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Falling interest: Savings bank account holders hit most

By [Saikat Das](#), ET Bureau | Updated: Mar 14, 2016, 08.12 PM IST

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MUMBAI: [Savings bank account holders](#) have been hit most by falling interest as banks lowered the amount paid to them than what is charged for borrowers. But the silver lining is that the community as a whole is set to reap more than Rs 500 crores as additional [interest rates](#), thanks to the tweak in the way banks paid out interest on such deposits.

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The quarterly payout of interest to depositors instead of half-yearly could lead to the banking system poorer as they in aggregate have to pay Rs. 500 crores as additional interest, shows a study by the Indian Institute of Technology, Mumbai.

"Under the prevailing SB interest of 4% per annum, the new regulation would benefit the Saving Bank depositors to the tune of Rs 500 crore or more from the next financial year," said Ashis Das, an IIT-Bombay professor who was involved with [finance ministry](#) initiative on financial literacy and conducted the research.

Earlier on March 3, the Reserve Bank of India has mandated that banks pay interest at quarterly or shorter intervals. Prior to that there was not such stipulation. Based on a conservative projection during 2015-16 a daily average of about Rs 25 lakh crore was parked in savings bank deposit accounts, Das said in the research report.

"It was just two banks including [Axis Bank](#) and Yes Bank which give (Savings Bank) interest quarterly instead of popular practice of six months till now," he told ET.

"For SB deposit interest rate of 4% per annum, the increase in the effective yield rate would be 2.04 basis points when banks move from half yearly to quarterly interest payoffs," he said.

Majority of the banks in the US, Canada, the UK, France, Germany, Australia and New Zealand, follow the principle of monthly or shorter intervals for paying interest to the deposit accounts even though majority of the countries at present are near zero interest rates, or for that matter even negative interest rates.

The same holds for China, Hong Kong, Taiwan, Japan and Bahrain, he said.

In the absence of any regulation on interest application frequency to such deposits, till now most of the banks were paying interest on the SB deposits, that accounts for more than a quarter of the total deposit pie, at an interval of six months, Das estimated in the research paper.

"Though this is a major step in favour of the depositors, it has left a disparity compared to loans. For loans taken from the banks, the interest is computed at monthly rests," he said.

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