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OPERATIONAL ASPECTS OF DEPOSIT ACCOUNTS

PPB CHAPTER – 5 MODULE A BY ASHISH SIR

Current Account

1. **Definition:** A **transactional account** for frequent/regular financial transactions by **traders, business people, and entrepreneurs**. **No interest** is paid on deposits in these accounts.

2. **Purpose:** Meant for individuals or institutions with a **large number/volume of transactions**.

- Used for **day-to-day business needs** and parking operational surplus funds.

3. **Who Can Open a Current Account:**

- ✓ Individuals
- ✓ Sole Proprietorships
- ✓ Partnership Firms
- ✓ Limited Liability Partnerships (LLPs)
- ✓ Private/Public Sector Companies
- ✓ Clubs, Associations, Trusts
- ✓ Government/Local Bodies
- ✓ Cooperative Societies

Overdraft

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- ✓ Religious/Educational/Charitable Institutions
- ✓ Registered/Unregistered Societies
- ✓ Juridical Persons like Special Purpose Vehicles (SPVs).

4. Who Cannot Open a Current Account:

- **Minors** (except accounts operated by their natural guardian).
- Pardanashin women.
- Illiterate persons.
- Blind persons.

5. Transaction Features:

- ✓ No restriction on the amount of deposits or withdrawals.
- ✓ No limit on the number of transactions.
- ✓ No ceiling on the account balance.
- ✓ Banks may stipulate a minimum balance requirement.

6. Account Operation:

- ✓ Prop. Mohan Individuals operate accounts in a personal capacity.
- ✓ Legal entities operate through **authorized signatories.**
- Individuals may use a Power of Attorney to authorize others to operate their accounts.
- Accounts can be debited by cheques, net banking, or joint authorizations.

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7. **Standing Instructions and Authorizations:** Account holders can give **standing instructions** to execute recurring debits.

- They can authorize payments to corporates or institutions through **NACH (National Automated Clearing House)**.

8. **Bank Charges:** Banks can debit the account for **charges, interest**, or other fees as per the customer's authorization.

9. **Cash Transactions:** Cash deposits and withdrawals are permitted without restrictions.

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10. **ATM Withdrawal:** available for **individual accounts**.

11. **Temporary Overdraft (TOD):** Allowed for **trustworthy customers** based on specific rules or policies.

- Requires a **written request** and a **Demand Promissory Note (DPN)** from the account holder.

~~12. **Restrictions for Borrowers:** Restrictions apply to borrowers opening current accounts.~~

SAVINGS BANK ACCOUNT

1. **Purpose:** Meant for **individuals**, either **singly** or **jointly** with others. Sometimes opened for **institutions** approved by the **RBI** for maintaining savings accounts.

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2. **Types:** Accounts can be opened **with cheque facility** or **without cheque facility**.

3. **Withdrawals:**

- **Without cheque facility:** Allowed through **withdrawal slips** (at bank branches) with the passbook.
- **With cheque facility:** Withdrawals can be made through **cheque, net banking, or mobile banking**.
- **ATM Withdrawals:** Cash withdrawals are permitted via ATMs.

4. **Deposits:** Deposits can be made in **cash, by cheque, or through electronic transfers**. **Interest is payable** on the deposits as determined by the bank.

5. **Standing Instructions:** Banks accept **standing instructions** for periodic payments by debiting the savings account.

6. **Business Transactions:** These accounts are **not meant for business or trading activities**.

BSBDA 7. **Balance Limit:** There is **no ceiling** on the balance that can be maintained in the account.

8. **Interest Rate Regulation:** RBI has **deregulated** interest rates for savings deposits.

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- **For balances up to ₹1 lakh:** Banks must offer a **uniform interest rate**.
- **For balances above ₹1 lakh:** Banks can provide **differential interest rates**, provided they do not discriminate between deposits of similar amounts and dates at any branch.

ELIGIBILITY TO OPEN SAVINGS ACCOUNTS

1. Not Eligible:

- **Government departments** or bodies relying on budgetary allocations.
- **Municipal Corporations/Committees, Panchayat Samitis,** or similar bodies.
- **State Housing Boards, Water and Sewerage Boards,** or Drainage Boards.
- **Textbook Publishing Corporations, Societies,** or Metropolitan Development Authorities.
- **Political parties** or any **trading/business** or **professional concern**, whether proprietary, partnership, company, or association.

2. Eligible Entities:

- **Individuals:** Single name or joint accounts.

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- **Minors:** Above **10 years of age** can independently open and operate accounts (some banks may set a higher age).
- **Karta of HUF.** Hindu undivided family
- **Other entities:** Categories with general permission from the RBI

SN.	Entities Eligible to Open Savings Accounts	Key Details
1	Primary Co-operative Credit Societies	Must be financed by the bank.
2	Khadi and Village Industries Boards	Eligible as per banking norms.
3	Agriculture Produce Market Committees	Includes committees set up for facilitating agricultural trade.
4	Societies Registered under the Societies Registration Act, 1860	Excludes societies under State Co-operative Societies Acts and state enactments for Land Mortgage Banks.
5	Companies Licensed by the Central Government	Must be licensed under: <ul style="list-style-type: none"> - Section 8 of the Companies Act, 2013 - Section 25 of the Companies Act, 1956 - Indian Companies Act, 1913 (with permission to omit 'Limited' or 'Private Limited' from their names).
6		Must qualify under the Income-Tax Act, 1961.
7	Government Departments/Agencies	For grants/subsidies under Central or State Government programs with proper authorization.
8	Development of Women and Children in Rural Areas (DWCRA)	Focused on empowering women and children in rural areas.
9	Self-Help Groups (SHGs)	Promoting savings habits among members, can be registered or unregistered.
10	Farmers' Clubs or Vikas Volunteer Vahini (VVV)	Groups aimed at promoting agricultural development and volunteerism.

Other Savings Bank Regulations

Minimum Balance

1. Banks may require a **minimum balance** in the account and levy charges for non-maintenance.

2. Customers should receive a **notice** (via SMS/email/letter) specifying:

- The **shortfall amount**.
- **One-month time** to regularize the balance before penal charges are imposed.

3. Penal charges should:

- Be **reasonable** and align with the bank's policy.
- Not result in a **debit balance** solely due to these charges.

4. If the shortfall persists, the bank may:

- **Close the account**.
- **Change the account category**, in consultation with the customer.

+ 50 Cr
~~40~~

95

Withdrawals

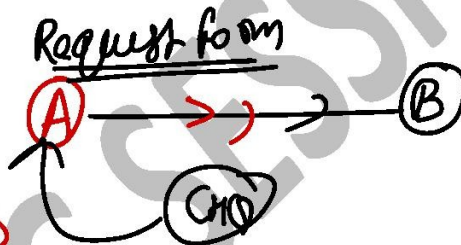
1. Banks may limit the **number of withdrawals** allowed during a specific period.

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2. **Withdrawal limits** may apply to the amount that can be withdrawn at once.
3. **Cash withdrawals** using withdrawal forms are allowed only for account holders with a **passbook**.

Pass Books

1. Passbooks are **issued at the time of account opening**.
2. Acknowledgment from the customer is required when issuing passbooks.



Transfer of Accounts

1. **SB accounts can be transferred between branches** upon the customer's written request, free of charge.
2. **Unused cheque leaves must be surrendered** to the original branch.
3. The account opening form and specimen signature card are transferred to the new branch.
4. With CBS (Core Banking System) and multi-city cheques, account transfers are less essential, as the base branch can be changed.

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Staff Accounts



1. Banks may limit the number of SB accounts for staff members (individual or joint accounts with family).
2. All cheques drawn on staff accounts should be scrutinized for balance availability.
3. Third-party cheques/ DDs should not be collected in staff accounts.
4. Accounts with unusually high transactions must be monitored.

Closing of Account

1. Accounts can be closed on a written request by the account holder(s).
2. Unused cheque leaves must be surrendered, and the passbook must be presented.
3. The passbook is updated, marked "account closed", and returned.
4. The balance is paid using a cheque or withdrawal form.

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1. **Purpose:** Designed for financial inclusion, especially for individuals of lower economic standing.

2. **Key Features (Free of Charge):**

- Cash deposits at bank branches and ATMs/CDMs.
- Money transfers through electronic channels and cheques, including government payments.
- **Unlimited deposits** (number and value) in a month.

• Maximum of four withdrawals per month (includes ATM withdrawals). **4**

- ATM/Debit card provided free of charge.

✓ 3. **Cheque Book:** Permitted but **not included in free services**. Issued free of charge.

4. **Additional Services:** Banks can offer additional services at reasonable charges, [ensuring transparency and customer choice.]

BSBDA
↳ • **No minimum balance requirement** should be stipulated.

- Accounts with extra services at an additional cost are **not** considered BSBDA.

5. **Restrictions:**

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- Only **one BSBDA** is allowed per person across the banking system.

(A) SF → BSBDA
within 30 days

- Other SB accounts in the same bank must be closed within 30 days of opening a BSBDA.

6. **Other Deposits:** Customers can hold **other types of deposit accounts** (e.g., fixed deposits) in addition to a BSBDA.

FIXED DEPOSITS (FD)

Term Deposit

1. **Definition:** Fixed deposits are a **specified sum of money** placed with a bank for a **specific period**, e.g., ₹10,000 for 36 months.

Central Govt.

- **Tenure** can range from **7 days to 120 months**.

UPDATE

2. Bulk Deposits:

- Fixed deposits above **₹3 crore** (scheduled commercial banks and small finance banks).
- Above **₹1 crore** (Regional Rural Banks – RRBs and LABs).

3. **Term Deposit Receipt:** Banks issue a **Term Deposit Receipt** with details like depositor's name, account number, amount, maturity date, interest rate, and nomination details.

TDR

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- Deposits can be freely **transferred** between branches.

4. Repayment/ Renewal:

- Deposits are repaid or renewed based on **customer instructions** given at the time of account opening.
- If no instructions are provided, banks send a **maturity reminder**.

5. **Premature Encashment**: Allowed in emergencies.

- **Interest paid** is based on the period the deposit was held, with a **penalty** as per the bank's policy.

6. **No Premature Withdrawal Option**:

- Banks may offer deposits **without premature withdrawal**.

- **Deposits up to ₹1 crore** held by individuals must have **premature withdrawal facilities**.

7. **Overdue Deposits**: Renewal of overdue deposits is allowed, following a **transparent and non-discriminatory policy** approved by the bank's board.

- Customers must be informed of renewal terms and interest rates.

8. Interest Payment: M/Q/H/Annular

- Paid quarterly, or at maturity (with **quarterly compounding** in the latter case).

7.00%

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- Fixed Deposits are categorized as:

✓ **Ordinary Term Deposits:** Periodical interest is paid.

✓ **Reinvestment/ Special Term Deposits:** Interest is compounded and paid at maturity.

- Payment is made via **cash, account credit, or remittance**, as per customer instructions.

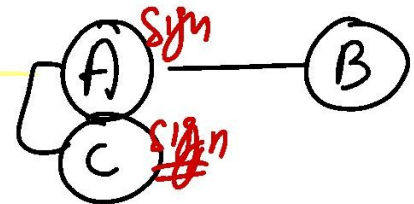
1 Jan ———

1st Feb

9. Unclaimed Proceeds: If proceeds remain unpaid after maturity, interest is paid at the savings account rate or the contracted rate, whichever is lower.

- Proceeds of ₹20,000 or above must be credited to the customer's account.

TERM DEPOSITS FOR JOINT HOLDERS



1. Addition/ Deletion of Joint Holders:

- Allowed upon the **request of all joint holders**.

- Original deposit amount or duration cannot change.**

2. Splitting of Deposits: Allowed into separate accounts for joint holders, without changing the total amount or tenure.

Scenario:

A B 10 la 3ya

- A Fixed Deposit (FD) of ₹10,00,000 is held jointly by two account holders, Mr. A and Mr. B, with a tenure of 3 years.

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- Both account holders decide to split the deposit into two separate FDs, each in their individual names, without altering the original amount or tenure.

Steps for Splitting:

1. The FD of ₹10,00,000 is split equally into two separate accounts:

- ₹5,00,000 in Mr. A's name.
- ₹5,00,000 in Mr. B's name.

3 year

- The tenure of both new deposits remains the same (3 years from the original start date).
- No additional interest is earned or lost during the split.

Loan Against Term Deposits

Demand loan

assignment

1. **Loan Facility:** Loans can be availed by surrendering the **Term Deposit Receipt (TDR)** with a letter of lien.

- Loan amount is determined after a **margin** of 5%-20%.

2. **Interest Rate on Loan:** Slightly higher than the FD interest rate, as per bank policy. 0.5%, 1%, 2%

3. **Foreclosure:** If FD is foreclosed, the loan amount is adjusted from the proceeds.

- Interest on the loan is recalculated based on the **actual deposit period**.

