

Fixed-term deposit schemes with higher returns back as banks seek to counter tax-free bonds

KOLKATA: Fixed-term deposit schemes with higher returns are making a comeback as banks are trying to increase their deposits amid a flight of savings to tax-free bonds floated by state-owned entities.

Typically, these schemes have special maturity terms like 365 days, 444 days or 1,111 days and carry higher interest rates than returns offered on regular deposits. Such products were successful in 2008 and 2010 when banks collected huge sums within a short time.

"This is a marketing strategy," Punjab National Bank BSE 0.81 % chairman and managing director KR Kamath told ET.

He explained that the product does not make much of a difference to banks in terms of cost as the rate offered is just a tad high, but creates a big impact on the customer's mind.

PNB is offering 9 per cent a year for 400-day deposits while the rate is 8.75 per cent for deposits over one year to five years (except for 400 days). The bank's one-year deposit also carries a rate of 9 per cent.

Even United Bank of India and State Bank of Travancore have lined up such products during the festive season. The goal is quite simple: to beat the sluggish deposit growth and prevent flight of savings to tax-free bond offerings by other government-run entities like the Power ..

"Such schemes are designed to attract depositors with a higher interest rate," UBI ED Deepak Narang said. State Bank of Travancore is offering 9.50 per cent a year for 400 days for a minimum deposit of Rs 10 lakh since September to mark Onam.

It has lined up another product for 1,200 days with 10 per cent rate if money trickles in from overseas remittances or gets transferred from other banks. Besides attracting retail customers, these products help banks to correct their asset-liability mismatches by raising deposits with specific terms.

Typically, this kind of product goes off the shelf after a limited period. Andhra Bank and Canara Bank BSE 0.54 % too have lined up similar products, while HDFC Bank has one such scheme wit ..

State Bank of India and ICICI Bank BSE 0.40 %, however, do not have such offerings. Most banks are offering schemes with shorter tenures as depositors prefer shorter periods amid ever-rising commodity prices.

(Economic Times)