

High-street banks say no to co-op banks' plea for 1-day deposit product

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Non-scheduled urban co-operative banks cannot deploy funds in call money market

MUMBAI, SEPTEMBER 7

The plea of non-scheduled urban co-operative banks (NSUCBs) that high-street banks should reduce the maturity period of term deposits to one day has been rejected by the latter.

NSUCBs had made this plea as they are prohibited from deploying daily surplus liquidity, if any, in the call money market. So, they end up parking surplus resources either in the current account with a commercial bank, or as term deposits for a longer period (with minimum seven-day maturity period) with scheduled UCBs.

With an eye on better liquidity management as well as returns, NSUCBs wanted a one-day (bulk) deposit product. These banks currently don't earn anything on the money parked in the current account with commercial banks. At the request of cooperative banks, the Reserve Bank of India suggested that commercial banks examine the feasibility of bringing down the period of term deposit to one day. But banks are not in favour of it, said a senior public sector bank official, who was part of the deliberations in this regard.

As of June-end 2018, 1,550 UCBs were operating in the country, according to the RBI's annual report for 2017-18. Of this, about 54 are scheduled UCBs (these banks can participate in the call money market) and the remaining are non-scheduled UCBs. The call money market is for uncollateralised lending and borrowing of funds. According to the central bank, this market is predominantly overnight, and is open for participation only to scheduled commercial banks and primary dealers.

S Ravi, a banking expert and practising chartered accountant, said: "If commercial banks start taking one-day term deposits, then non-scheduled urban co-operative banks will not keep anything in the current account.

"This will have cost implications for banks (costs will go up). While current account is interest-free, interest will have to be paid on one-day term deposit."

As of March-end 2017, the total assets of UCBs amounted to ₹5,39,900 crore, of which 54 SUCBs accounted for 47.1 per cent, and the balance 52.9 per cent by NSUCBs.

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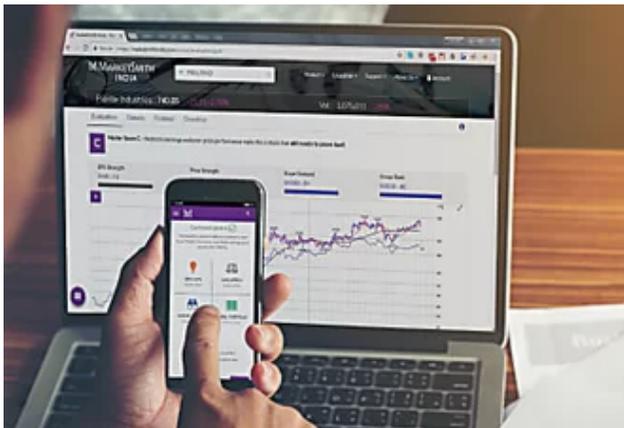
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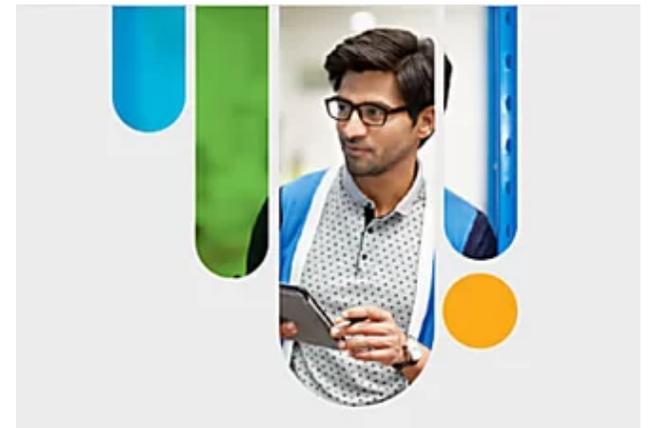


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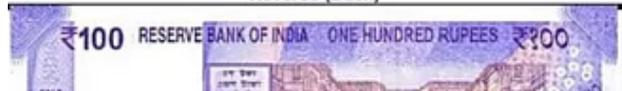
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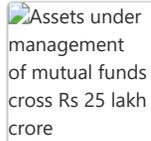
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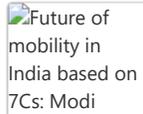
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