

## **Non Resident Deposit Products**

Banks also offer various deposit schemes for Non Resident Indians. These deposit schemes are discussed in the following paragraphs:

### **Non-Resident Ordinary Rupee Account (NRO account)**

NRO accounts may be opened in the form of current, savings, recurring or fixed deposit accounts and they should be denominated in Indian Rupees. NRO-Savings Bank accounts are normally opened for crediting legitimate dues/earnings/income such as dividends, rent, interest etc. NRO-Term Deposits are opened by customers for better returns since they carry higher interest rates.

### **Non-Resident (External) Rupee Account (NRE account)**

NRE accounts may be opened in the form of current, savings, recurring or fixed deposit accounts. Such accounts can be opened only by the non-resident and not through the holder of the power of attorney. Account will be maintained in Indian Rupees and balances held in the NRE account are freely repatriable. Interest accrued/credited/paid in the NRE account is exempt from Income Tax. Banks are free to fix the interest rates on these deposits.

### **Interest Rates on Savings Bank Accounts – NRO and NRE**

Banks are free to determine their savings bank deposit interest rate, subject to the following two conditions:

- Banks will have to offer a uniform interest rate on savings bank deposits up to Rupees one lakh, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to Rupees one lakh.
- For any end-of-day savings bank balance exceeding Rupees one lakh, banks may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

Banks should calculate interest on savings bank accounts on a daily product basis.

## **Interest Rates on Term Deposits –NRO and NRE**

Banks can fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). Banks are, however, not allowed to discriminate in the matter of interest paid on deposits, between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank. Interest rates paid by the bank should be as per the schedule and should not be subject to negotiation between the depositor and the bank.

Banks are allowed to offer differential rate of interest on domestic term deposits on the basis of the following:

a. **Tenor of Deposits**

Banks are allowed to offer differential rates of interest on term deposits on the basis of tenor.

b. **Size of Deposits**

Banks are allowed to offer differential rates of interest on the basis of quantum for single term deposits of Rs.1 crore and above.

c. **Availability of early withdrawal option**

Banks have the discretion to offer differential interest rates based on whether the term deposits are with or without-premature-withdrawal-facility, subject to the following guidelines:

- i. All term deposits of individuals (held singly or jointly) of Rs.15 lakh and below should, necessarily, have premature withdrawal facility.
- ii. For all term deposits above Rs.15 lakhs, banks can offer deposits without the option of premature withdrawal as well. However, banks that offer such term deposits should ensure that at the customer interface point the customers are, in fact, given the option to choose between term deposits either with or without premature withdrawal facility.

- iii. Banks should disclose in advance the schedule of interest rates payable on deposits i.e. all deposits mobilized by banks should be strictly in conformity with the published schedule.
- iv. The banks should have a Board approved policy with regard to interest rates on deposits including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

### **Calculation of Interest on Term Deposits – NRO and NRE**

Banks are free to adopt any methodology for calculation of interest on deposits. However, they should provide information to their depositors about the manner of calculation of interest appropriately while accepting the deposits and display the same at their branches. If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.

### **Floating Rate Term Deposits – NRO and NRE**

A bank may offer floating rate domestic term deposit clearly linked to an anchor rate. In order to ensure transparency, banks should not use internal or derived rates while offering floating rate deposit products. Only market-based rupee benchmark rates, which are directly observable and transparent to the customer, should be used by banks for pricing their floating rate deposits.

### **Foreign Currency Non-Resident (Bank) Account**

FCNR(B) accounts are maintained only in the form of term deposits of one to five years. Recurring deposits are not accepted under FCNR(B) deposits. Reserve Bank of India has fixed ceiling on Interest rates for FCNR(B) deposits which is discussed below:

#	Duration	1 year to less than 3 years	3 years – 5 years
1	With effect from March 1, 2014 till date	LIBOR/ Swap plus 200 basis points	LIBOR/ Swap plus 300 basis points
2	With effect from August 14, 2013 up to February 28, 2014	LIBOR/ Swap plus 200 basis points	LIBOR/ Swap plus 400 basis points
3	With effect from May 4, 2012 up to August 13, 2013	LIBOR/ Swap plus 200 basis points	LIBOR/ Swap plus 300 basis points

4	With effect from November 23, 2011 up to May 3, 2012	LIBOR/ Swap plus 125 basis points	LIBOR/ Swap plus 125 basis points
5	November 15, 2008 to November 22, 2011	LIBOR/ Swap plus 100 basis points	LIBOR/ Swap plus 100 basis points

### **Payment of interest on overdue FCNR (B) deposits**

Banks at their discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days. The rate of interest payable on the amount of the deposit so renewed should be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal, whichever is lower. In the case of overdue deposits where the overdue period exceeds 14 days and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh FCNR (B) deposit, banks may fix their own interest rates for the overdue period on the amount so placed as a fresh term deposit. Banks will have the freedom to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of the minimum stipulated period under the Scheme, after renewal.

### **Interest payable on the deposit of a deceased depositor**

In the case of a term deposit standing in the name/s of –

- a deceased individual depositor, or
- two or more joint depositors, where one of the depositors has died, interest should be paid in the manner indicated below:
  - a. at the contracted rate on the maturity of the deposit;
  - b. in the event of the payment of the deposit being claimed before the maturity date, the bank should pay interest at the rate applicable to the period for which the deposit remained with the bank and not at the contracted rate, without charging penalty;
  - c. in the event of death of the depositor before the date of maturity of the deposit and the amount of the deposit being claimed after the date of maturity, the bank should pay interest at the contracted rate till the date of

maturity. From the date of maturity to the date of payment, the bank should pay simple interest at the applicable rate operative on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity. However, in the case of death of the depositor after the date of maturity of the deposit, the bank should pay interest at a rate operative on the date of maturity in respect of savings deposits held under Resident Foreign Currency (RFC) Account Scheme, from the date of maturity till the date of payment;

- d. if, on request from the claimant/s, the bank agrees to split the amount of term deposit and issues two or more receipts individually in the name/s of the claimant/s, it should not be construed as premature withdrawal of the term deposit for the purpose of levy of penalty provided the period and aggregate amount of the deposit do not undergo any change.

Further, in the case of claimant/s being residents, the maturity proceeds may be converted into Indian rupees on the date of maturity and interest be paid for the subsequent period at the rate applicable to a deposit of similar maturity under the domestic deposit scheme.

### **Payment of interest on FCNR (B) deposits of NRIs on return to India**

Banks allow FCNR (B) deposits of persons of Indian nationality/origin who return to India for permanent settlement to continue till maturity at the contracted rate of interest, if desired. Except the provision relating to rate of interest and reserve requirements as applicable to FCNR(B) deposits, for all other purposes, such deposits should be treated as resident deposits from the date of return of the account holder to India. Premature withdrawal of such FCNR (B) deposits should be subject to penal provisions of the Scheme. Banks should convert the FCNR (B) deposits on maturity into Resident Rupee Deposit Account or RFC Account (if eligible) at the option of the account holder. The rate of interest on the new deposit (Rupee account or RFC Account) should be the relevant rate applicable for such deposit account.

### **Prohibition on payment of additional interest on deposits of Senior Citizens**

Banks are prohibited from payment of additional interest on non-resident deposits of senior citizens including FCNR (B) deposits.

### **Premature withdrawal of deposits**

Banks on request from the depositor shall permit premature withdrawal of deposits under the FCNR(B) Scheme. Banks are free to levy penalty for such premature withdrawal at their discretion. Banks may also, at their discretion, levy penalty to recover the swap cost in the case of premature withdrawal of FCNR(B) deposits. Where premature withdrawal of FCNR(B) deposits takes place before completion of the minimum stipulated period of one year, in which case no interest is payable, banks may at their discretion levy penalty to cover the swap cost. However, the components of penalty should be clearly brought to the notice of the depositors at the time of acceptance of the deposits. If the depositors are not informed of the penalty provisions at the time of acceptance of deposits, the exchange loss arising out of premature withdrawal will have to be borne by the banks. Conversion of FCNR (B) deposits into NRE deposits or vice-versa before maturity will be subject to the penal provision relating to premature withdrawal.

### **Advances against FCNR (B) deposits - Manner of charging interest**

#### **Rupee advance against FCNR (B) deposits**

When a loan or an advance is granted against an FCNR (B) term deposit which stands in the name of a borrower either singly or jointly, a bank would be free to charge a rate of interest without reference to its own Base Rate.

#### **Rupee advances against FCNR (B) deposit to a third party or out of the resources mobilised under the scheme**

When a loan or advance is granted against the deposit to a third party or out of resources mobilised under the Scheme, interest rate chargeable should be at the rate as prescribed in terms of Reserve Bank of India's directive relating to Interest Rates on Advances.

#### **Advances granted in foreign currency out of the resources of FCNR (B) deposits**

Banks have the freedom to determine the interest rates on such loans.

#### **Conversion of FCNR (B) Accounts of Returning Indians into RFC Account - Waiver of penalty**

The penal provisions would not be applicable in the case of premature conversion of balances held in FCNR (B) deposits into RFC Accounts by Non-Resident Indians on their return to India.

### **Conversion of FCNR (B) Accounts of Returning Indians into RFC Accounts/Resident Rupee Accounts- Payment of interest**

A bank should pay interest at its discretion at the time of conversion of FCNR(B) Account into RFC/Resident Rupee Account even if the same has not run for a minimum maturity period, subject to the condition that the rate of interest should not exceed the rate payable on savings bank deposits held under RFC Account Scheme.

#### **Prohibitions**

Bank should not:

- accept or renew a deposit over five years.
- discriminate in the matter of rate of interest paid on the deposits, between one deposit and another accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank, except on the size group basis. The permission to offer varying rates of interest based on size of the deposits will be subject to the following conditions:
  - a. Banks should, at their discretion, decide the currency-wise minimum quantum on which differential rates of interest may be offered. For term deposits below the prescribed quantum with the same maturity, the same rate should apply.
  - b. The differential rates of interest so offered should be subject to the overall ceiling prescribed.
  - c. Interest rates paid by the bank should be as per the schedule and not subject to negotiation between the depositor and the bank.
- pay brokerage, commission or incentives on deposits mobilized under FCNR(B) Scheme in any form to any individual, firm, company, association, institution or any other person.

- employ/ engage any individual, firm, company, association, institution or any other person for collection of deposit or for selling any other deposit linked products on payment of remuneration or fees or commission in any form or manner.
- accept interest-free deposit or pay compensation indirectly.

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