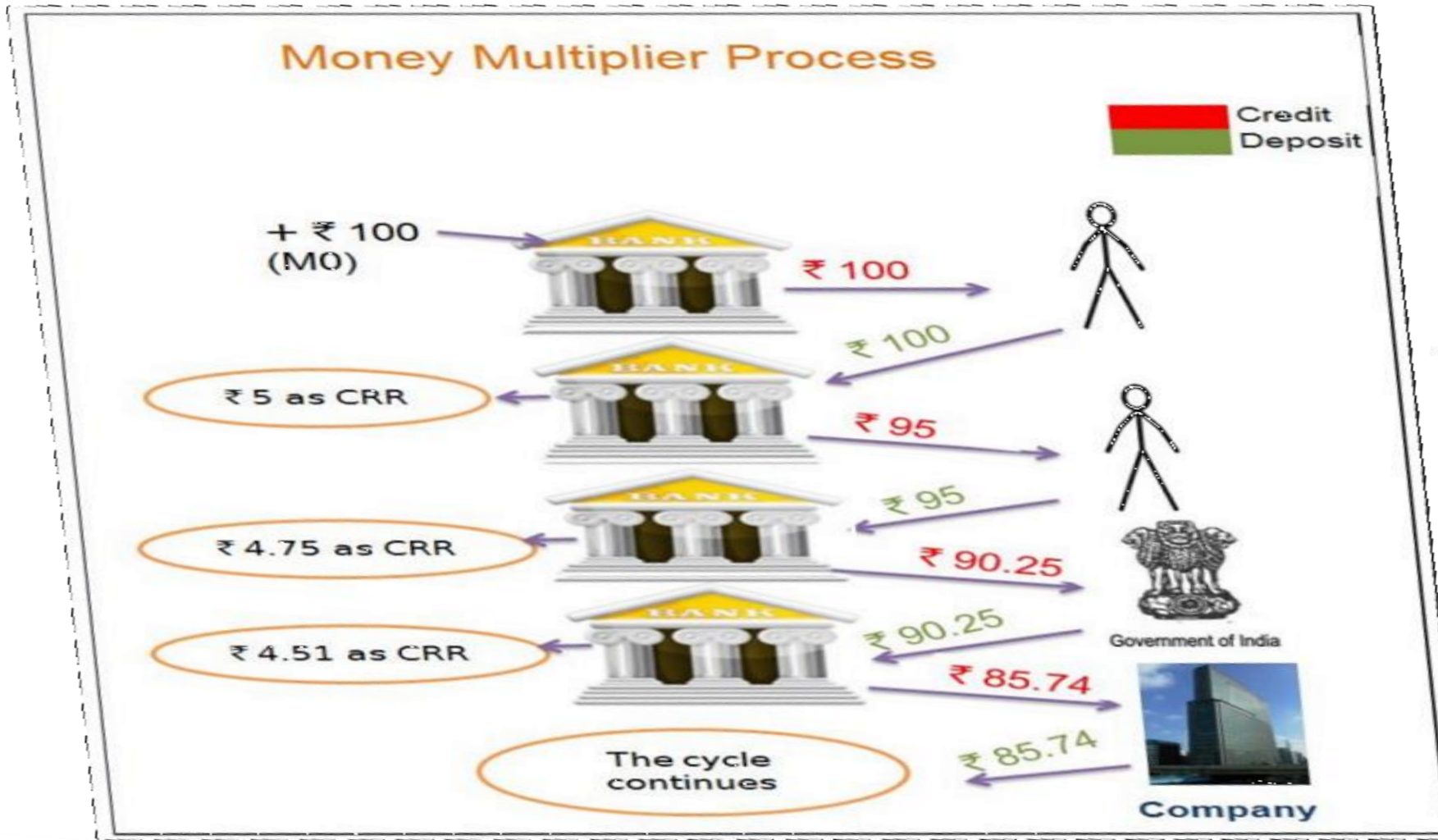
Where, M3: Money Supply, m : Money Multiplier and M0 : Reserve Money

$$m = \frac{1+c}{c+r(1+t)}, \text{ or } m = M3/M0$$

Where, *c* is *currency-deposit ratio*, *r* is *reserve requirement ratio* and *t* is *ratio of time deposits to demand deposits*

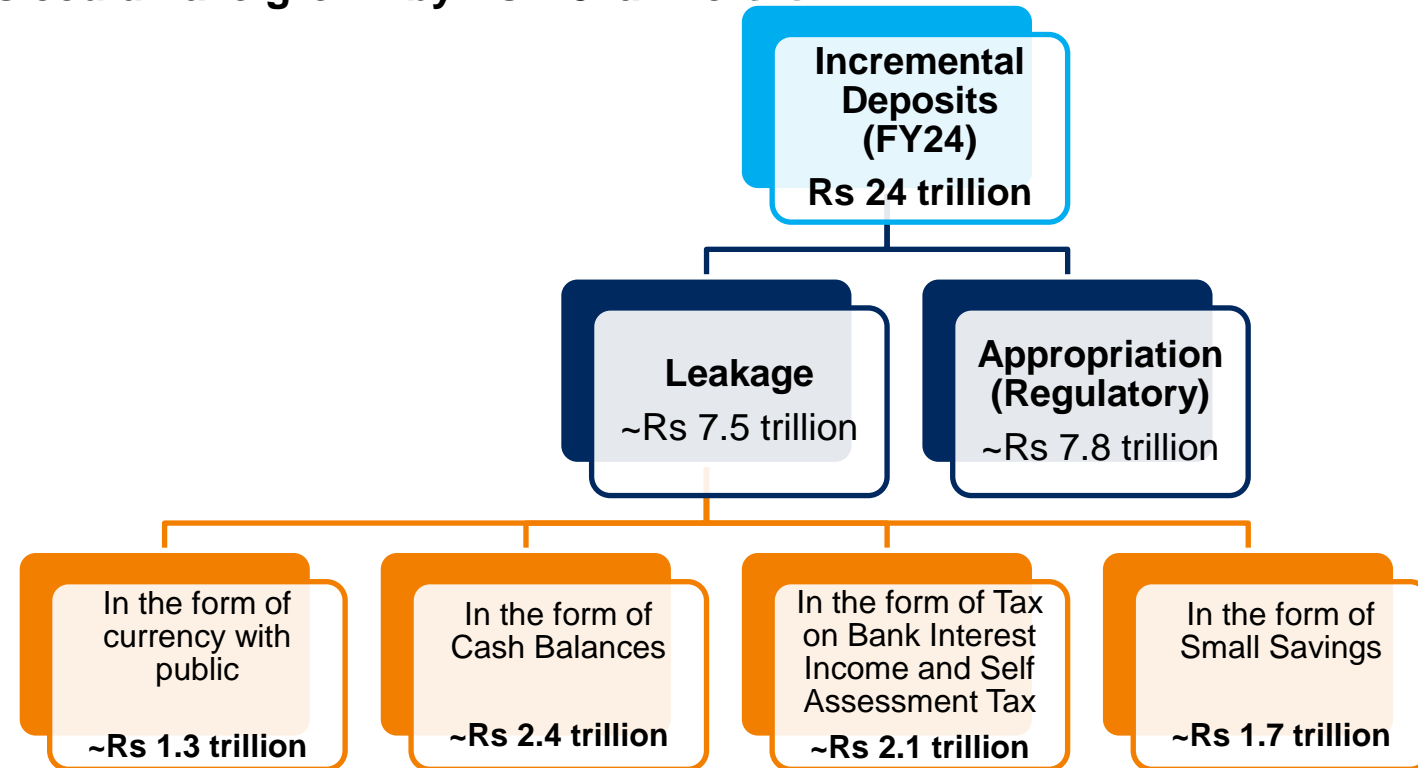
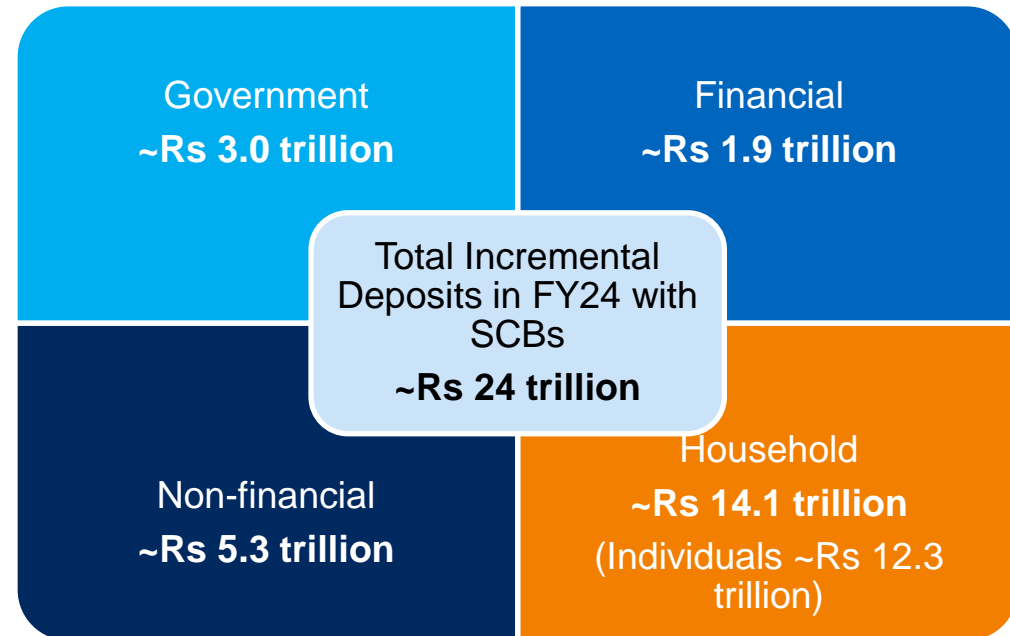
- An increase in 'r' leads to a **decline** in the money multiplier and vice versa, an increase in "c" leads to a **decline** in money multiplier, an increase in t leads to an **increase** in money multiplier





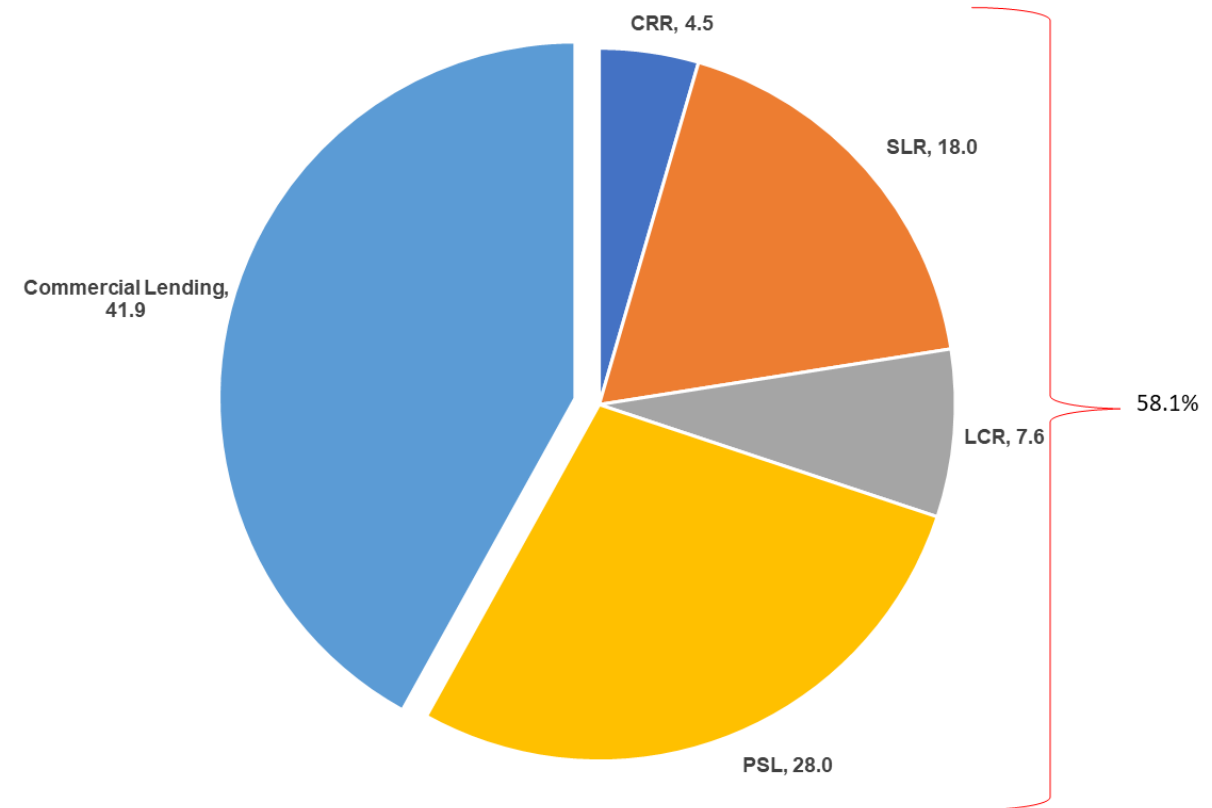
# Leakages

- ❑ SCBs have garnered deposits worth Rs 24 trillion in FY24, of which 55% came from households (~Rs 14.1 trillion)
- ❑ **However, there are leakages (Efflux) from deposits in various forms, as also deposits being appropriated rendering them unavailable for discretionary commercial lending by SCBs**
- ❑ Basis our calculations, the efflux from the system could be around Rs 7.5 trillion under base case scenario, out of which Rs 2.1 lakh crore due to tax on interest income on deposits (Rs 76,000 crore) and self assessment tax (Rs 1.29 lakh crore). **If this tax of Rs 2.1 lakh crore not happened, then deposits could have grown by Rs 2.5 lakh crore**



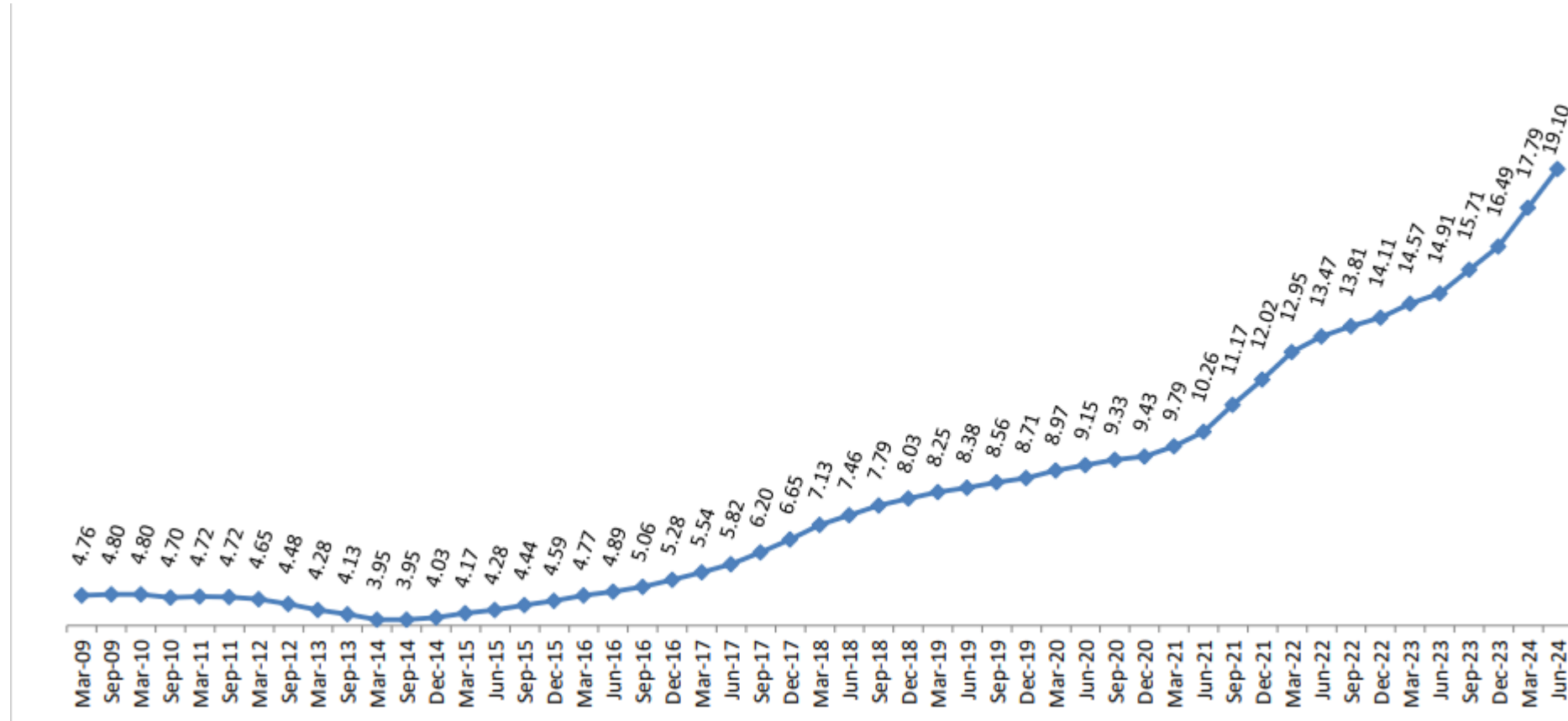
# Regulatory Dispensation

- ❑ **After deducting all the pre-emptive regulations like CRR, SLR, LCR etc, banks left with only Rs 41.9 for commercial lending with every deposit of Rs 100**
  - Of this Rs 41.9, almost Rs 15 leakage is in the form of currency with public + Government cash balances
- ❑ In the last 2-years, RBI has tightened many guidelines to ensure banks maintain sufficient liquidity to handle sudden cash outflows. So, the systemic LCR has declined by 17% to 130% in Mar'24 from 147% in Mar'22
- ❑ With the new LCR guidelines on digital banking channels, which may become effective from April 1, 2025, may lead to a short-term slowdown in credit growth



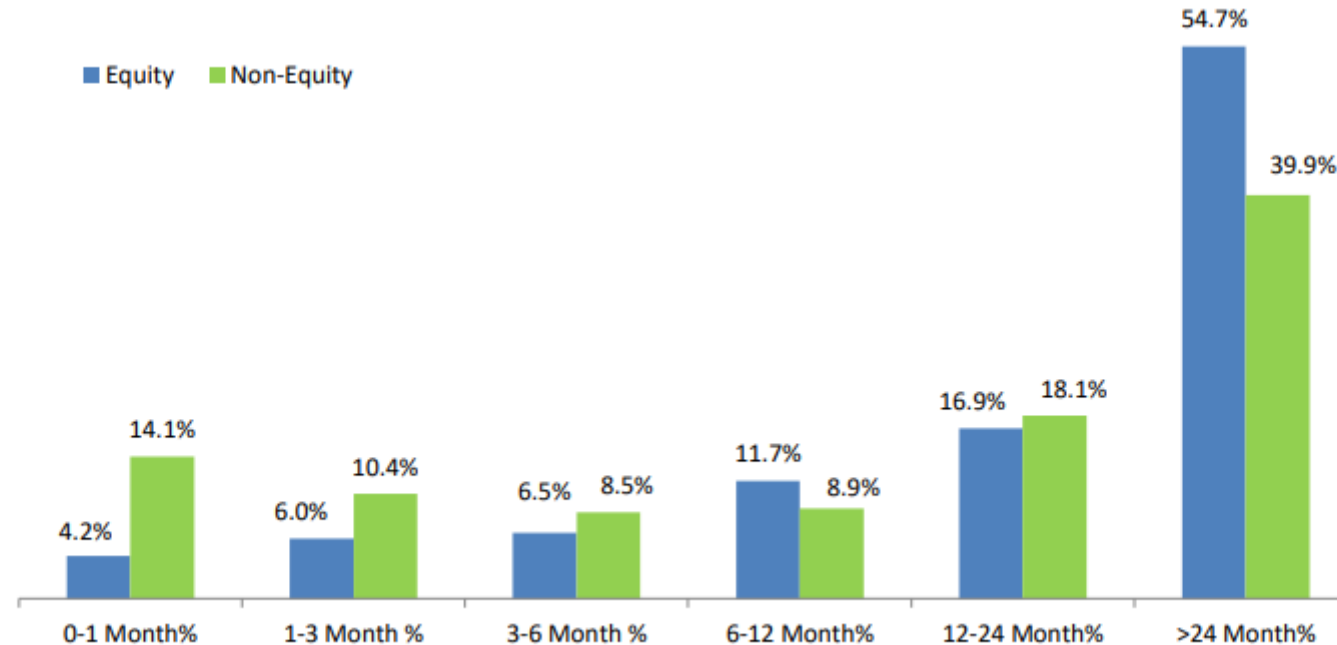
**The Preference for Alternate Avenues has gained momentum with market rate of returns .....**

## Increase in MF Investor Count (Folios)



AMFI data shows MF investor accounts (folios) growing from around 3.95 crore in Mar'14 to 19.10 crore as of June 2024, a jump of near 5X even though the number of unique investors remains around 4.7 crore (June'24) against ~3.83 crore in June'23. This is around half of the investors count for NSE (~10 crore) which signifies those having direct equity exposure could eventually align with MF route (a barrage of NFOs is pulling in more new faces)

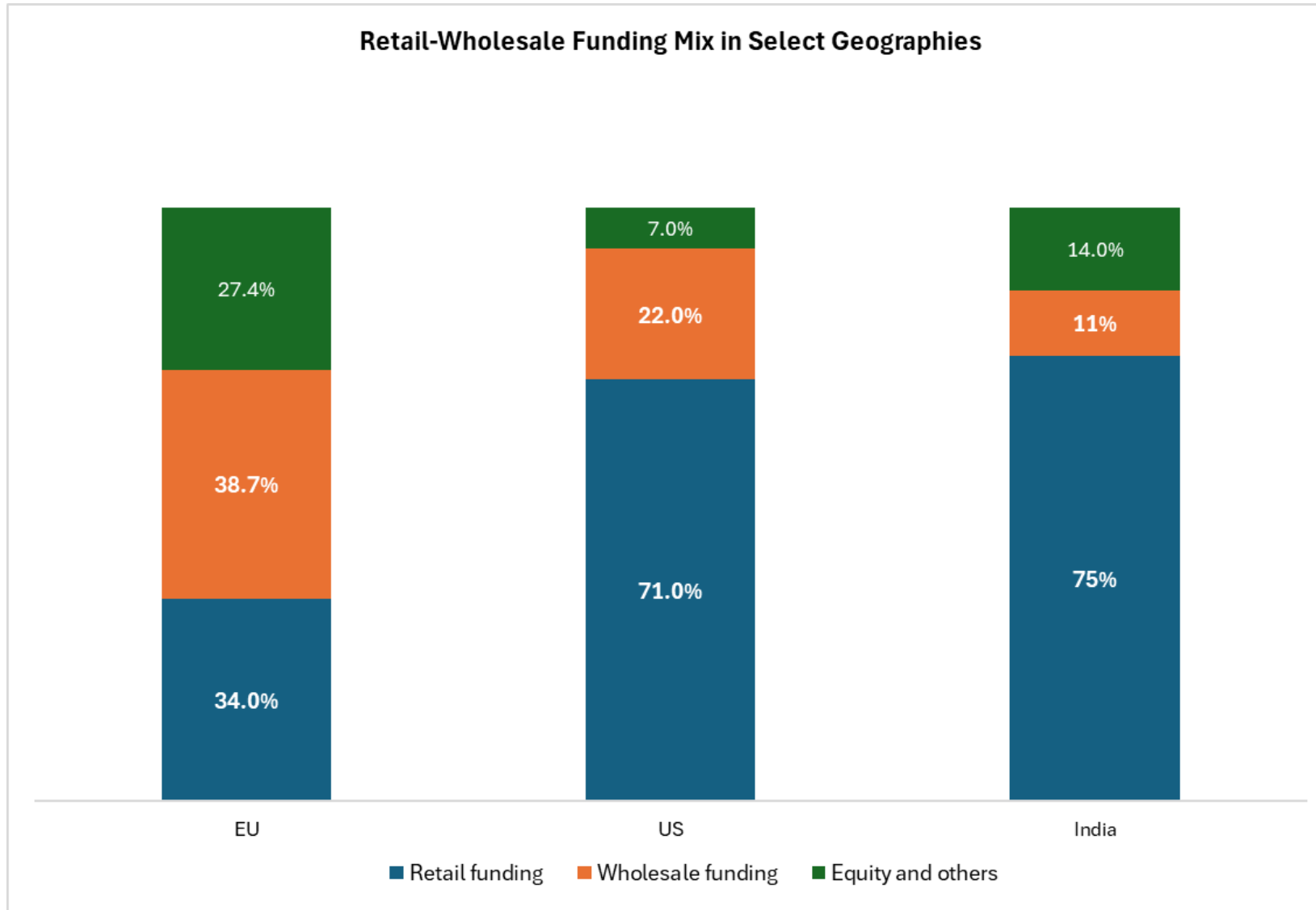




Equity assets have a longer average holding period as compared to non-equity assets. 54.7% of equity assets have been held for periods greater than 24 months. Retail investors hold 59.1% of equity assets for period greater than 24 months which is interesting given ...Retail investors in June 2022 held (43.6%) and in June 2023 (51.4 ) for period greater than 24 months.... **median age of all investors in capital markets is now 32 years with ~40% of investors being less than 30 years** even as NSE investors count has swelled to 100 million Plus...eventually, MF investors demographics too should undergo a significant change dismantling the present cohorts (~35% of MF investors were 45+ years in 2023)

# What Needs to be Done ?

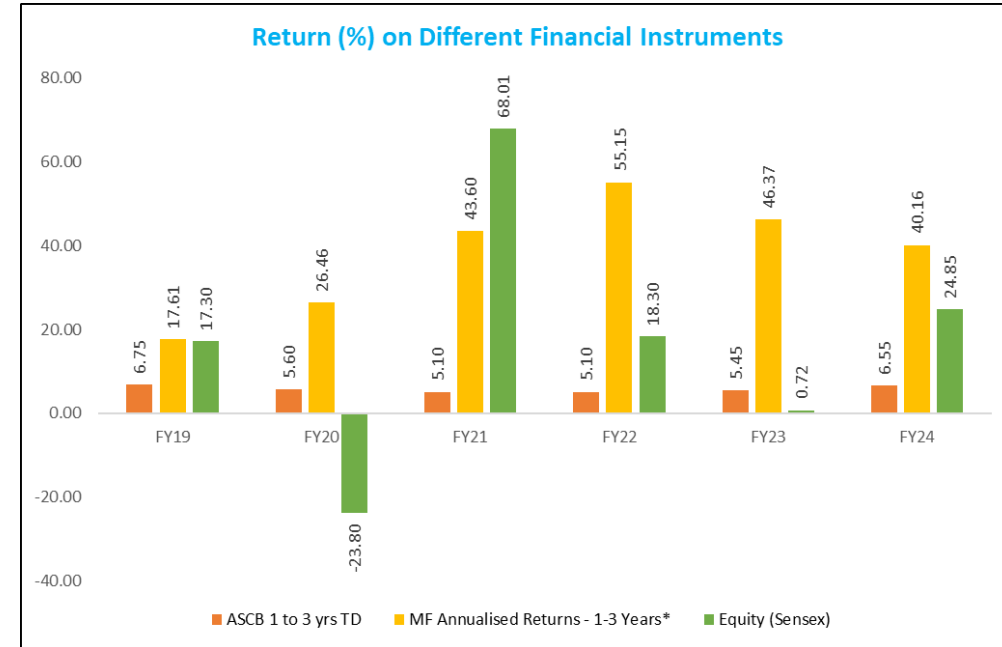
**Tax Reforms for Deposits can accentuate Banking system's stability and resilience to next level....**



Source: ECB, FED, RBI; India's largest bank retail deposit share ~ 80%. For India, capital is equivalent to others

# Currently, return on different investment instruments have **WIDE GAPS...** and this has to be addressed.....

- ❑ Bank Deposits, despite faring better on Liquidity and Safety pillar of investments have been faring poorly vis-à-vis risky alternate avenues that have shown demonstrated ability of much higher returns in a structurally strong Bull Market phase
- ❑ Post adjustment for inflation and tax treatment along specified buckets, deposits lose the sheen altogether offering paltry returns as shown below for deposits in the 1-3 year buckets that command close to two-third of systemic term deposits
- ❑ **Remarkably 47% of term deposits are now held by Senior Citizens, implying younger cohort is increasingly shying away from traditional avenues like bank deposits**
- ❑ **Clearly, in line with MF/equity markets, we are of the considered opinion that Government should tweak the ‘tax on interest on deposits and delinking tax treatment at the highest income bucket....and tax treatment at redemption and not at accrual....**



## Tax adjusted Real Interest Rates on for Term Deposits in 1 to 3 Years

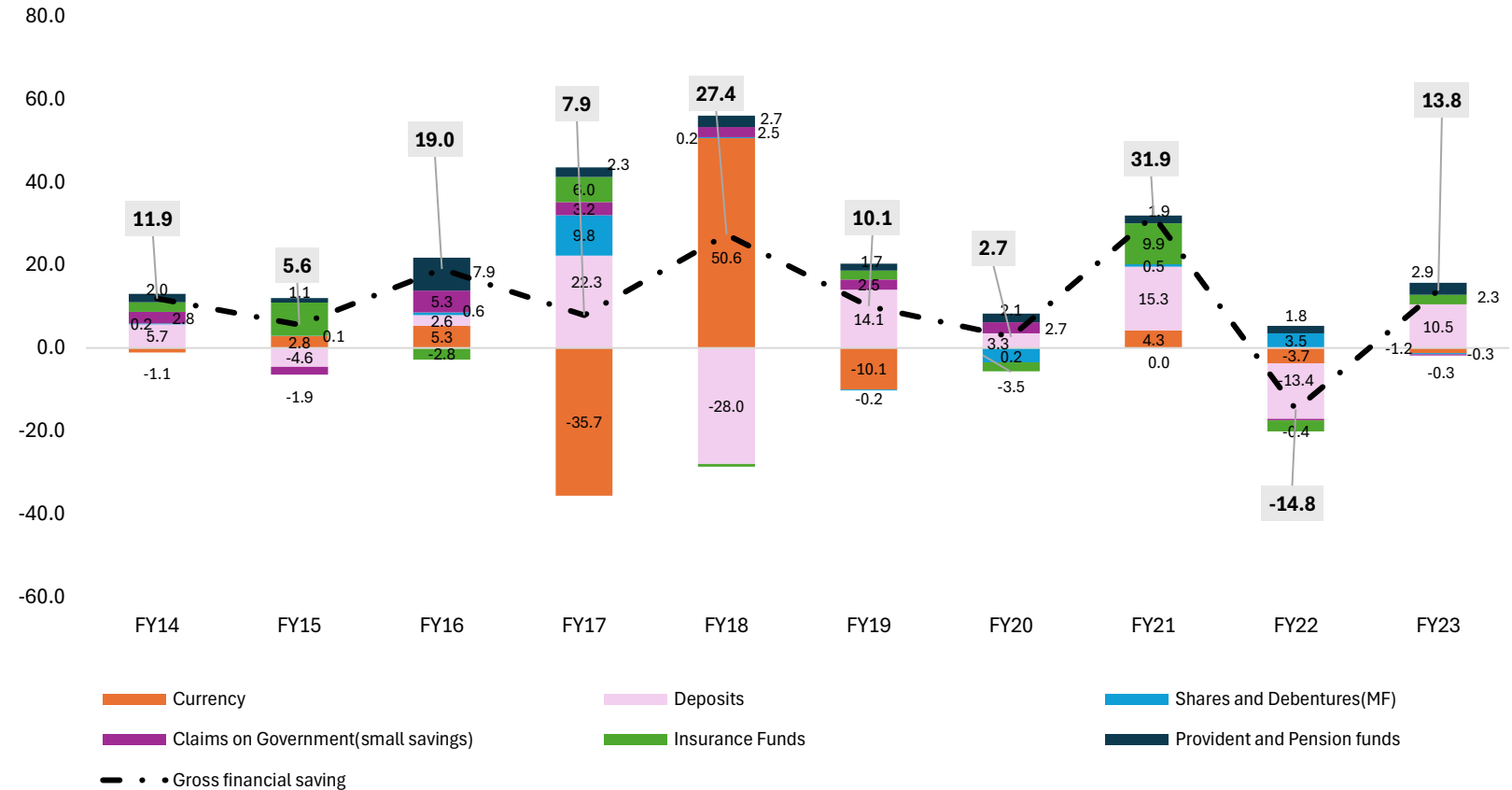
| Year    | Inflation & Tax Adjusted Rate |                       |                       |                       |
|---------|-------------------------------|-----------------------|-----------------------|-----------------------|
|         | Real Rate                     | 10% Tax Adjusted Rate | 20% Tax Adjusted Rate | 30% Tax Adjusted Rate |
| 2018-19 | 3.3                           | 3.0                   | 2.7                   | 2.3                   |
| 2019-20 | 0.8                           | 0.7                   | 0.7                   | 0.6                   |
| 2020-21 | -1.1                          | -1.0                  | -0.9                  | -0.7                  |
| 2021-22 | -0.4                          | -0.4                  | -0.3                  | -0.3                  |
| 2022-23 | -1.2                          | -1.1                  | -1.0                  | -0.8                  |
| 2023-24 | 1.2                           | 1.1                   | 1.0                   | 0.8                   |

## Indian households invested Rs.29.7 lakh crore in financial assets in FY 2023

Rs in Lakh Cr % share

| Total House hold Financial Savings | 29.7 | 100  |
|------------------------------------|------|------|
| Bank Deposits                      | 9.92 | 33.4 |
| Non Bank Deposits                  | 1.15 | 3.6  |
| shares and debentures              | 0.27 | 0.9  |
| mutual funds                       | 1.79 | 6.0  |
| Small savings excl PPF             | 2.47 | 8.3  |
| insurance funds                    | 5.47 | 18.4 |
| provident and pension funds        | 6.26 | 21.1 |
| currency                           | 2.37 | 8.0  |

### Weighted contribution in household financial savings(%)



## TAX EFFICIENCY OF DIFFERENT INVESTMENT AVENUES (If INR ONE million is invested in different avenues for ONE year)

| DEPOSITS / INVESTMENT IN               | AMOUNT    | RoI/Yield | STCG | LTCG | RETURN   | TAX BRACKET  | EXEMPTION        | TAXABLE_AMT | TDS  | TOTAL TAX_OUTGO | NET_RETURN |
|--|-----------|-----------|------|------|----------|--------------|------------------|-------------|------|-----------------|------------|
| <b>BANK DEPOSITS</b>                   |           |           |      |      |          |              |                  |             |      |                 |            |
| DEMAND (SB)                            | 10,00,000 | 3%        | -    | -    | 30,000   | SLAB         | UPTO 10,000 P.A. | 20,000      | NIL  | 4,000 (@20%)    | 16,000     |
| TERM DEPOSITS UPTO 1 YEAR              | 10,00,000 | 6.25%     | -    | -    | 62,500   | SLAB         | NIL              | 62,500      | @10% | 12500 (@20%)    | 50,000     |
| TERM DEPOSITS ABOVE 1 YEAR             | 10,00,000 | 7.25%     | -    | -    | 72,500   | SLAB         | NIL              | 72,500      | @10% | 14500 (@20%)    | 58,000     |
| <b>INVESTMENTS</b>                     |           |           |      |      |          |              |                  |             |      |                 |            |
| DIVIDEND INCOME (EQ/MF)\$              | 10,00,000 | 2%        | -    | -    | 20,000   | SLAB         | NIL              | 20,000      | @10% | 4000 (@20%)     | 16,000     |
| SHORT TERM INVESTMENT ≤ 1 year)        | 10,00,000 | 11%       | YES  | -    | 1,10,000 | 20% (Flat)   | NIL              | 1,10,000    | NIL  | 22,000 (@20%)   | 88,000     |
| LONG TERM INVESTMENT > 1 year)         | 10,00,000 | 15%       | -    | YES  | 1,50,000 | 12.5% (Flat) | 1,00,000 P.A.*   | 50,000      | NIL  | 6250 (@10%)     | 1,43,750   |
| <b>INVESTMENT IN DEBT/LIQUID FUNDS</b> |           |           |      |      |          |              |                  |             |      |                 |            |
| Redemption/Sale ≤ 3 years              | 10,00,000 | 6%        | YES  | -    | 60,000   | SLAB         | NIL              | 60,000      | NIL  | 12000 (@20%)    | 48,000     |
| Redemption/Sale > 3 year)              | 10,00,000 | 7%        | -    | YES  | 70,000   | 20% (Flat)   | NIL              | 70,000      | NIL  | 14000 (20%)     | 56,000     |
| <b>INVESTMENT IN LISTED BONDS</b>      |           |           |      |      |          |              |                  |             |      |                 |            |
| Redemption/Sale ≤ 1 year               | 10,00,000 | 7.00%     | YES  | -    | 70,000   | SLAB         | NIL              | 70,000      | @10% | 14,000 (@20%)   | 56,000     |
| Redemption/Sale > 1 year               | 10,00,000 | 7.50%     | -    | YES  | 75,000   | 10% (Flat)   | NIL              | 75,000      | @10% | 7,500 (@10%)    | 67,500     |

**All Taxpayers - Range of Interest Income (AY 2023-24)**

| Range (in INR)                     | No. of Returns    | Sum of Interest Income (in Crore INR) | Average Interest Income (in Lakh INR) |
|------------------------------------|-------------------|---------------------------------------|---------------------------------------|
| < 0                                | -                 | -                                     | -                                     |
| = 0                                | 59,064,334        | -                                     | -                                     |
| >0 and <=1,50,000                  | 17,017,857        | 41,121.74                             | 0.24                                  |
| >150,000 and <= 2,00,000           | 716,685           | 12,440.29                             | 1.74                                  |
| >2,00,000 and <=2,50,000           | 549,359           | 12,341.37                             | 2.25                                  |
| >2,50,000 and <= 3,50,000          | 714,331           | 21,108.02                             | 2.95                                  |
| >3,50,000 and <= 4,00,000          | 246,243           | 9,211.44                              | 3.74                                  |
| >4,00,000 and <= 4,50,000          | 197,255           | 8,364.77                              | 4.24                                  |
| >4,50,000 and <= 5,00,000          | 164,886           | 7,822.95                              | 4.74                                  |
| >5,00,000 and <= 5,50,000          | 128,295           | 6,722.88                              | 5.24                                  |
| >5,50,000 and <= 9,50,000          | 496,103           | 35,109.59                             | 7.08                                  |
| >9,50,000 and <= 10,00,000         | 30,257            | 2,948.86                              | 9.75                                  |
| >10,00,000 and <=15,00,000         | 173,913           | 21,017.36                             | 12.08                                 |
| >15,00,000 and <= 20,00,000        | 71,795            | 12,341.42                             | 17.19                                 |
| >20,00,000 and <= 25,00,000        | 36,952            | 8,228.90                              | 22.27                                 |
| >25,00,000 and <= 50,00,000        | 60,838            | 20,740.25                             | 34.09                                 |
| >50,00,000 and <= 1,00,00,000      | 23,578            | 16,117.48                             | 68.36                                 |
| >1,00,00,000 and <=5,00,00,000     | 15,459            | 30,649.69                             | 198.26                                |
| >5,00,00,000 and <=10,00,00,000    | 1,939             | 13,555.30                             | 699.09                                |
| >10,00,00,000 and <=25,00,00,000   | 1,210             | 18,561.75                             | 1,534.03                              |
| >25,00,00,000 and <=50,00,00,000   | 443               | 15,613.86                             | 3,524.57                              |
| >50,00,00,000 and <=100,00,00,000  | 209               | 14,452.83                             | 6,915.23                              |
| >100,00,00,000 and <=500,00,00,000 | 183               | 33,333.46                             | 18,215.01                             |
| >500,00,00,000                     | 21                | 18,955.78                             | 90,265.62                             |
| <b>Total</b>                       | <b>79,712,145</b> | <b>380,759.99</b>                     |                                       |

~75% of tax filers reported nil receipt of interest income (FY23), while a further ~21% reported int. income below Rs 1.50 lakh...the distribution is more evenly scattered when compared to skewed quintiles reporting short / long term gains implying bank deposits benefitting a larger cross section of society across tiers

**Individual- Range of Interest Income (AY 2023-24)**

| Range (in INR)                     | No. of Returns    | Sum of Interest Income (in Crore INR) | Average Interest Income (in Lakh INR) |
|------------------------------------|-------------------|---------------------------------------|---------------------------------------|
| < 0                                | -                 | -                                     | -                                     |
| = 0                                | 56,318,873        | -1.34                                 | -0.00                                 |
| >0 and <=1,50,000                  | 16,057,050        | 38,218.84                             | 0.24                                  |
| >150,000 and <= 2,00,000           | 642,858           | 11,153.10                             | 1.73                                  |
| >2,00,000 and <=2,50,000           | 463,472           | 10,377.18                             | 2.24                                  |
| >2,50,000 and <= 3,50,000          | 618,702           | 18,290.98                             | 2.96                                  |
| >3,50,000 and <= 4,00,000          | 211,994           | 7,928.89                              | 3.74                                  |
| >4,00,000 and <= 4,50,000          | 168,786           | 7,157.06                              | 4.24                                  |
| >4,50,000 and <= 5,00,000          | 140,398           | 6,660.05                              | 4.74                                  |
| >5,00,000 and <= 5,50,000          | 108,854           | 5,704.05                              | 5.24                                  |
| >5,50,000 and <= 9,50,000          | 414,511           | 29,289.41                             | 7.07                                  |
| >9,50,000 and <= 10,00,000         | 24,622            | 2,399.65                              | 9.75                                  |
| >10,00,000 and <=15,00,000         | 139,781           | 16,878.18                             | 12.07                                 |
| >15,00,000 and <= 20,00,000        | 56,629            | 9,730.08                              | 17.18                                 |
| >20,00,000 and <= 25,00,000        | 28,575            | 6,363.60                              | 22.27                                 |
| >25,00,000 and <= 50,00,000        | 44,472            | 15,051.48                             | 33.84                                 |
| >50,00,000 and <= 1,00,00,000      | 14,771            | 9,964.93                              | 67.46                                 |
| >1,00,00,000 and <=5,00,00,000     | 6,495             | 11,456.41                             | 176.39                                |
| >5,00,00,000 and <=10,00,00,000    | 305               | 2,059.26                              | 675.17                                |
| >10,00,00,000 and <=25,00,00,000   | 109               | 1,501.42                              | 1,377.45                              |
| >25,00,00,000 and <=50,00,00,000   | 19                | 684.69                                | 3,603.63                              |
| >50,00,00,000 and <=100,00,00,000  | 8                 | 531.84                                | 6,648.00                              |
| >100,00,00,000 and <=500,00,00,000 | 2                 | 360.11                                | 18,005.50                             |
| >500,00,00,000                     |                   |                                       | -                                     |
| <b>Total</b>                       | <b>75,461,286</b> | <b>211,759.87</b>                     |                                       |



- To see the sensitivity of deposits due to taxes, we used the annual data of per-capita income (PCI) on deposits from 1970-71 to 2023-24. The individual income tax is used as a control variable, to see the impact of income on deposits

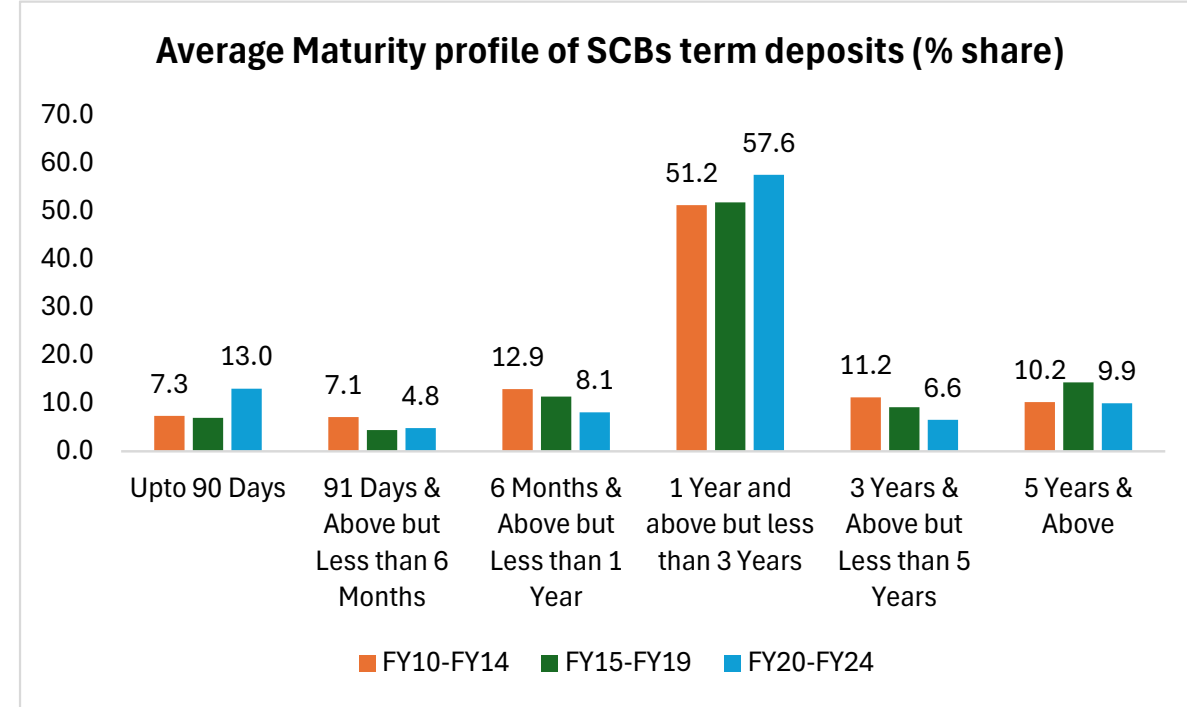
$$AD = \alpha + \beta PCI + \delta IT + \mu$$

Where, *AD* = Aggregate Deposits of SCBs, *PCI* = Per capital Income, *IT* = Individual Income Tax used as a control variable

$$AD = -273.4 + 9.25 * PCI - 1.29 IT$$

- **The results indicate that if per-capita income increases by Rs 1000 then deposits will increase by Rs 613 by considering tax as a control variable in the model. Otherwise, deposits could have increased by Rs 652. So, tax has a net impact of 7% on deposits of the banks in India**
- This makes the case for sincerely thinking about treating deposits uniformly as a different asset class
- **Our simulation results show that an uniform tax treatment like a short and long term will have minimal impact on Government revenue....**

- ❑ The increased investment in mutual funds, equity and other alternate investment avenues is leading to an Asset-Liability Management (ALM) risk to the banking sector
- ❑ The maturity profile of scheduled commercial banks' term deposits clearly indicate that share of deposits upto 90 days has increased to 13% during FY20-FY24 compared to an average of 7% earlier since FY10
- ❑ Meanwhile, the longer tenure deposits with maturity of 3 years and above has reduced post pandemic
- ❑ Thus, liability profile of banks shifts to shorter-term as public deposits migrate to alternate investments
- ❑ Banks have sought to fill the credit-deposit gap by increasing their reliance on other sources like certificates of deposit, etc. leading to increase in their rates. This increases their sensitivity to interest rate movements and poses challenges to liquidity management



**Need for Innovation in Deposit Products to retain the competitive edge attractively....**

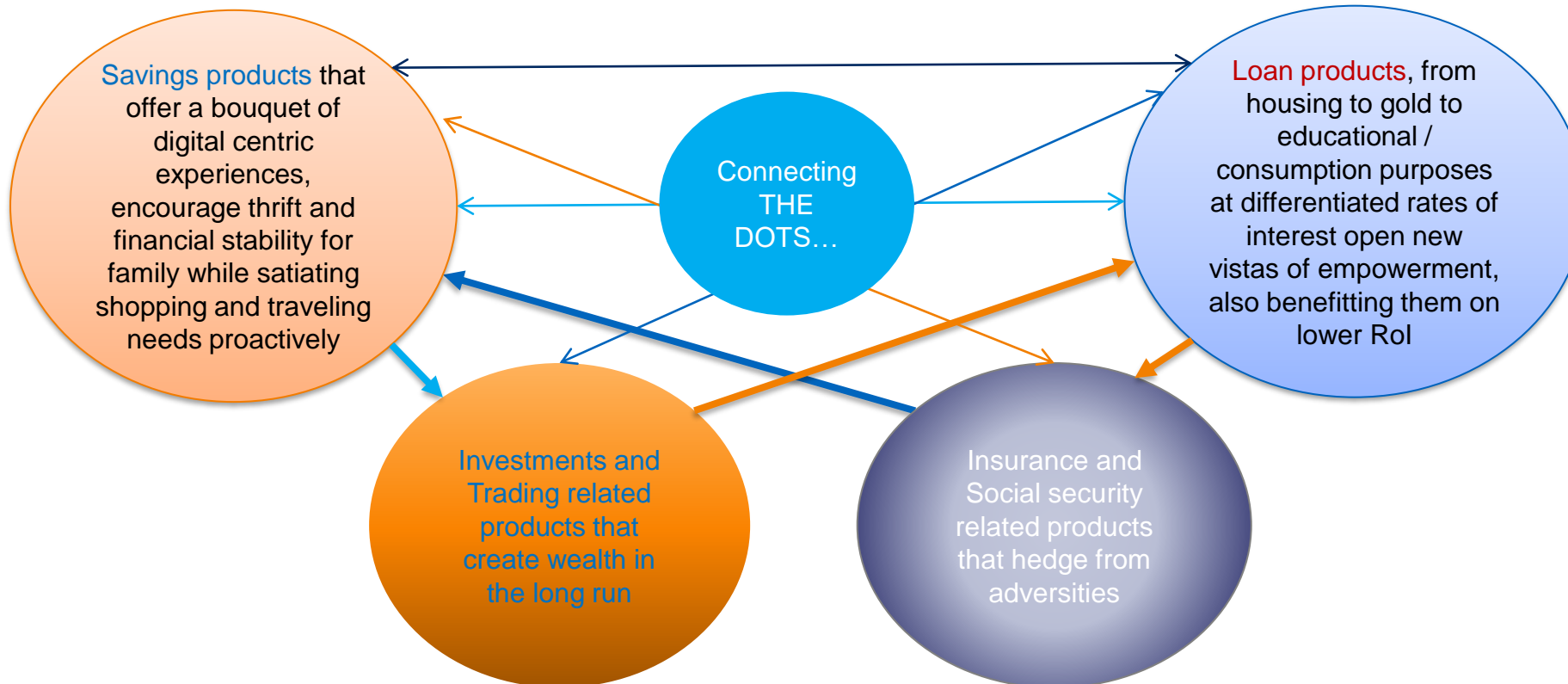
- State-wise analysis of Indian banks' deposits gives significant insights regarding the deposits habit of citizens
- When we look at the state-wise data (21 major states only) we find that in the states with lower per capita income (PCI) than national average the preference is more towards CASA deposits while the % share of term deposits is higher mainly in the states with per capita income higher than national average
- The results are quite consistent with the current demographic profile of the states also. We found that the states with per capita income higher than national average have more elder population. Subsequently, these states rely more on term deposits compared to CASA deposits
- Such divergences could imply that banks in India in future need to evolve towards products that could cover the life cycle needs of the customer. Separately, since states in India exhibit different characteristics, it might be a better idea to think of having bespoke products specifically suited to the customers of different states**

| Major States  |                  | Deposits Share |            | Share of 60+ Population (%) |             |
|---|------------------|----------------|------------|-----------------------------|-------------|
|   |                  | CASA           | Term       | 2011                        | 2041        |
| States with Higher Per Capita Income compared to National Average | Telangana        | 43%            | 57%        | 9.2                         | 18.2        |
|   | Karnataka        | 40%            | 60%        | 9.5                         | 19.0        |
|   | Haryana          | 41%            | 59%        | 8.7                         | 15.8        |
|   | Tamil Nadu       | 41%            | 59%        | 10.4                        | 22.6        |
|   | Gujarat          | 42%            | 58%        | 8.0                         | 17.0        |
|   | Kerala           | 34%            | 66%        | 12.6                        | 23.9        |
|   | Maharashtra      | 33%            | 67%        | 9.9                         | 19.7        |
|   | Uttarakhand      | 45%            | 55%        | 9.0                         | 15.3        |
|   | Andhra Pradesh   | 47%            | 53%        | 10.1                        | 20.0        |
|   | Himachal Pradesh | 38%            | 62%        | 10.3                        | 21.1        |
| <b>States Average</b>   |                  | <b>40%</b>     | <b>60%</b> | <b>9.8</b>                  | <b>19.3</b> |
| <b>India</b>  |                  | <b>41%</b>     | <b>59%</b> | <b>8.6</b>                  | <b>15.9</b> |
| States with Lower Per Capita Income compared to National Average  | Punjab           | 41%            | 59%        | 10.4                        | 20.6        |
|   | Rajasthan        | 47%            | 53%        | 7.5                         | 13.3        |
|   | Odisha           | 44%            | 56%        | 9.5                         | 16.6        |
|   | West Bengal      | 41%            | 59%        | 8.5                         | 19.7        |
|   | Chhattisgarh     | 55%            | 45%        | 7.9                         | 14.4        |
|   | Madhya Pradesh   | 47%            | 53%        | 7.9                         | 13.4        |
|   | Jammu & Kashmir  | 48%            | 52%        | 7.4                         | 17.2        |
|   | Assam            | 58%            | 42%        | 6.7                         | 14.4        |
|   | Jharkhand        | 48%            | 52%        | 7.2                         | 13.4        |
|   | Uttar Pradesh    | 53%            | 47%        | 7.8                         | 12.0        |
|   | Bihar            | 64%            | 36%        | 7.4                         | 11.6        |
| <b>States Average</b>   |                  | <b>50%</b>     | <b>50%</b> | <b>8.0</b>                  | <b>15.1</b> |

Source: RBI; SBI Research

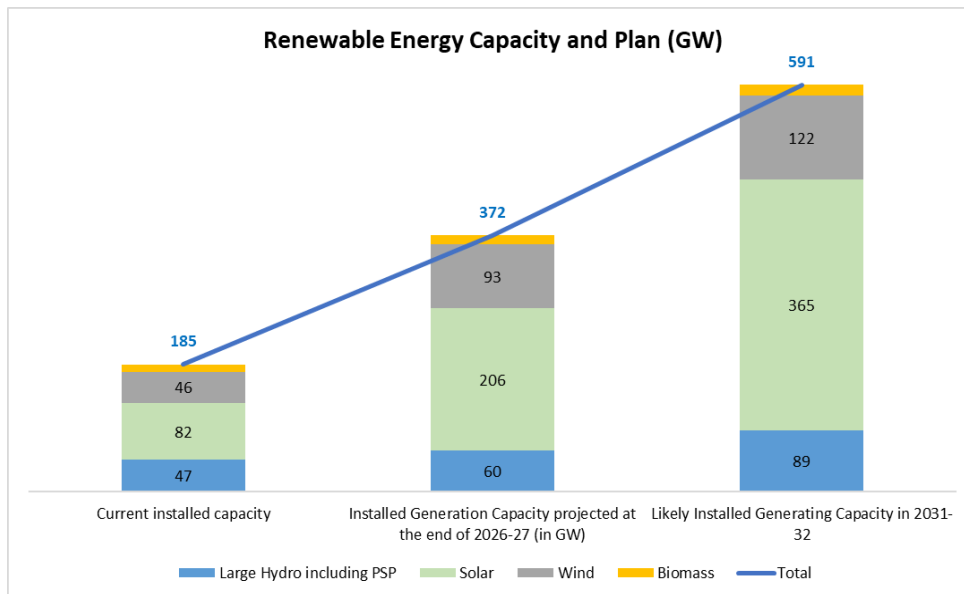
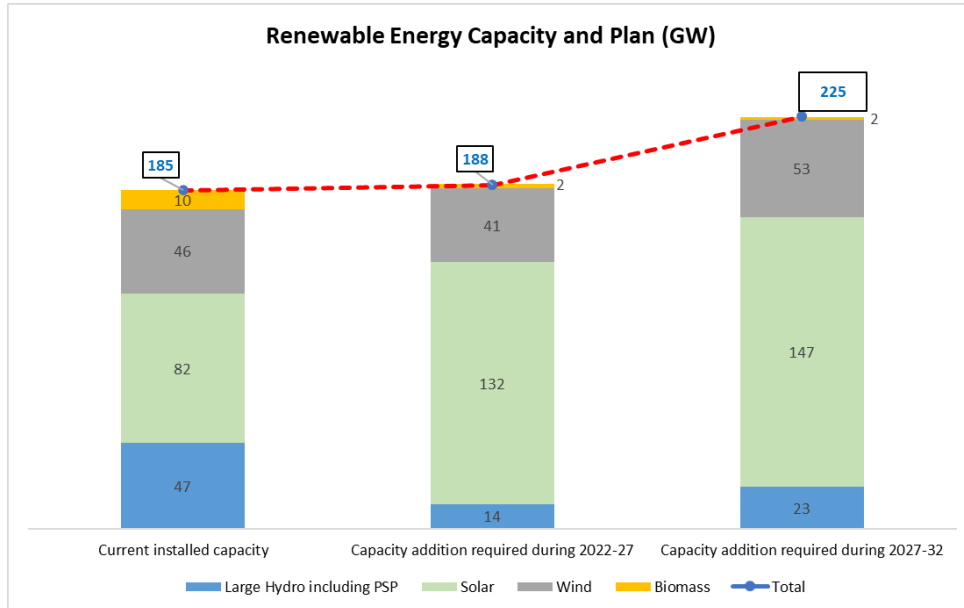
- ❑ **Banks must explore migration for plan vanilla deposits to range of product differentia's**
  
- ❑ **Possible differentiation types**
  - Age based differentiation
  - Geography based differentiation
  - Environmental preferences
  - Interest rates types –fixed vs floating
  - Gold deposits
  
- ❑ **Technology options for ease of liability business**
  - Technology choices differ by age – old and young
  - Monetization of gold

## 4 Financial Products that every woman MUST have (empowering half the population towards financial liberalization)



Despite rising propensity of women in both deposits as also credit/borrowings, there are few women centric products that truly offer them a unique, customized yet personalized experience befitting their accentuating social stature and presence in workforce across services, manufacturing and embedded domains, reinforcing faith in their innate abilities as also in the bank they choose as vehicle of financial freedom....The bank can begin with women who have taken a hiatus, side-stepping from their professional commitments due to personal reasons, by devising a comprehensive product that offers a bouquet of services including credit cards, investments and trading at lower charges

**Meeting Net Zero Targets would require substantial channeling of household resources / deposits to finance the transition**



| Renewable opportunities (2022-32) |                |                              |                  |                    |                  |
|-----------------------------------|----------------|------------------------------|------------------|--------------------|------------------|
| Type of RES                       | Addition in GW | Approx. Capex per GW (Rs cr) | Total (Rs cr)    | Debt @ 70% (Rs cr) | Bank Share @ 60% |
| Solar                             | 279            | 4,500                        | 12,55,500        | 8,78,850           | 5,27,310         |
| Wind                              | 94             | 6,000                        | 5,64,000         | 3,94,800           | 2,36,880         |
| <b>Total</b>                      | <b>373</b>     |                              | <b>18,19,500</b> | <b>12,73,650</b>   | <b>7,64,190</b>  |
| Source: SBI Research              |                |                              |                  |                    |                  |

- ❑ To achieve net-zero the renewable capacity to expand to 591 GW from current 185 GW by 2032
- ❑ This creates credit opportunity of Rs 7.6 lakh crore by 2032 for banking system
- ❑ India received a cumulative FDI Equity investment of \$6.1 billion in the renewable energy sector, till 30.09.2023
- ❑ Current system level NPA in renewables in around 1.5%.
- ❑ Green deposits need to be lucratively priced to contain the cost of transition to net zero
  - At 40% CD ratio cumulative mobilization of Rs 3.05 lakh is required for green transition





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