

## **OPERATIONAL ASPECTS OF DEPOSIT ACCOUNTS**

- The term 'Banking' has been comprehensively defined **under the Banking Regulation Act, 1949.**

According to Section 5(b) of the Banking Regulation Act, the term 'Banking' means accepting for the purpose of lending or investment of deposits of money received from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

### **1. DEMAND DEPOSITS**

- a) **Current Deposits:** Current deposit accounts are opened to meet the transactions of business and trade and hence are not entitled to any interest from the bank.
- On the contrary, the bank could **levy charges for maintaining the accounts in the form of per page fees, per cheque leaf debit charges, minimum balance fees** etc.
  - The minimum balance could differ from bank to bank. There **are no restrictions on the number of transactions per day** but the customer has to pay cheque leaf charges at the time of issue of cheque books by the bank.
  - Current account is meant, **normally for trading or business transactions** where every transaction made is only through cheque.

**A current account cannot be opened by:**

- **Minors:** However, accounts of minors to be operated by the natural guardian may be opened.
  - Purdanashin women
  - Illiterate persons
  - Blind persons
- b) **Saving Deposits:** Its purpose is to inculcate a habit of saving. It is **opened by individuals/trusts**, etc. **Interest rate** on savings bank is de-regulated and it is now decided by each bank.
- The interest is calculated **on daily basis and is paid on half yearly basis**. The bank's customers can **withdraw amounts either by cheque or withdrawal form**.
  - **Nomination facility** is available.
  - In the case of **frequent return of cheque** due to insufficient funds, the bank can **impose a penalty and ultimately close the account** after due notice to the customer.
  - **The numbers of withdrawals are restricted by each bank** and the **minimum balance to be maintained** could vary between ` 100 and ` 25,000 as per policy of each Bank.
  - However, in case of small accounts and basic savings bank account minimum Monthly Average Balance (MAB) requirement is not applicable. **As per guidelines in force interest earned on SB deposits up to ` 10,000 is exempt from Income tax.**

**In terms of RBI's guidelines, no bank can open a savings bank account for**

- Government departments
- Municipal corporations
- Municipal committees
- Any political party
- Any trade, business, or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association

**The above prohibition will not apply in the case of the following organizations/agencies:**

- **Primary Co-operative Credit Society** which is being financed by the bank.
- **Self-Help Groups (SHGs)**, registered or unregistered, which are engaged in promoting savings habit among their members/Farmers Clubs
- **Agriculture Produce Market Committees.**
- **Khadi and Village Industries Boards.**
- **Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in State or a Union Territory**

**Pass Books**

**Pass books are issued** in SB accounts at the time of opening the account and is issued to the customers after getting their acknowledgement.



### Transfer of accounts

- At the **written request of the customer**, the **SB account can be transferred from one branch to another branch of the bank free of any charges.**

### **1. TERM DEPOSIT ACCOUNTS**

- **Minimum maturity period:** 7 days
- **Maximum maturity period:** it is restricted to 10 years
- **Overdue:** Term deposit is said to be overdue when it is not claimed or renewed after the due date.
- **Overdue interest:** banks can allow overdue interest if deposit is renewed from the date of maturity within 14 days from the due date of the previous period. And this interest will be payable only on the amount that is a renewed.
- **Nomination facility** and premature withdrawal is allowed.
- **Premature withdrawal** can be allowed by paying interest as the same rate or lesser rate of the interest payable for the period deposit remained with the bank.
- **Loan against the term deposit** in the shape of demand loan or overdraft facility can be allowed with specific margin as per discussion of banks.
- **Term deposit maturity** cannot be paid in cash if the amount is Rs 20,000- or more as per the section 269 t of IT act and can be paid only by way of a credit to bank account or by way of account payee crossed demand drafts.

## Recurring Deposits (RD)

These deposits are in the nature of **fixed amounts being paid by the depositor every month for a predetermined period**

## Basic Saving Bank Deposit Account

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- No-frill account were replaced by BSBDA to provide minimum facilities at the advice of RBI
- **No requirement of minimum balance**
- **Deposit and withdrawals** of cash at branch, ATMs, remittance services and collection of cheques
- **No limit of deposit transactions**, debit transactions are limited to 4 transactions in a month (ATM transactions also included)
- ATM card facility
- Subject to KYC/ AML Guidelines, if the account is opened using simplified KYC guidelines, then the account would be treated a small account
- Holders of the account will not be eligible for opening any other saving bank account in that bank.
- Existing account is to be closed within a period of 30 days from Date of opening of BSBDA account

### These are subject to following restrictions:

- the **aggregate of all credits** in a financial year not to exceed **1 lakh**
- the **aggregate of all withdrawals** and transfers in a month not to exceed **10,000/**
- the balance at any point of time **not to exceed 50,000/-**. (For deposits through Government grants, welfare benefits and payment against procurements, this limit will be ignored.)



- Foreign remittance not to be credited

### **Certificate of Deposits (CDs)**

The certificate of deposit are short-term negotiable money market instruments. CDs are not in the nature of other bank deposits, but are a distinct category. Salient aspects of CDs are enumerated below.

- CDs can be issued by the **SCBs, RRBs, and SFBs to all persons** resident in India.
- Tenor of CDs should be **minimum 7 days and maximum 1 year**.
- Interest rate may be **fixed or floating** linked to the benchmark rate specified by Fixed Income Money Market and Derivatives Association of India (**FIMMDA**).
- **CD's may be issued at discounted value** or with a coupon for interest.
- CDs are traded in the **secondary market**.

### **Unclaimed deposits**

#### **Interest on Inoperative accounts/ Unclaimed deposits**

- Interest on SBs should be **credited on regular basis whether the account is operative or not**.
- **No penal charges for shortfall in minimum balance** should be levied on inoperative accounts.

### **Interest on accounts frozen by banks**

- **For TDs that mature during frozen status**, a request letter should be obtained from the depositor for renewal of the deposit amount with interest for specified period.

- If the **request is received within 14 days of expiry**, renewal should be done **with effect from the date of maturity**.
- **If received after 14 days**, renewal will be from the **date of receipt of the request**.

## PROHIBITIONS & EXEMPTIONS

### Prohibitions

Banks are not permitted to engage in following practices in respect of deposit taking business:

- (i) Pay any remuneration or fees or commission or brokerage or incentives on deposits in any form to any individual or entity except:
  - Commission to agents employed to collect door-to-door deposits under a special scheme.
  - Commission to Direct Selling agents/Direct Marketing Agents as outsourcing arrangement.
  - Remuneration to Business Facilitators or Business Correspondents.
- (ii) Accept interest-free deposit other than in current account or pay compensation indirectly.

### Exemptions

Various provisions related to interest rates on domestic deposits are not applicable to the following:

- (1) A deposit received by the bank:
  - (a) from the institutions permitted to participate in the Call/Notice/Term Money Market both as lenders and borrowers.
  - (b) for which it has issued a participation certificate.
  - (c) under the Capital Gains Accounts Scheme, 1988
  - (d) under the Certificate of Deposit Scheme.

(e) Payment of interest on delayed collection of outstation instruments like cheques, drafts, bills, telegraphic/mail transfers, etc.

## INOPERATIVE & DORMANT ACCOUNTS

- Accounts where there are no operations, that is no debit no credit other than crediting of periodic interest or debiting of service charges, for more than one year.
- The banks may approach customers to ascertain the reasons due to the inherent risk associated with it.
- **Saving or current account should be treated as inoperative for dormant if there are no transactions in the account for over 2 years.**
- If on contacting the customer any satisfactory reasons are given, account should continue be classified as operative account for one more year and customer be requested to operate the account in between.
- Failure to do so even during the extended period, banks will classify the same as inoperative account after expiry of the extended period.
- The segregation of the in operative accounts is from the point of view of reducing the risk of frauds.
- **Operations in such account may be allowed after due diligence** as per risk category of the customer and there should not be any charge for activation of inoperative account.
- **Interest on savings bank accounts** should be credited on regular basis whether the account is operative or not.
- If a fixed deposit receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.



## **UNCLAIMED DEPOSIT (IN-OPERATIVE 10 YEARS AND ABOVE)**

- Except for drafts, cash orders, gift cheques all other accounts in inoperative category remaining inactive for 10 years or more are to be **transferred to in-operative 10 years and over day of December each year.**
- An annual report in the same regard is also required to be sent to RBI under **section 26 of banking regulation act** within 30 days.
- Banks having websites, are therefore advised that they should display the list of unclaimed deposits / inoperative accounts which are inactive / inoperative for ten years or more on their respective websites. (to be updated on monthly basis)
- Banks are not permitted to debit penal charges for non-maintenance of minimum balance in inoperative accounts.

## **DEPOSITOR EDUCATION AND AWARENESS FUND**

### **SCHEME (DEAF)**

- **Depositor Education and Awareness Fund Scheme was established in 2014 u/s 26 of Banking regulation Act.** The Fund shall be utilized for promotion of depositor's interest and for other purposes are specified from time to time by RBI.
- All banks are required to transfer credit balances in accounts that have been inoperative for at least 10 years to the DEAF according to specific guidelines.
- **Amount payable in foreign currency** to be converted into Indian Rupees at the prevailing exchange rate.

- In case of claim only Indian Rupee received by the fund will be refunded.
- As per the latest announcement, banks have to list out inoperative accounts every month and transfer funds lying in these accounts along with interest accrued, by the end of each month.

**Preservation of records:** If any amount that are credited permanently and for those amounts where refund has been claimed from the DEAF, banks shall preserve records/ documents in respect of such accounts and transactions, for a period of at least 5 years from the date of refund.

### **OPERATIONAL INSTRUCTIONS IN JOINT ACCOUNTS**

- **"Jointly" without survivorship clause:**  
As there is **no survivorship clause**, in the **event of death of one of the account holders her right on the funds passes on to the legal heirs of the deceased.**
- **"Jointly or Survivors":**  
The **mandate given is that in the event of death of any of the holders, the surviving holders have the right over the account.**
- **"Either or Survivor" (E or S):**  
This modality is used for an account **opened in the names of two persons.** The account can be operated by **either of them.** In the event of the death of one of them, the **survivor can be allowed to operate this account** or the balance in the account can be paid to the survivor.
- **"Anyone or Survivor" (A or S):**  
This modality is used when an **account is opened by more than two persons,** and is to be **operated by any one of them.** In the event of death of one of the holders, **the right to operate the account rests with the survivors, but jointly.**

- **"Former or Survivor" (For S):**

This modality is used for an account **opened in the names of two persons**. Such account can be **operated by the first holder during her lifetime**. In the **event of the death of the first holder, the survivor can operate the account**.

- **"First named or Survivors":**

This modality is used for an account opened in the **names of more than two persons**. Such account can be operated by the first holder during her lifetime. In the **event of the death of the first holder, the survivors can jointly operate the account**.

## NOMINATION FACILITY

- **Compulsory in all the single name accounts** and if account holder is not willing to nominate then he is to give **refusal in writing**.

Sections	Deals with nomination in
Section 45Z A	Deposit Accounts
Section 45Z C	Safe Custody of articles accounts
Section 45Z E	Lockers

- Banks are **required to acknowledge in writing** the filing of the relevant duly completed form of a nomination, cancellation, variation of the nomination.
- **Nomination can only be made in the name of natural persons** that is an individual including minor or insolvent person or NRI and cannot be made in the name of firm, company etc.
- **In joint accounts should be made by all jointly**.
- In **minor guardian operated account** it can be made by guardian and in case of minor self-operated account nomination is not allowed

- Nomination **can be made, cancelled or altered anytime** during which the deposit account is maintained.
- Nominee is having **status of trustee for legal heirs** in receiving the money or articles and is not the owner.
- **Variation or cancellation of nomination** all jointly operated accounts including either or survivor, former or survivor, will be valid only if signed by all the depositors together.
- **On the change of title of the account** (due to addition or deletion) the nomination is cancelled automatically.
- **Safety lockers:** for single name and joint (e/s or f/s) one nominee is allowed. But for jointly operated lockers the maximum number of nominees can be two.

### Nomination Forms

Type	Registration	Cancellation	Variation
Deposit	DA -1	DA - 2	DA - 3
Safe Custody	SC - 1	SC - 2	SC - 3
Locker	SL- 1 or SL 1A Joint	SL - 2	SL- 3 or SL 3A Joint

### Garnishee Order

Garnishee order is an attachment order issued by a Court under order 21, Rule 46 of Civil procedure code, that is obtained by the judgment creditor attaching the funds belonging to a judgment debtor in the hands of latter's debtors, including a bank (the Garnishee).

### Do's and Don'ts under Garnishee Order

- **On Receiving: Time and date of receipt of Garnishee order** must be recorded in the System.



- **'Order NISI:** The Court may issue such Garnishee order in two parts. First order called as "Order NISI" will be seeking the **explanation of the bank why the balances in the accounts of the judgment debtor'** with the bank should not be attached and utilized towards settlement of dues to the 'judgment creditor'.
- **Action on Order NISI:** On receipt of "Order NISI" the bank must **immediately stop payments out of the affected accounts**, and also inform the customer about this court order
- **Right to set-off:** When a bank has a **prior right to set-off**, then the bank is not bound by the garnishee order.
- **Multiple Accounts:** In case where the customer is having more than one account in the bank, branch, where one is in debit and the other is in credit, the net result if in credit can be attached
- **Contingent Liabilities:** The bank cannot appropriate the credit balance towards the contingent liabilities of the customer, when a garnishee order is served.
- **Balances out of India:** Balances held outside India cannot be attached.

### Other Attachment Orders

Other attachment orders are normally issued by competent authorities like Income Tax Dept./ GST authorities, Enforcement Directorate, National Investigation Agency, PF/ Employees State Insurance authorities, etc.