

Flexi deposits — look before you leap

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You have the flexibility to invest any amount. But this comes with strings attached

Disciplined, regular and systematic savings is something we all strive for, but only few manage to achieve. To help ease the process towards saving for our future, some banks have come out with flexible investment options. Flexi recurring deposit is one of them.

Under normal recurring deposits, you are required to put in a fixed sum on a fixed date, once every month. Flexi RDs give you the freedom to deposit any amount, anytime and as many times as you want in a month. With some banks, you even have the freedom to entirely miss the RD instalment, without having to worry about penalty for the default. Besides, few banks offer add-ons to make these flexi RDs more appealing to the younger generation as well.

Take ICICI Bank's iWish Flexible RD for instance. Once you log into your net banking account, the bank allows you to create a goal, calculate the minimum you need to save every month towards that goal and periodically share the progress of your investments towards that goal on Facebook. Your Facebook friends — be they parents or relatives or classmates — can also contribute to your goal through online transfer if they so wish, by clicking on this post.

While features such as these make flexi RDs seem inviting, you need to look before you leap.

Caveats

For one, the more the freedom, the more the chance that you would probably misuse it.

If you sign up for a regular recurring deposit, you can set up an auto debit instruction for the desired amount perhaps a day or two after your salary is credited into your account.

This way, your savings will automatically be built up.

If you opt for a flexi RD, you will have to make a conscious decision as to when and how much to invest each month and act accordingly.

You may end up forgetting, investing less than optimum or even postponing.

Secondly, the flexibility offered in terms of the amount that can be invested comes with some strings attached.

For instance, there is no cap on maximum investment in the normal recurring deposits of State Bank of India. But for flexi RDs, the bank caps the maximum amount at Rs. 50,000 per financial year.

Bank of Baroda has kept the minimum 'core instalment' for a flexi RD at a low Rs. 100. The monthly deposit amount can be increased only up to three times the core instalment, subject to a maximum of Rs. 10,000 per month.

So, if you put in a smaller sum at the beginning, thinking you can increase your investment amount to any extent as your investible surplus increases, you may be in for a disappointment.

Three, similar to normal RDs, most banks offer these flexi RDs for a period ranging from six to 12 months to ten years. But in some cases such as SBI, the flexi RDs are offered only for a period of five-seven years. Since interest rates go through cycles, locking in for such a long-term period, especially when rates are at a low or heading upwards, will not be a prudent move.

Four, with most banks, the interest rates on flexi RDs are the same as offered for a normal RD or fixed deposit of similar tenure. But some such as Bank of India follow a differential interest rate policy.

Under its Star Flexi-RD scheme, the bank allows a minimum core monthly instalment of Rs. 500 and its multiples, with no cap on the upper limit. Say, a customer opens an RD with a core instalment of Rs. 2,500 on January 1, 2016 for five years and the prevailing rate for a five-year RD is 7.5 per cent.

He will get 7.5 per cent interest for this core portion for five years.

Multiple rates

Assume he invests an extra Rs. 1,000 (apart from Rs. 2,500) on March 1, 2016. For this flexi-portion of Rs. 1,000, he would get interest for four years and nine months, at the corresponding rate prevalent for this tenure on March 1, 2016.

Thus, there will be multiple rates applicable. In such cases, locking into a flexi RD when interest rates are expected to move down may not help as the flexi instalments will end up fetching progressively lower rates.

Finally, with most banks, premature closure does not escape penalties and differential interest rates. If you close your iWish Flexi RD midway, for instance, you will not earn the interest rate that prevailed when you created your goal.

The rate will be corresponding to the period the investment had remained with the bank. Besides, a penalty will also be levied.

This inflexibility means that even if you have achieved the target amount in advance because you could contribute more, you may have to keep it till the end of the original period chosen, if you want the full benefit.

Discipline pays

Flexibility may often lead to less than optimal savings

Spokes

Caps applicable on investment amount

Tenures available may be different from normal RDs

Premature closure attracts penalties

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