

PRODUCTS AND SERVICES

The principal activity of a Bank is to accept deposits for the purpose of lending and investing. The Banks mobilise deposits from the public and invest 25% to 30% of these deposits in Government of India securities/debt instruments, lend 65% to 70% of these deposits to individuals, firms and corporates who are in need of funds and keep nearly 5% with Reserve Bank of India as cash.

Deposit Products

Broadly deposits are classified as demand deposits and time deposits. While demand deposits are repayable on demand and carry low interest rates or no interest, time deposits are repaid after the expiry of the deposit period and carry higher interest rates which vary according to the period.

Demand Deposits

Demand deposits are classified into Current accounts and Savings Bank accounts. The features are discussed in the following paragraphs:

- **Current Accounts**

Current accounts are opened to meet business transactions and hence will not earn any interest. There are no restrictions on the number of transactions per day but the banks will levy small fee for maintaining and managing the accounts. These accounts are meant for business related transactions where the account is operated mostly through cheques.

- **Savings Bank Accounts**

Savings Bank accounts are opened by individuals and the purpose of this account is to inculcate a habit of savings. Savings Bank accounts carry interest rates which will vary from bank to bank. Normally the interest is calculated daily and paid out half yearly. The customers can withdraw money through cheques or withdrawal form. The number of transactions per day/week is restricted and these vary from banks to banks. Further some banks prescribe average monthly/quarterly minimum balance in Savings bank accounts and failure to maintain the average balance will attract penalty. Further interest earned in Savings Bank deposits up to Rs.10000 is exempt from Income Tax.

- **Time Deposits**

A time deposit is an interest-bearing bank deposit that has a specified date of maturity. Time deposits can be opened by individuals, firms, corporates and designated institutions. Time deposits are accepted for specific periods normally ranging from seven days to 120 months and repayable on maturity. The rate of interest is fixed by each bank for different periods. The deposits are kept for specific periods but the customer has got the option to withdraw the deposit at his will before the maturity at a reduced rate of interest. The interest paid on the deposits can be cumulative or non-cumulative. The time deposits are non-transferable and deposits maturing on Sundays or public holidays or non-business days are paid with interest for such days at the contracted rate on the next immediate working day. Cash payment of time deposits is possible only if the amount of deposit including the interest does not exceed Rs.20000. If the amount exceeds Rs.20000 the payment has to be made either through crossed cheque or credited to current account or savings bank accounts of the customer.

Tax has to be deducted at source on the interest credited/paid to the customer on the time deposits if the interest credited/paid exceeds Rs.10000 at a time. The rate of tax is 10% plus surcharge as applicable as per the extant Income Tax rules where Permanent Account Number (PAN) is submitted by the customer and if PAN is not submitted then the rate of Tax to be deducted is 20%.

However if the depositor furnishes a declaration in writing in Form 15G/15H to the effect that his income is below the taxable limit, then tax will not be deducted at source. This form need to be submitted for each deposits and will be valid only for that financial year. Declaration (in duplicate) is to be made in Form No. 15H for a senior citizen (aged 60 years and above) and in Form No. 15G (in duplicate) for others (non-senior citizens). Further, declaration in Form No. 15G/15H can be made only by an individual resident in India.

Declaration in Form No. 15G/15H can be made, if the annual interest does not exceed the taxable limit. However, this condition is not applicable in case of a senior citizen (i.e. resident individual of at least 60 years of age) i.e. a resident senior citizen can furnish declaration in form 15H even if annual interest likely to be paid to him exceeds the taxable limit provided the tax payable on his total income is *nil*. That is, the tax payable on total income for the year should be "*Nil*".

Time deposits are classified as follows:

1. Fixed Deposits (interest payable half yearly)
2. Fixed Deposits (interest payable quarterly)
3. Fixed Deposits (interest payable monthly)
4. Reinvestment or Cumulative Deposit (interest is not paid out but added to the deposit)
5. Recurring Deposit (deposits are credited in equal monthly installments)
6. Flexi Recurring Deposit (special type of deposit which enables the depositor to save by paying into account an agreed minimum monthly installment with an option to deposit excess amount as per bank's scheme over a specific period)

Hybrid Deposits or Flexi Deposits

These deposits are a combination of demand and fixed deposits introduced for meeting the customers' financial needs in a flexible manner. Banks have given their own brand names to such deposits and these flexi deposits show a fusion of demand deposits and fixed deposits. Some of the features of such deposits are discussed below:

1. Only one savings/current account is opened and the term deposits issued under the scheme are recorded only in the bank's books as no term deposit receipts are issued to the customer. However, the term deposits issuance and payment particulars would be reflected in the statement of the savings/current account for customer's information/record.
2. Once the quantum of deposits in savings/current account crosses a pre-agreed level, such surplus is automatically transferred to the term deposit of a predefined maturity (usually one year) in the customer's name for increasing the interest earning.
3. In the event of a shortfall in the savings/current account, the cheques drawn on the account are honoured automatically by transferring the required money back from the term deposit (deposit which carries lower interest rate) to savings/current account (popularly known as sweep-in and sweep-out).