

Store on things that matter

India's Wallet

Insights into Household Sector Finances

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"Neither a borrower nor a lender be, For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry."

-William Shakespeare, Hamlet

Credit creation by commercial banks is a fundamental driver of economic activity and monetary expansion. It allows banks to extend loans, which stimulate investment, consumption, and overall economic growth.

-Economics 101



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Chapter 1 Indian Households: Overview

Characteristics of Indian Households

	Population (billion)	1.42
6	Mean Household (HH) Size (persons)	4.4
	Number of Households (million)	323
****	Percentage of HHs owning a house (%)	73
II II VI-II-II-II	HHs with access to electricity (%)	97

Percentage of households (HHs) possessing various goods (%)

		Rural	Urban	Total
	Mobile	92%	97%	93%
	Television	58%	87%	68%
(🛜)	Internet	41%	65%	49%
	Computer	4%	19%	9%

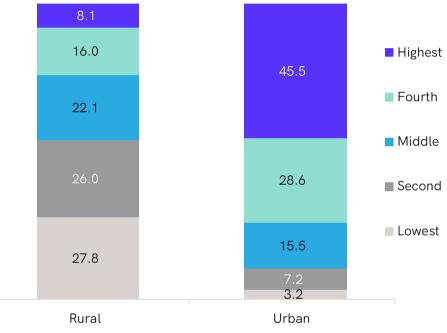
Percentage of households (HHs) possessing means of transport (%)

B	Motorcycle or scooter	44	% 61%	50%
	Car	4%	% 14%	8%

Source: UNDP, National Family Health Surveys, Internal Estimates, 360 ONE Asset Research Note: Population UNPD medium variant estimate for 2023, Number of Households estimated

Distribution of Household Wealth

Household Wealth by Residence -Percent Distribution of Population by Wealth Quintiles



Source: National Family Health Surveys, 360 ONE Asset Research

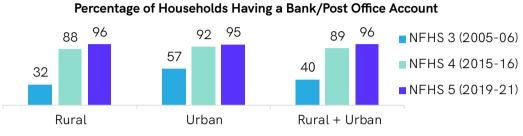
Households are given scores based on the number and kinds of consumer goods they own, ranging from a television to a bicycle or car, and housing characteristics such as source of drinking water, toilet facilities, and flooring materials.

National wealth quintiles are compiled by assigning the household score to each usual household member, ranking each person in the household population by their score, and then dividing the distribution into five equal categories, each with 20 per cent of the population.

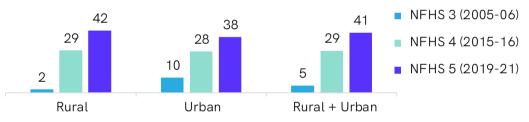
In India, the wealthiest households are concentrated in urban areas - 46% of the urban population is in the highest wealth quintile.

By contrast, more than half of the rural population (54%) falls in the two lowest wealth quintiles.

Status of Financial Inclusion



Percentage of Households Covered by a Health Scheme/Health Insurance



Source: National Family Health Surveys, 360 ONE Asset Research

India has achieved remarkable progress in increasing financial inclusion over the last two decades.

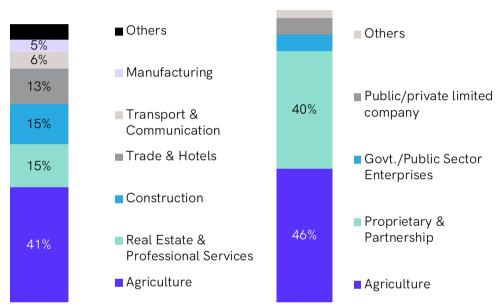
The proportion of households (any member) having access to a bank or post office savings account has surged from 40% in 2005-06 to an impressive 96% by 2019-21.

The percentage of households with at least one member covered bv government or private health insurance has risen from a mere 5% to 41% within the same timeframe.

Notably, the substantial advancements in financial inclusion extend beyond urban areas, with rural regions experiencing significant improvements as well.

Defining the Household Sector

Household Sector - Share of Value-Added by Industry



Source: PLFS 2022-23, National Account Statistics, 360 ONE Asset Research

The household sector comprises, apart from individuals, all *non-government*, *non-corporate enterprises* like sole *proprietorships and partnerships* (*P&P*) owned and/or controlled by individuals and non-profit institutions which furnish educational, health, cultural, recreational and other social and community services to households. The household sector accounted for 44% of the total Gross Value Added (GVA) in 2022-23 at current prices, with a significant contribution from the agriculture sector.

Percentage Distribution of

Workers by Enterprise Type

86% of India's population is employed in Agriculture and P&P, which can broadly be classified as the household sector.

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Chapter 2 Household Sector Finances: Macro Trends

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Household Savings: Cross-Country Comparison

34.8 23.3 12.4 7.8 6.9 2.0 China India USA Japan Euro Area United Kingdom

Household Savings (% of HH Gross Disposable Income)

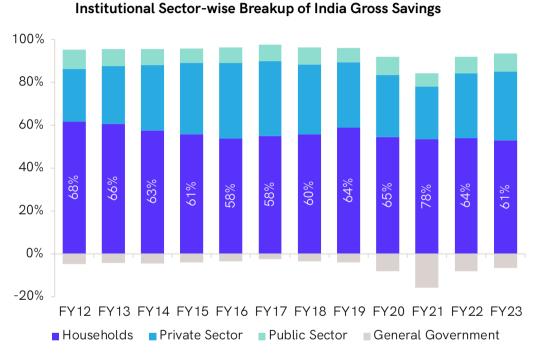
Source: OECD National Account Statistics, MOSPI, 360 ONE Asset Research

The savings rate of Indian households (HHs), expressed as a percentage of gross disposable income, is notably high compared to many other countries.

India's high HH savings rate provides a crucial domestic source of capital for investments, thereby fostering economic growth.

A high HH savings rate helps keep the Current Account Deficit (CAD) in check by narrowing the gap between savings and investment.

Contribution of Indian Households to India's Gross Savings



Source: MOSPI, 360 ONE Asset Research

Indian households make a more substantial contribution to gross national savings compared to the combined contributions from both private and public sectors. Over the last decade, on average, the household sector has contributed ~64% of the total domestic savings.

The general government in India is a net dis-saver and tends to be a net borrower.

Breakdown of Household Sector Savings – FY23 Snapshot

	Household Sector Savings in FY23	Rs Tn	Share of HH Savings
1.	Net Financial Savings (a-b)	14.2	29%
a.	Gross Financial Savings	29.7	
b.	Financial Liabilities	15.6	
2.	Savings in Physical Assets	34.8	70%
	of which		
a.	Dwellings, Other Buildings & Structures	24.8	
b.	Machinery & Equipment	9.7	
3.	Savings in Gold & Silver	0.6	1%
	Household Savings (1+2+3)	49.6	

Source: MOSPI, 360 ONE Asset Research

Household sector savings can broadly be divided into net financial savings, savings in physical assets, and savings in valuables (gold and silver).

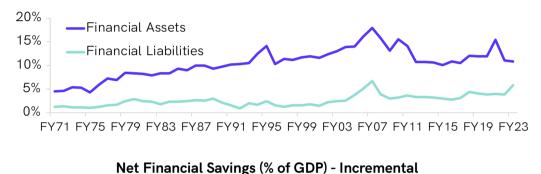
Net financial savings of households are calculated as the difference between gross financial savings and financial liabilities. Dwellings represent the largest share of household savings in physical assets, followed by machinery and equipment.

Overall, for the fiscal year 2023, savings in physical assets accounted for 70% of the total household savings.

Net financial savings accounted for about 29% of total HH savings.

Long-Term Trends in Indian Household Savings

Increments in Household Financial Assets & Liabilities





Source: MOSPI, RBI, 360 ONE Asset Research

Incremental investment in financial assets by households has increased from 4.5% of GDP in FY71 to 10.9% of GDP in FY23.

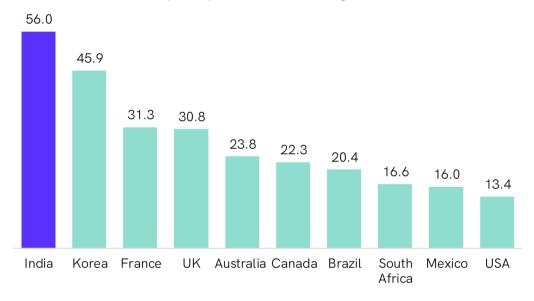
The incremental liabilities during the same period have increased from 1% to 6%, with a particularly sharp increase witnessed in FY23.

The increase in liabilities also reflects the growing access of households to formal sources of credit.

Net financial savings (% of GDP) – calculated as the difference between incremental financial assets and liabilities – increased from 3.2% in FY71 to 11.5% in FY22 before declining to 5.1% in FY23.

Currency & Deposits: Cross-Country Comparison

Share of Currency & Deposits in Outstanding Financial Assets (%)



Source: OECD, RBI, 360 ONE Asset Research

Indian households hold a significantly high proportion of outstanding financial assets in currency and deposits.

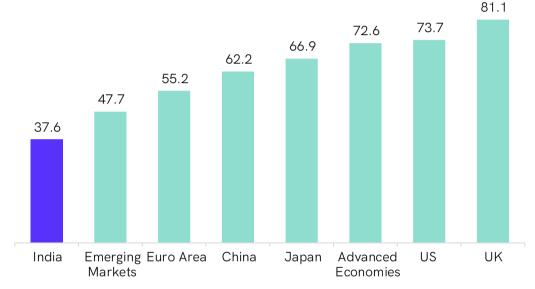
Currency and deposits account for 56% of the o/s HH financial assets in India, compared to approximately 30% in France and the UK, 20-25% in Australia, Canada, and Brazil, and 13-16% in South Africa, Mexico, and the USA.

South Korean households hold approximately 46% of their financial assets in currency and deposits, a share that, while higher than average, still falls short of that held by Indian households.

The high share of currency and deposits reflects the risk-averse nature of Indian HHs and the lack of access to other financial instruments.

Household Debt: Cross-Country Comparison

Household Debt to GDP (%)



Source: BIS, 360 ONE Asset Research

India's household debt to GDP, at 37.6%, is lower than the Emerging Markets average of 47.7%.

This ratio is significantly lower than China's 62% and the 70%+ ratio witnessed across many developed markets. Indian household debt remains within manageable levels and does not pose any systemic risks.

With improved access to institutional sources of credit, India's household debt to GDP ratio is expected to increase going forward.

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Chapter 3 Financial Assets: Deep Dive

Decadal Distribution of Flows into Financial Assets

4% 4% 6% 5% 5% 5% 7% 8% 12% 8% 10% 19% 12% 17% 20% 18% 20% 9% 19% 18% 8% 11% 18% 52% 45% 47% 45% 43% 37% 14% 13% 10% 10% 10% 10% FY71-80 FY91-2000 FY01-10 FY11-20 FY21-23 FY81-90 Currency (Cash) Deposits Life Insurance Provident and Pension Fund Small Savings ■ MFs, Shares & Debentures

Share in Gross Household Financial Savings - Flows (%)

Source: RBI, MOSPI, 360 ONE Asset Research

Households' savings (incremental) in cash/currency have remained flat at 10% of the total savings since the 1990s.

The share of deposits has steadily decreased from 52% in the 1970s to 37% in FY21-23, signifying that households have diversified their investments away from low-yielding deposits.

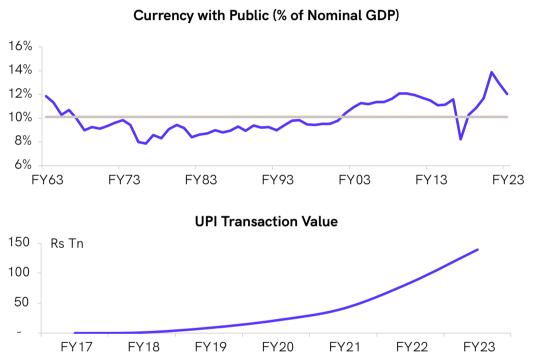
Although small savings schemes, another form of deposit typically held with post

offices, accounted for a significant 8% share in FY21-23.

The share of life insurance has doubled from 9% in the 1970s to 18% in the current decade.

Mutual funds, shares, and debentures account for a modest 7% share, although it has increased from negligible in the 1970s.

Currency's Role as a Store of Value and Medium of Exchange



Source: RBI. 360 ONE Asset Research

Currency with public (CWP) as a percentage of nominal GDP remains higher than the long-term average despite exponential growth in digital transactions over the past five years.

The simultaneous increase in digital payments and currency with the public appears paradoxical.

The paradox can be explained by

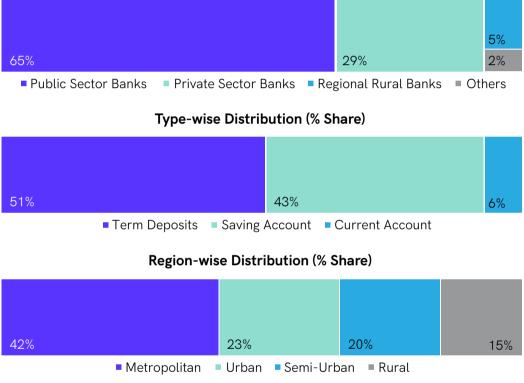
understanding currency's role as a store of value and a medium of exchange.

The role of currency as a medium of exchange seems to have diminished due to digitisation.

However, the role of currency as a store of value remains quite prominent in India, as reflected in the high CWP/GDP ratio.

Distribution of Household Deposits

Bank Group-wise Distribution (% Share)



Source: RBI, 360 ONE Asset Research

Households' deposits are unevenly distributed across different bank groups, with public sector banks accounting for 65% of the total deposits, while private sector banks account for only 29%.

The higher share of public sector banks is reflective of their extensive branch network.

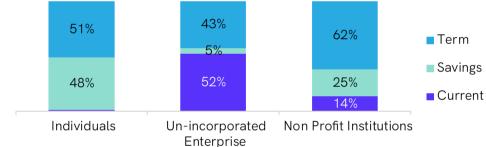
Term deposits (TD) constitute a 51% share of total household deposits, followed by a 43% share of savings deposits.

Metros account for a disproportionately high share of deposits at 42%, followed by 23% in urban regions and 20% in semi-urban regions.

Distribution of Household Deposits







Source: RBI, 360 ONE Asset Research

Individuals account for 85% of the total household deposits, while other entities, such as unincorporated enterprises and non-profit institutions, make up the remaining 15%.

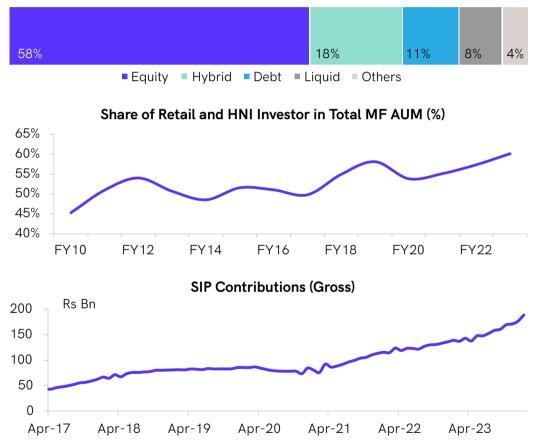
Individuals tend to hold almost equal proportions in savings accounts and term

deposits, whereas enterprises lean toward a higher share in current accounts.

Non-profit institutions hold a higher share in term deposits.

Growing Significance of Mutual Funds in Household Asset Allocation

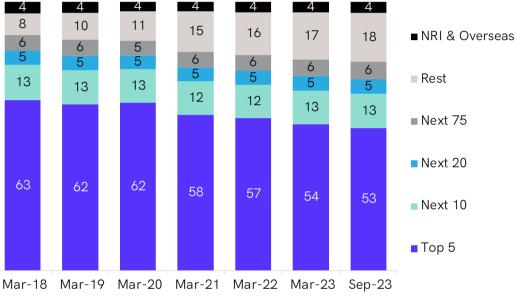
Distribution of Mutual Funds AUM for Retail and HNI Investor (% Share)



Source: CMIE, AMFI, 360 ONE Asset Research

HHs have been gradually increasing their allocation towards mutual funds (MFs), as evident from the steady rise in SIP contributions and a higher share of retail and HNI investors in the total MF AUM. Households have predominantly allocated investments to equity-oriented MFs, primarily due to a limited presence of direct equity in their investment portfolios.

Rise in Mutual Fund Participation from Small Towns



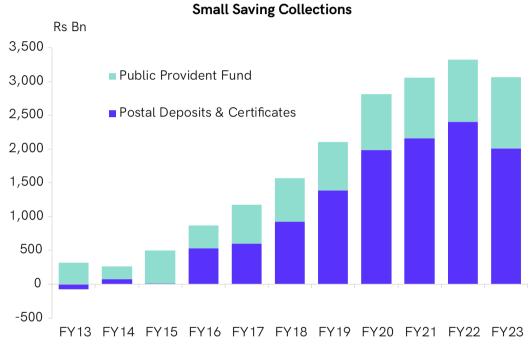
MF AUM City-wise Distribution (% Share)

Source: AMFI, 360 ONE Asset Research

Mutual fund penetration in small towns has also increased in recent years.

The share of Mutual Fund Assets Under Management (AUM) from the top 5 cities has declined from 63% in Mar-18 to 53% in Sep'23. Simultaneously, there has been a notable increase in the share of smaller cities beyond the top 110 (referred to as 'rest'), with their contribution to the total AUM rising significantly from 8% in Mar'18 to 18% in Sep'23.

Small Savings: An Important Component of the Household Portfolio



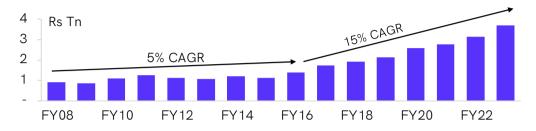
Source: CAG, 360 ONE Asset Research

Small Savings schemes comprise a set of savings instruments managed by the central government to encourage citizens to save regularly.

These schemes are popular due to their potential for offering higher returns than bank deposits, along with the added advantages of a sovereign guarantee and tax benefits. Households' contributions to small savings have increased quite substantially over the past decade.

Small Savings have also turned out to be an important source of financing the fiscal deficit for the central government.

Life Insurance Penetration in India



First Year Premium of Life Insurers

Life Insurance Penetration and Density in 2022	Penetration (%)	Density (USD)
India	3.0	70
USA and Canada	2.7	1,999
Advanced EMEA	4.3	1,957
Emerging EMEA	0.6	30
Advanced Asia Pacific	5.4	1,964
Emerging Asia	2.1	131
World	2.8	354

Source: CMIE, Swiss Re, 360 ONE Asset Research

There has been a significant improvement in first-year premiums of life insurers since FY16.

Insurance penetration and density are two metrics often used to assess the level of development of the insurance sector in a country.

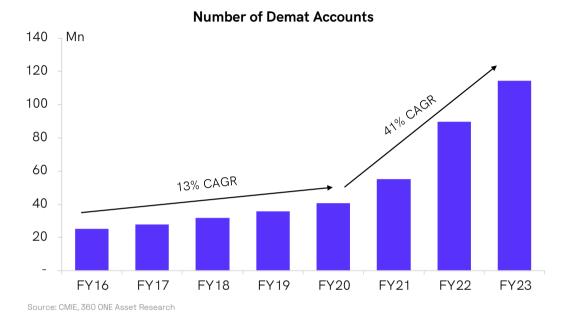
Insurance penetration is measured as the percentage of insurance premiums to

GDP, and insurance density is calculated as the ratio of premium to population.

India's life insurance penetration is marginally higher than the world average, though lower than that of Advanced EMEA and Asia Pacific.

Life insurance density, however, remains relatively low, highlighting the further scope for growth in the insurance sector.

Sharp Surge in Demat Account Opening



There has been a surge in demat account openings since FY20, reflecting the increasing participation of retail investors in equity markets. The total number of outstanding demat accounts increased to 114 million by March 2023 from approximately 40 million accounts in March 2020, representing a compound annual growth rate (CAGR) of 41%.



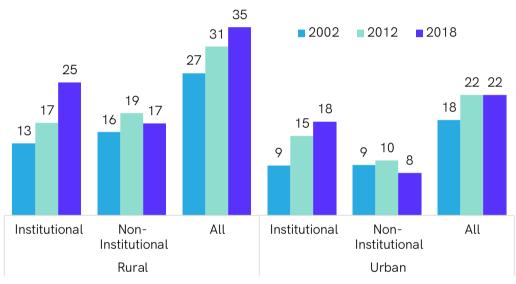
Chapter 4 Financial Liabilities: Deep Dive

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Credit Penetration in India

Credit Penetration measured as % of Indebted Households



Source: AIDIS, 360 ONE Asset Research

Credit penetration in India from institutional sources (banks/NBFCs/HFCs, etc.) has significantly increased in both rural and urban regions.

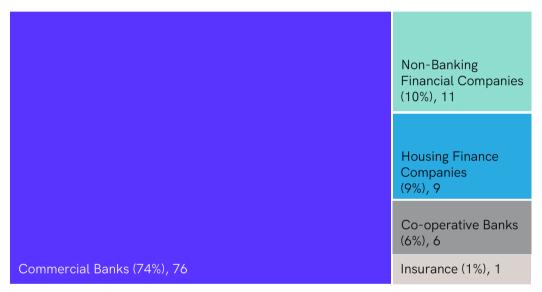
Credit penetration (as measured by % of indebtedness) from formal sources in rural regions has risen from 13% in 2002 to 25% in 2018.

Similarly, in urban areas, credit penetration has increased from 9% to 18% during the same period.

There has been a decline in reliance on non-institutional sources (friends, family, moneylenders, etc.) since 2012 in both rural and urban regions.

Household Sector Stock of Financial Liabilities

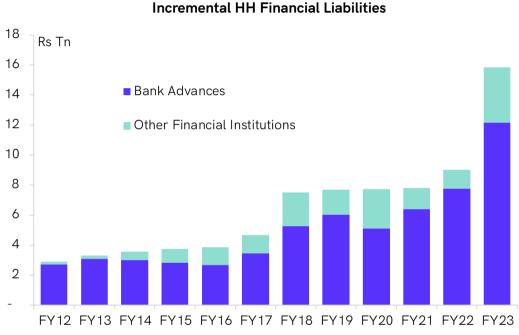
Distribution of Outstanding Financial Liabilities of Households (Rs Tn) - March 2023



Source: RBI, 360 ONE Asset Research

Commercial banks account for the lion's share of household financial liabilities, followed by Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs). As of March 2023, out of the total HH financial liabilities of Rs 103 trillion, commercial banks hold a 74% share, followed by a combined 19% share of NBFCs and HFCs.

Rising Influence of Non-Banking Institutions in Household Credit



Source: RBI, 360 ONE Asset Research

Over the past decade, we have observed a rise in the incremental flow of credit to households from NBFCs/HFCs.

The proportion of non-banks in incremental household liabilities has surged from nearly negligible in FY12 to 23% by FY23.

There has been a particularly sharp increase in credit from banks and non-banks to the household sector in FY23.

Distribution of Bank Credit to Households

50% 29% 21% Retail Loans Business Agriculture Segment-wise Distribution of Retail Loans (% Share) 5% 49% 32% 11% 3% Housing Personal Loans Vehicles Credit Cards Education Sector-wise Distribution of Business Loans (% Share) 34% 30% 17% 6% 11% Trade Industry Professional Services

Other Services Transport Operators Finance

Type-wise Distribution (% Share)

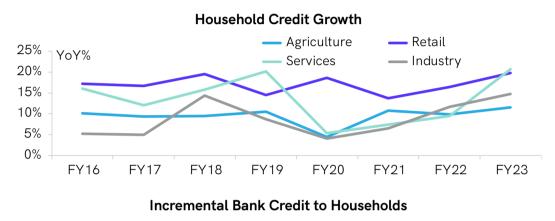
Source: RBI, 360 ONE Asset Research

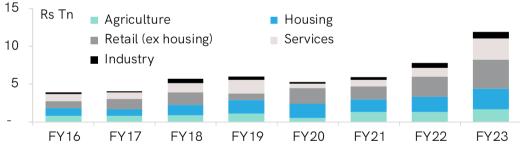
Retail loans constitute 50% of the total household credit, followed by a 29% share of business loans and a 21% share of agriculture loans.

In the retail credit segment, housing loans account for half of the credit, with personal loans comprising 32% and vehicle credit representing an 11% share.

Within the business credit segment, trade holds a 34% share, industry accounts for a 30% share, and professional services account for a 17% share.

Retail and Services drive the Household Credit off-take





Source: RBI, 360 ONE Asset Research

Retail and services credit to households experienced >20% YoY growth in FY23.

Housing credit comprises approximately a quarter of the total household credit uptake in FY23.

Note that housing credit by HHs contributes to physical savings.

Business credit (industry + services) constitutes roughly one-third of the share, primarily directed toward productive business investments.

Retail loans, excluding housing, which make up 33% of the total incremental credit in FY23, have seen a substantial increase and are predominantly geared towards consumption.

Minimal Stress Levels in Household Lending



GNPA Ratio - Consumer Credit

GNPA Ratio of Personal Loans - Banks



Source: RBI, 360 ONE Asset Research

The Gross Non-Performing Assets (GNPA) ratio for consumer credit across the bank/non-bank group has been low and witnessed a fall in FY23.

Similarly, stress levels across various retail products have been low, with only credit cards witnessing a marginal increase in the GNPA ratio in FY23.

However, there have been concerns about the rapid growth in unsecured consumer credit and an increase in delinguency in low-ticket size loans.

In November 2023, the RBI announced a series of regulatory measures aimed at restricting credit to the high-growth consumer segment, preempting any potential stress.

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Chapter 5 Epilogue: Weaving Thoughts

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Insights into India's Household Dynamics

India's household sector is dominated by agriculture:

Agriculture accounts for 41% of the gross value added by the household sector and employs 46% of the total Indian workforce. Hence, Indian household finances are intrinsically linked to the agricultural sector.

Household sector wealth is skewed towards the urban areas:

The wealthiest households are concentrated in urban areas, with 46% of the urban population belonging to the highest wealth quintile. In contrast, more than half of the rural population (54%) falls within the two lowest wealth quintiles.

India has made remarkable progress in financial inclusion:

An impressive 96% of households have access to a bank account. Additionally, 41% of households are covered by either government or private health insurance.

Indian households have a high savings rate: Indian households save almost a quarter of their gross disposable income, a rate higher than that of many other economies except China.

Indian households significantly contribute to the country's gross savings:

Indian households contribute ~64% in gross national savings, surpassing the combined contribution from the private and public sectors.

Indian households predominantly save in physical assets:

Savings in physical assets constituted ~70% of total household savings in FY23, while net financial savings accounted for about 29% of the total savings.

Indian households are risk-averse, holding financial assets primarily in currency and deposits:

Currency and deposits account for 56% of the o/s HH financial assets in India, compared to approximately 30% in France and the UK, 20-25% in Australia, Canada, and Brazil, and 13-16% in South Africa, Mexico, and the USA.

Indian households are not heavily leveraged: India's household debt to GDP, at 37.6%, is lower than the Emerging Markets average of 47.7%.

Exploring India's Household Financial Landscape

Currency/Cash remains a preferred store of value:

Currency with public (CWP) as a percentage of GDP remains higher than the long-term average despite the surge in digital transactions.

HH deposits are predominantly held in public sector banks:

Public sector banks hold 65% of total household deposits, whereas private sector banks only account for 29%. Term deposits make up 51% of the total household deposits, followed by savings deposits with a 43% share.

Significance of mutual funds in household asset allocation is increasing:

Households have been gradually increasing their allocation towards mutual funds, as evidenced by the steady rise in SIP contributions and the increasing share of smaller cities in the total MF AUM.

Small savings (SS) are an important component of the household portfolio: SS are preferred due to their potential for offering higher returns than bank deposits, along with the added advantages of a sovereign guarantee and tax benefits.

Improving Life insurance penetration in India:

There has been a significant improvement in first-year premiums of life insurers since FY16.

Households have improved access to formal credit:

Credit penetration (as measured by % of indebtedness) from formal sources in rural regions has risen from 13% in 2022 to 25% in 2018. Similarly, in urban areas, credit penetration has increased from 9% to 18% during the same period.

Commercial banks account for a large share of household financial liabilities:

As of March 2023, commercial banks hold a 74% share of total HH liabilities, followed by a combined 19% share of NBFCs and HFCs.

Retail accounts for 50% of the HH credit, while the rest is agriculture and business:

In the retail credit segment, housing loans represent half of the credit. Within the business credit segment, trade holds a 34% share, while industry accounts for a 30% share.

Minimal stress levels in household lending:

Stress levels across both bank and non-bank groups, as well as across various retail products, have been low.

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