

INTEREST ON DEPOSIT ACCOUNTS

(a) Interest Rate on Domestic Deposits

(RBI Circular DBR, Dir. No.84/13.03.00/2015-16, Mar-03, 2016 Updated as till November 11, 2021, and updated on 26.10.2023)

- i) Interest on Saving Deposits: Interest on domestic rupee savings deposits shall be calculated on a daily product basis (Paid on quarterly or earlier basis) as under:
- A uniform interest rate shall be set on balance up to Rupees one lakh, irrespective of the amount in the account within this limit.
 - Differential rates of interest may be provided for any end-of-day savings bank balance exceeding Rupees one lakh.

ii) Interest Rates on Term Deposits

- a) Tenor of Deposits: Minimum tenor of the deposit offered shall be seven days.
- b) Size of Deposits: Differential interest rate shall be offered only on bulk deposits i.e. Single deposit of Rs.2.00 Cr and above, for Regional Rural banks it means deposit of Rs.100 lakhs and above (RBI directions 26.10.2203).
- c) Banks can offer term deposits without premature withdrawal option. However, all term deposits accepted from *individuals* (held singly or jointly) for amount of Rs.1.00 Cr and below shall have premature withdrawal facility (RBI directions 26.10.2023).

Payment of Interest on pre-mature withdrawal:

- i. Interest shall be paid at the rate applicable to the amount and period for which the deposit remained with the bank and not at the contracted rate and
- ii. No interest shall be paid, where premature withdrawal of deposits takes place before completion of the minimum period.

Deposits Maturing on Non-Business Working Day:

- a) If a term deposit is maturing for payment on a non-business working day, Banks shall pay interest at the originally contracted rate on the original principal deposit amount for the non-business working day(s) (i.e. intervening between the date of the maturity of the specified term of the deposit and the date of payment of the proceeds of the deposit on the succeeding working day).
- b) In case of reinvestment deposits and recurring deposits, Banks shall pay interest for the intervening non-business working day on the maturity value.

Interest on overdue domestic deposit: If a Term Deposit matures and proceeds are unpaid, the amount left unclaimed with the bank shall attract rate of interest as applicable to savings deposits or contracted rate of interest on matured TD whichever is lower.

Floating rate domestic term deposits: Floating rate domestic term deposits shall be linked to a directly observable and transparent market determined external benchmark.

Penalties: In case of splitting of the amount of term deposit at the request from the claimant/s of deceased depositors or Joint account holders, no penalty for premature withdrawal of the term deposit shall be levied if the period and aggregate amount of the deposit do not undergo any change. No penalty for premature withdrawal shall be levied, where depositors of the branch desires premature withdrawal of deposit consequent to the transfer of business to another bank (applicable where business of one branch of a bank is transferred to another branch of another bank).

Payment of Interest on Time Deposit of Deceased Persons: In the event of death of the depositor before the date of maturity of deposit and amount of the deposit is claimed after the date of maturity, the bank shall pay interest at the contracted rate till the date of maturity. From the date of maturity to the date of payment, the bank shall pay simple interest at the applicable rate obtaining on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity; as per the Bank's policy in this regard. However, in the case of death of the depositor after the date of maturity of the deposit, the bank shall pay interest at Savings Deposit rate (as on the date of maturity) from the date of maturity till the date of payment.

Types of Death: Death can be physical or legal. Legal death arises when a person goes on missing or not traceable for more than seven years as per the Indian Evidence Act and a competent court issues an order to that effect.

- iii) Interest on Current Account: No interest is payable on amount lying in the account. In case of death of depositor, interest shall be paid for the period from date of death of the

depositor till payment to the claimant, at savings rate as applicable at the date of payment.

iv) Interest on Recurring Deposit: The interest on recurring deposit is paid at par with fixed deposit maturity

(b) Interest on Deposits transferred consequent to take over of a Bank: In case branch of a bank is taken over by another bank, the deposit accounts in rural and semi-urban branches will be deemed to have been transferred with same terms of contract as was originally agreed between the bank and the customer. As such the bank taking over the deposits of another bank shall pay same interest as was agreed between the bank and the customer.

(c) Discretion to Pay Additional Interest: Banks shall, at their discretion, allow additional interest of 1 % per annum, over and above the rate of interest on savings or a term deposit of bank's staff and their exclusive associations as well as on deposits of Chairman, Chairman & Managing Director, Executive Director or such other Executives appointed for a fixed tenure. The account eligible for such rate shall be in the

- i. Name of member or ex staff member
- ii. Spouse of deceased member or spouse of retired deceased member of the bank
- iii. An association or fund, the members of which are members of the bank.

It may be noted here that retired member of the staff does not include members compulsorily retired by the bank or retired in consequence of any disciplinary action. In the case of a term deposit which is standing in the name of an HUF, the Karta of the Hindu Undivided Family (HUF) cannot be offered higher rate of interest, even if he is a resident Indian senior citizen, as the beneficial owner of the deposit is the HUF and not the Karta in his individual capacity.

Employees taken over pursuant to scheme of amalgamation: the additional interest is allowed only if interest at contractual rate together with additional interest does not exceed rate, which could have been allowed if such employees were originally employed by the bank.

(d) Interest Rates on Non-Resident Deposits

i) Non-Residents (NRE/NRO)

Minimum tenor of NRE term deposits shall be one-year whereas Minimum tenor of NRO term deposits shall be seven days

Interest rates on NRE/ NRO deposits shall not be higher than those offered by the banks on comparable domestic rupee term deposits.

The benefit of additional interest rate on deposits on account of being bank's own staff or senior citizens shall not be available to NRE and NRO deposits.

If an NRE account holder, immediately on return to India, requests for conversion of the NRE term deposit into Resident Foreign Currency Account (RFC), the banks shall pay interest @ savings rate applicable to RFC account if the NRE deposit has not run for a minimum period of 1 year. However, if the NRE term deposit has completed 1-year interest shall be paid at the contracted rate.

Banks shall not mark any type of lien, direct or indirect, against NRE saving deposits

Penalty on premature withdrawal of NRE deposits: No penalty shall be levied for premature withdrawal of NRE term deposits for conversion into Resident Foreign Currency (RFC) Account.

Penalties for premature withdrawal can be levied for conversion of NRE deposit into FCNR (B) deposit and vice versa.

Interest Payable on the NRE Term Deposit Account of Deceased Depositor: In case the claimants of an NRE term deposit account of a deceased depositor are residents, the deposit on maturity shall be treated as a domestic rupee term deposit and interest shall be paid for the subsequent period at a rate applicable to a domestic term deposit of similar maturity.

ii) Foreign Currency (Non-resident) Accounts (Banks) Scheme

Tenor of deposits: The maturity period for term deposits under the FCNR (B) scheme shall maximum upto five years. No bank shall accept or renew FCNR (B) deposits over five years and no recurring deposits shall be accepted under the FCNR (B) Scheme.

Manner of calculation of interest on FCNR (B) deposits: Interest on the deposits accepted under the scheme shall be calculated on the basis of 360 days to a year. (i.e. each month to be treated of 30 days and year to be treated of 360 days). The interest on FCNR (B) deposits shall be calculated and paid at intervals of 180 days each and thereafter for the remaining actual number of days.

The interest rates ceiling on FCNR (B) deposits shall be as under: *

Period of deposit	Ceiling rate
1 year < 3 year	Overnight Alternate Reference Rate for currency plus 250 basis points
3 year <= 5 year	Overnight Alternate Reference Rate for currency plus 350 basis points

The Overnight Alternative Reference Rate for the respective currency /SWAP rates as on the last working day of the preceding month shall form the base for fixing ceiling rates for the interest rates offered effective in the following month.

Differential Rate of Interest: The banks can decide the currency-wise minimum quantum for giving differential rate of interest.

Calculation of interest on renewal of FCNR (B) deposits: Interest calculation on renewal: If the period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days, the rate of interest payable on the amount of the deposit so renewed shall be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal, whichever is lower.

- (a) In all other cases of renewal, interest rates for the overdue period on the renewed amount shall be determined by treating it as a fresh term deposit.
- (b) If, after renewal, the deposit is withdrawn before completion of the minimum stipulated period under the scheme, scheduled commercial banks may, at their discretion, recover the interest paid for the overdue period i.e. period beyond the original date of maturity.

Interest payable on the deposit of a deceased FCNR (B) depositor: Banks shall pay interest on the term deposits standing in the name(s) of a deceased FCNR(B) individual depositor or two or more joint depositors where one of the depositors has died, as under: -

- (a) If paid on the maturity of the deposit, interest shall be paid at the contracted rate;
- (b) If the deposit is claimed before the maturity date, interest shall be paid not at the contracted rate but at the rate applicable to the period for which the deposit remained with the bank and without charging penalty for pre-payment;
- (c) In case the depositor dies before the date of maturity of the deposit but the amount of the deposit is claimed after the date of maturity, interest shall be paid at the contracted rate till the date of maturity and simple interest at the applicable rate operative on the date of maturity for the period for which the deposit remained with the bank beyond the date of maturity.
- (d) In case of death of the depositor after the date of maturity of the deposit, the interest rate operative on the date of maturity in respect of savings deposits held under Resident Foreign Currency (RFC) Account Scheme shall be paid from the date of maturity till the date of payment.
- (e) In case the claimants are residents, the maturity proceeds shall be converted into Indian Rupees on the date of maturity and interest shall be paid for the subsequent period at the rate applicable to a domestic term deposit of similar maturity.

Payment of interest on FCNR (B) deposits of NRIs on return to India: Banks may, at their discretion, on receipt of the request from the depositor, allow FCNR (B) deposits of persons of Indian nationality/origin who return to India for permanent settlement to continue till maturity at the contracted rate of interest subject to the conditions that:

- (a) The rate of interest as applicable to FCNR (B) deposits shall continue.
- (b) The deposits shall be treated as resident deposits from the date of return of the account holder to India.
- (c) The FCNR (B) deposits on maturity shall be converted into Resident Rupee Deposit Account or RFC account (if eligible) at the option of the account holder.
- (d) The rate of interest on the new deposit (Rupee account or RFC Account) shall be the relevant rate applicable for such deposit account.

Conversion of FCNR (B) Accounts of Returning Indians into RFC: Bank shall pay interest at the time of conversion of FCNR(B) Account into RFC/Resident Rupee Account even if the deposit has not completed the minimum maturity period mentioned. Provided that the rate of interest shall not exceed the rate payable on savings bank deposits held under RFC Account Scheme.

Premature withdrawal of deposits

- a) Banks shall, on request from the depositor, permit premature withdrawal of deposits under the FCNR (B) Scheme.

b) If the premature withdrawal of FCNR (B) deposits takes place before completion of the minimum stipulated period i.e.1 year, no interest shall be paid.

Penalty on Premature Withdrawal of deposits: Penalty shall be levied on premature withdrawal of FCNR (B) deposits

- When the depositors return to India for permanent settlement.
- For conversion of FCNR (B) deposits into NRE deposits or vice-versa.
- In case of splitting of the amount of term deposit at the request from the claimant/s, no penalty for premature withdrawal of the term deposit shall be levied if the period and aggregate amount of the deposit do not undergo any change.
- Banks shall, at their discretion, levy penalty to recover the swap cost in the case of premature withdrawal of FCNR (B) deposits.
- No penalties shall be levied in the case of premature conversion of balances held in FCNR (B) deposits into RFC Accounts by Non-Resident Indians on their return to India.
- No penalty for premature withdrawal shall be levied, where depositors of the branch desires premature withdrawal of deposit consequent to the transfer of business to another bank.

iii) Resident Foreign Currency Accounts Scheme:

Bank shall have the freedom to determine interest on deposits of money accepted by it or renewed by it under the Resident Foreign Currency Account Scheme, in accordance to the comprehensive policy on interest rates on deposits duly approved by the Board of Directors or any committee of the Board.

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