



Bank Fixed Deposits

Should you worry about the proposed bail-in option?

Various surveys point out that the majority of households prefer to park their money in bank deposits, with less than 10 per cent opting for investing in mutual funds or stocks. Why? Because consumers believe that investing in bank fixed deposits is one of the safest and oldest (hence tried and tested) ways to park their surplus funds and thereby earn regular interest income. In fact, now is perhaps a good time to invest in bank fixed deposits, as the rates are going upwards. With Reserve Bank of India (RBI) needing to reduce liquidity and money supply in the banking/monetary system, the last few months of 2018 have seen banks revising the deposit interest rates upwards to tap into the excess liquidity. But what if the financial situation of a bank deteriorates so much that it becomes unable to repay the deposits it holds? What guarantee does the customer have in such a situation?

All banks that are members of Deposit Insurance & Credit Guarantee Corporation (DICGC) enjoy a degree of protection – there is insurance coverage against the bank winding up and/or liquidation of the bank, for which the bank needs to pay a nominal insurance premium at regular

intervals. The bank depositors thereby enjoy DICGC cover up to Rs 100,000 per deposit account in each bank, in the event of an unfortunate event.

Now, with the proposed introduction of Financial Resolution & Deposit Insurance (FRDI) Bill (pending for passage in Lok Sabha and Rajya Sabha before becoming an Act of Parliament), there may soon

be a replacement for the existing DICGC. When incorporated, the Act will provide deposit insurance up to a certain limit (unconfirmed sources indicate a higher deposit limit of up to Rs 300,000) in the event of bank failure.

The new Bill is being incorporated to deal with issues that can arise when companies operating in the financial sector (such as banks, insurance companies and stock exchanges) go bust. It may be noted that the Insolvency and Bankruptcy Code (IBC) is already in place to deal with situations where companies (incorporated under The Companies Act) go bankrupt or insolvent.

Consumers' Concerns

The FRDI Bill has a provision that has caused some grief among bank depositors. Apparently it allows merger/acquisition, bail-in, transfer of a sick entity's assets and liabilities to a third party (so as to form a bridge company to control these assets and liabilities), and liquidation. In other words, it allows failing banks to use depositors' money to cut losses.

The bill has suggested that the use of the 'bail in' provision may result in cancellation of a liability, which could extend to bank deposits or could lead to

modification of the terms or changing the form of the asset class. This provision would be last in the line for payments in case of liquidation.

To assuage the anxiety of depositors, the government has said that public sector banks are well out of the radar as such emergencies are not likely to arise in them, the reason being that the government takes care of the capital needs of these banks. On the other hand, this tool will serve as the last resort in private sector banks only when a merger/acquisition is not viable.

The Bail-in Provision

Bail-in has been proposed as one of the resolution mechanisms in one of the clauses (52) for sustainability of a failing financial firm. The Bill provides for the establishment of a resolution corporation with the power to liquidate depositors' money in case of bankruptcy.

Bail-in can also be invoked if the depositor had given prior consent at the time of signing the deposit application/forms.



We chose 12 fixed deposits offered by banks based on consumer feedback, popularity and availability of full information in the public domain (including official websites). The parameters on which we have compared them include minimum deposit, minimum and maximum RoI, maximum RoI within minimum period, option for part withdrawal of deposit, maximum penalty for premature withdrawal, additional maximum RoI for senior citizens, loan facility and auto renewal. We gave high weightage (10 points) to consumer feedback, which also helped in determining the most important and beneficial variables. These variables have a direct bearing on the product structure.

CV RECOMMENDATIONS
Best Buy
Syndicate Bank
Good Buys
ICICI Bank
Bandhan Bank
Fair Buy
Canara Bank

CV Weightage Points	Tenure Deposit in Banks	Syndicate Bank	Bandhan Bank	ICICI Bank	Canara Bank	
	RoI Effective Date	10.02.18	09.04.18	27.04.18	06.02.18	
10	Minimum Deposit (Rs)	1,000 (7)	1,000 (7)	10,000 (1)	1,000 (7)	
5	Minimum Period (days)	7 (5)	7 (5)	121 (1)	15 (3)	
15	Maximum RoI within Min. Period (months)	12 (15)	24 (10)	390 D (10)	12 + (10)	
10	Minimum RoI (%) p.a.	4.75 (7)	3.50 (3)	6.00 (10)	4.20 (3)	
15	Maximum RoI (%) p.a.	6.75 (10)	7.1 (15)	6.75 (10)	6.50 (10)	
5	Premature Withdrawal Penalty (max. %)	1 (1)	1 (1)	1 (1)	1 (1)	
10	Option for Part Withdrawal of Deposit	NS (0)	Yes (10)	Yes (10)	Yes (10)	
5	Loan Facility (%)	95 (5)	NS (0)	90 (5)	90 (5)	
5	Auto Renewal	Yes (5)	NS (0)	Yes (5)	Yes (5)	
10	Additional Max. RoI for Senior Citizens	0.50 (5)	0.75 (10)	0.50 (5)	0.50 (5)	
10	Customer Feedback	6	2	5	3	
100	Total	66	63	63	62	

Notes:

- We have selected for this study only those bank FDs for which full information is available on the banks' websites.
- The comparative analysis here is for FDs with half-yearly interest payments on simple interest basis.

Bank Fixed Deposits



	Axis Bank	Union Bank	Yes Bank	SBI	Karur Vysya	PNB	IOB	Kotak Mahindra
	03.05.18	27.03.18	16.03.18	28.03.18	07.05.17	01.03.18	05.04.18	02.05.18
	5,000 (3)	5,000 (3)	10,000 (1)	1,000 (7)	100 (10)	100 (10)	1,000 (7)	25,000 (1)
	7 (5)	15 (3)	7 (5)	7 (5)	7 (5)	7 (5)	15 (3)	7 (5)
	12 (15)	10 (15)	36 M 10 D (3)	60 (3)	24 + (7)	12 + (10)	36 (7)	12 M 25 D (10)
	3.50 (3)	5.00 (7)	5.00 (7)	5.75 (7)	5.00 (7)	5.70 (7)	4.50 (7)	3.50 (3)
	7.10 (15)	6.75 (10)	7.25 (15)	6.75 (10)	7.00 (10)	6.75 (10)	6.80 (10)	7.00 (10)
	NS (0)	No (5)	Nil (5)	0.50 (3)	1 (1)	NS (0)	1 (1)	0.50 (3)
	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)
	NS (0)	90 (5)	90 (5)	90 (5)	Yes (2)	Yes (2)	90 (5)	NS (0)
	Yes (5)	NS (0)	Yes (5)	Yes (5)	Yes (5)	NS (0)	NS (0)	Yes (5)
	0.50 (5)	0.50 (5)	0.50 (5)	0.50 (5)	0.50 (5)	0.50 (5)	0.50 (5)	NS (0)
	7	4	5	6	3	5	6	4
	58	57	56	56	55	54	51	41

c) Consumers are advised to check the RoI before investing.

d) p.a. – per annum

e) NS – not specified

Income-tax benefits

Under Income Tax Act (as applicable to the financial year 2018–19 [assessment year 2019–20]), the interest received/accruing from fixed deposits/savings bank deposits under the new Section 80TTB up to Rs 50,000 is exempt from income tax, but is applicable to senior citizens only.

Banks also offer tax shield/tax saver fixed deposits that have a lock-in period of five years and are eligible for income-tax deduction under Section 80C (with upper limit up to Rs 150,000).

Avoid tax deducted at source (TDS) on interest income

Form 15G

A fixed depositor whose age is less than 60 years as on the date of making the deposit and whose gross total income is less than the income-tax slab (as applicable to him or her) can submit this form either at the time of making the bank deposit or at the time of effecting renewal of the same, or at any time during the currency of the deposit, but before the date of maturity of the deposit so that the bank does not deduct TDS on the same pertaining to the particular financial year (or assessment year). The depositor is well advised to insist on an acknowledgement from the bank so that one can be sure that TDS is not deducted inadvertently.

Form 15H

This form is to be submitted as above but needs to be submitted by those fixed depositors whose age is more than 60 years (senior citizens).

The lump-sum lessons

- Go for bank deposits that offer maximum interest within a specified minimum period.
- Avail partial withdrawal facility (wherever offered) to meet personal obligations.
- Do not be led into a trap by buying other financial products due to forceful mis-selling.
- Submit Form 15G/15H as soon as you open the fixed deposit (or during the currency of the FD but before date of maturity of the deposit) and secure acknowledgement.
- As and when TDS is deducted, verify in Form 26 whether TDS is reflected therein.



Unique Selling Points (USPs)

State Bank of India	• Anytime flexible conversion of FDs into cumulative interest payout (ensuring higher yield)
Punjab National Bank	• Minors of 10+ age can open FDs in their own name • Minimum FD can be opened with Rs 100
Syndicate Bank	• Maximum loan/overdraft facility up to 95% of the FD
Union Bank of India	• No penalty for premature withdrawal
ICICI Bank	• Partial withdrawal of FD without breaking the FD; the balance continues to earn FD interest
Karur Vysya Bank	• Minimum FD can be opened with Rs 100
Yes Bank	• No penalty for premature withdrawal
Bandhan Bank	• Partial withdrawal of FD without breaking the FD; the balance continues to earn FD interest • Senior citizens get 0.75% more than the standard rate of FD for chosen tenure
Vijaya Bank	• Minimum FD can be opened with Rs 50
Canara Bank	• Partial withdrawal of FD without breaking the FD; the balance continues to earn FD interest • On death of senior-citizen depositor, the FD can be continued on existing terms and conditions
Federal Bank	• If automatic renewal is not opted for, the FD amount with due interest will be credited to SB a/c

Fixed Deposit Schemes Offered by Companies Registered under Companies Act

NBFC	Minimum Period (months)	Minimum RoI (%), p.a.	Maximum Period (months)	Maximum RoI (%), p.a.	Interest Payment Period	Effective from
KTDFC	12	8.25	36	8.25	Qtrly	March 2018
DHFL	12	7.70	60	8.05	Hyly	2018
Mahindra Finance	12	7.55	60	7.70	Hyly	April 2018
LIC HF	12	7.30	36	7.45	-	February 2018
Gruh Finance	12	7.00	36	7.50	Yly	May 2018
Bajaj Finserv	12	7.60	36	8.10	Yly	May 2018
ICICI Home Fin	12	7.30	20	7.50	Yly	April 2018
Shriram City	12	7.65	60	8.25	Yly	April 2018

Note: There are certain limitations under which company fixed deposits can be invested (for example, minimum deposit amount, compounding frequency, etc.).

Post Office Time Deposits

Effective Date	01.01.2018
Minimum Deposit	Rs 200
Minimum Period	1 year
Maximum Period	5 years
Minimum Rate of Interest	6.60%
Maximum Rate of Interest	7.40%
Penalty for Premature Withdrawal	Not specified
Loan against Deposit	Not specified
Auto-Renewal Facility	Yes (CBS* offices only)
Minor Deposit in Own Name	Yes
Minimum Age of Minor (Years)	10

*Centralised Banking Solutions