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## BUDGET 2025: TAX SOPS, HIGHER DEPOSIT INSURANCE CAN OFFER SUPPORT TO BANKS



EXPERT  
VIEW

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**B**anking is at the heart of any nation's growth. When democratised, it becomes a financial engine capable of uplifting the masses on a large scale. The Indian banking industry is currently at a significant crossroads.

It's struggling to reinvent itself in the face of rapidly scaling fintechs that are fast capturing the untapped customer segment. PwC's research shows that from FY21 to FY24, the number and value of loans disbursed by fintechs have grown by a CAGR of 81% and 46%, respectively. This growth has been aided by fintech entities harnessing technology to extend their reach, streamline operations through automation and enhance credit accessibility. These players have been offering

a broad spectrum of loan products tailored to the diverse needs of borrowers—especially smaller borrowers, enabling financial inclusion.

Additionally, growing consumer interest in financial instruments beyond traditional fixed and recurring deposits is prompting bankers to reassess their product offerings. Rising preference among investors for higher-yielding investments, such as equities and mutual funds over bank deposits, has led to a decline in the share of bank deposits in the financial assets of Indian households. According to data released by the Reserve Bank of India (RBI), the proportion of household financial assets held in bank deposits dropped from 56.3% in FY20 to 44.2% in FY24.

A closer look at the RBI data also reveals that while term deposits grew 13.1% in H1FY25, current account savings account (Casa) deposits increased by only 6.5%. The declining share of Casa in the deposit mix is likely to raise the cost of funds for banks. This is despite the fact that, as of March 2024, currency held by households amounted to a staggering ₹32.4 trillion, highlighting the banking system's struggle to tap into the untapped deposit potential within Indian households. Poor mobilization of deposits is pressurising profitability and resili-

ence of the banking system and pushing up the cost of financing.

Faced with the challenge of lending large sums to enterprises developing innovative, tech-intensive business models addressing problems such as climate change, among others, banks are struggling to evaluate these ventures, accurately determine the true cost of funding, and assess the risks associated with such projects.

### Expectations from Union Budget 2025

Introduce tax incentives for research and development and innovation specifically for the banking industry to encourage banks to collaborate with fintechs and startups. This will foster the creation of new products, services, and business models, leading to greater penetration of banking and financial services while promoting the formalization of the Indian economy.

Rationalize the income tax rate on interest from bank deposits to help redirect household savings towards bank deposits. Additionally, raising the deposit insurance limit from the current ₹5 lakh per depositor to ₹10 lakh would enhance the safety of deposits and consequently increase their attractiveness to households.

To meet cost-effective funding needs for disruptive ideas and projects in areas such as climate change, the government, through the RBI, could provide priority sector lending (PSL) status to projects focused on climate adaptation and mitigation of climate risks. This alignment would not only help the country achieve its sustainability goals but also foster employment

**Banking is struggling to reinvent itself in the face of rapidly scaling fintechs**

opportunities linked to these investments. The principle of aligning the PSL framework to address emerging financing needs can also be extended to other critical sectors, such as investments in new technologies (e.g., AI, GenAI), digital infrastructure, healthcare, and other green initiatives. Credit is the financial fuel that propels India's journey towards becoming a Viksit Bharat. For banks to remain relevant in this credit-driven growth narrative, they must reinvent the way they design, develop, and deliver value to their customers. As banks navigate this transformative phase, they will undoubtedly require support, and the government should proactively utilize the budget as a platform to provide such assistance.

*Vivek Prasad is partner and leader—markets, PwC India.*

