

# Financialization of Indian household savings and tailwind for India's Corporate Bond market

- Indian household savings are steadily migrating from bank deposits to equities, mutual funds and alternative investments.
- This is creating structural constraints on bank lending, despite robust credit demand.
- Similar dynamics was seen in the US during the 1970s–1980s which ultimately catalysed the growth of a deep corporate bond market and a powerful non-bank credit ecosystem.
- India is at similar juncture and this could be the most important tailwind for corporate bond market in the decade ahead.

## How India today mirrors the USA of the 1970s–1980s and why the structural gap in bank credit is the most important tailwind for corporate bond market in the decade ahead

- ✓ India's banking system is experiencing a structural shift where household savers are moving money from bank deposits into mutual funds, equities and alternative investments. As a result, banks are finding it progressively harder to grow their loan books.
- ✓ USA also experienced something similar in 1970s -1980s. In both cases, rising financial sophistication among retail savers drove money out of low-returning bank deposits into market-linked instruments. In both cases, banks found themselves with rising loan-to-deposit ratios, squeezed margins, and constrained ability to grow their loan books. And in the US case, the vacuum left by constrained bank credit was filled by a new generation of non-bank intermediaries (investment banks, insurance companies, pension funds and eventually mutual funds) channelling capital directly into the corporate bond market.
- ✓ This transformation gave the US the deepest corporate bond market in the world with over USD 10 Tn today, with a high-yield segment that funds companies across the entire credit spectrum, from investment-grade to sub-investment-grade. India is at the beginning of an analogous journey. The deposit migration is the first act. The development of a deep, multi-participant fixed income market spanning underwriters/investors (funds, insurance and pension companies), public placements of bonds and eventually a domestic high-yield market is the second act.
- ✓ There are lot of parallels between India's current deposit migration and the US experience of the 1970s–1980s.

Dimension	USA: 1970s–1990s	India: Current market
Trigger	Regulation Q capped deposit rates, making it much below inflation (inflation surged through the 1970s) Introduction of money market mutual funds ( MMMFs) offering investors market rates led to bank deposits losing their monopoly on savings.	Indian households are becoming more financially sophisticated with democratized access to equity and mutual fund products Household allocation to bank deposits fell from 53% to 42% of savings (2020–2024); equity and MF allocation rose from 15% to 25%. Bank's monopoly on deposits is breaking down rapidly.
Loan-to-Deposit (LDR) Ratio	LDR at Savings and Loans (S&Ls) and commercial banks rose sharply through the 1970s–1980s as deposit bases shrunk; S&L sector insolvent by early 1980s	System-wide credit-deposit ratio breached 80% in 2024; incremental credit-deposit ratio stayed above 100% for 12+ months in 2022–23; deposits fell 8.97% in FY25
Bank Response	Raised CD rates; lobbied for Reg Q removal; began off-balance-sheet lending; sold loans to non-bank purchasers	Competing aggressively for term deposits; raising FD rates despite margin pressure; lending to NBFCs for last-mile distribution; Credit demand has remained robust with

Dimension	USA: 1970s–1990s	India: Current market
		banks forced to liquidate excess SLR holdings
Who filled the credit gap	Investment banks; insurance companies; pension funds; via corporate bonds, junk bonds, private placements, CLOs	Currently some of the gaps is being filled by wholesale NBFCs, AIFs / private credit funds, structured credit via NCDs, structured debentures, private placements.
Corporate bond market at this stage	Dominated by investment-grade (IG) only; high-yield (HY)/junk market near-non-existent before 1977; entire sub-IG borrower universe bank-dependent	Dominated by AAA/AA issuers, 98% private placements; corporate bond-to-GDP ~15–16% vs 225% in USA and UK, ~260% in Japan, and ~100% in China today; no domestic high-yield bond market; MSME/mid-market bank-dependent
Ultimate outcome	Massive expansion in instruments and markets that would become the backbone of US corporate finance: high-yield bond market grew from \$10Bn (1979) to \$189Bn (1989); full corporate bond market now \$10+ trillion; insurance/pension/mutual funds dominant investors	Still evolving: Economic Survey 2026 targets Rs 100–120 trillion bond market by 2030; structural need to be carried out (tax rationalisation, diversified investor participation (insurance/pension), deepening secondary markets etc)

The US transition was gradual, and it required regulatory innovation, institutional capacity building and market infrastructure development

Reform Area	USA: What Happened	India: Status and Gap
High-yield bond market	Drexel/Milken created original-issue HY market from 1977; democratized sub-IG borrower access to capital	No domestic HY market; sub-IG borrowers entirely bank/NBFC/private credit dependent; no domestic public HY market
Pension / insurance as bond investors	Regulators allowed insurance/pension funds to invest in diversified credit including VC and HY bonds	IRDA allows limited allocation for insurance and pension funds to corporate bonds (insurance cos constrained to top rated borrowers); massive institutional demand locked out of mid-market credit
Retail bond access	Treasury Direct; exchange-listed bonds; bond mutual funds; retail corporate bond market developed over 1980s–1990s	RBI Retail Direct (2021) for G-Secs; SEBI pushing for exchange-listed bonds; but retail participation in corporate bonds under 2%
Credit rating ecosystem	Moody's, S&P, Fitch built credible, widely-used rating methodologies through 1970s–1980s; rating became basis for institutional investment mandates	CRISIL, ICRA, CARE, India Ratings credible but coverage thin for mid-market; rating cost prohibitive for smaller issuers; no track record for HY ratings

India in 2026 is where the USA was circa 1978–1982: bank deposits migrating to market-linked instruments, loan-to-deposit ratios rising, credit gaps forming and non-bank intermediaries beginning to fill the vacuum. The US experience tells us what comes next and it is very positive for disciplined private credit funds for us. Bank disintermediation did not constrain US corporate finance, it liberated it. By forcing companies to find funding outside the bank system, it created a far deeper, more liquid and more competitive capital market. The diversity of investors (pension funds, insurance companies, mutual funds, hedge funds) and instruments (investment-grade bonds, high-yield bonds, leveraged loans, CLOs) produced better price discovery and more efficient allocation of capital. India's path to that outcome will require deliberate regulatory action high-yield market enablement, insurance/pension fund investment reform, tax rationalisation between equity and debt instruments, rating ecosystem development and retail bond access.

The most significant gap in India's corporate credit architecture analogous to the pre-Milken USA is the absence of a domestic high-yield bond market. Today, any Indian company below investment-grade that cannot access traditional credit has no public market where sub-investment-grade companies can issue bonds to a diversified investor base at risk-adjusted rates.

Once this market develops (and the US experience strongly suggests it will) the biggest beneficiaries will be the intermediaries who have built strong credit underwriting capability and investor relationships.

Certus Capital is currently filling the credit vacuum that traditional lenders have created at spreads that reflect genuine structural scarcity rather than incremental risk. This structural tailwind in India's corporate bond market evolution is directly aligned with our strategy and we can be the natural underwriters, warehouse providers and early investors in an Indian high-yield market.

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