

Will rates on savings deposits fall?

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Weak loan growth & sharp cuts in lending rates could see banks tweak the savings rates to manage margins



BL Research Bureau:

Recently, a top official at a leading public sector bank indicated a possible tweak in the savings bank deposit rate. This remark, however, went unnoticed.

With fixed deposit rates already in a free fall, a cut in savings deposit rate, kept unchanged at 4 per cent until now, can no doubt rattle depositors. Can banks trim SB rates after all?

Deregulated

Interest on savings account was deregulated from October 2011. But only a few banks — YES Bank, Kotak Bank, IndusInd Bank and Lakshmi Vilas Bank — chose to offer higher rates (5-7 per cent) to their depositors. Other banks have been offering a uniform 4 per cent, even in rising rate cycles.

There has been a sound reason for this. Large banks, particularly state-owned ones, have a sizeable deposit base.

Savings account form 25-30 per cent of total deposits for most

of these banks. Thus, even a 1 per cent increase in rates on savings deposit could have knocked off 20-30 basis points from these banks' margins.

The select few that offered higher saving rates of 5-7 per cent, were able to do so on a lower deposit base. For instance, in 2011-12, savings deposit formed just 5 per cent of YES Bank's total deposits.

Started to trim

By offering differentiated rates, these banks have been able to ramp up their low cost deposit base over the last couple of years. But some of these players have been reducing savings rates for specific deposits over the past one to two years.

For instance, IndusInd cut its savings rate by 0.5 percentage points to 4 per cent for deposits up to Rs. 1 lakh from May 2015. It continues to offer 5-6 per cent for deposits above Rs. 1 lakh.

Similarly, YES Bank offered 7 per cent on deposits above Rs. 1 lakh, until March 2015. It then offered 7 per cent only on deposits above Rs. 3 lakh until October 2015. The savings rate has been trimmed to 6 per cent on all deposits below Rs. 1 crore since then.

These banks have been trimming their rates to safeguard margins, as lowering rates by a few basis points has led to cost savings.

Savings deposits now account for 22 per cent of YES Bank's total deposits. For IndusInd, the share of savings deposits in total deposits has gone up from 9 per cent to 21 per cent in the last five years.

Following suit

Over the last one to two years, bank credit growth has been slipping to multi-year lows, leading to weak core earnings for banks. The earnings of public sector banks (PSBs) have been particularly hit by the marked slowdown, not to

mention the sharp rise in provisioning for bad loans.

The recent sharp cuts in lending rates have only added to their woes. Post demonetisation, banks have been slashing rates on fixed deposits, only to pass the chunk of the benefit to borrowers.

PNB, for instance, saw a sharp 50 bps reduction (year-on-year) in its cost of deposits in the latest December quarter. But a similar fall in yields on loans has offset the benefit.

The net interest margin, in fact, fell by 50 bps due to muted loan growth and reversal of income on account of bad loans.

Persisting pressure on margins, can see these banks reviewing their savings deposit rates. A 0.5-1 percentage point reduction in savings deposit rate can boost margins by 15-30 bps.

PNB has a savings deposit base of Rs. 2.2 lakh crore, forming about 36 per cent of its total deposits. Half a percentage point reduction in savings deposit rate can aid margins meaningfully.

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