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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

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ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITE

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

CONTEMPORARY ISSUE ON DEREGULATION OF SAVING ACCOUNT INTEREST RATE

DR. RAJIV GANDHI
ASST. PROFESSOR
PIONEER INSTITUTE OF MANAGEMENT
UDAIPUR

ABSTRACT

India pursued financial sector reforms as a part of structural reforms initiated in the early 1990s. A major component of the financial sector reform process was deregulation of a complex structure of deposit and lending interest rates. The administered interest rate structure proved to be inefficient. It, therefore, became necessary to reform the interest rate structure. As a part of financial sector reforms, the Reserve Bank has deregulated interest rates on deposits, other than savings bank deposits. The interest rate on savings bank deposits has remained unchanged at 3.5 per cent per annum since March 1, 2003. An attempt was made to deal with pros and cons of deregulating savings deposit interest rate and take on board the suggestions of various stakeholders for either maintaining the status quo or deregulating the saving deposit interest rate.

KEYWORDS
Annual policy, Deregulation, Interest rate, Reserve bank, saving bank deposits.

INTRODUCTION

Deregulation of interest rate means that interest will not be under control of RBI anymore. The interest rates will differ for each bank. The banks will decide the interest rates based on their financial condition and other factors. The deregulation puts more competition among the banks to attract more savings bank account holders.

The Reserve Bank of India (RBI) in its second quarter monetary policy review deregulated savings bank rates with immediate effect. A savings deposit is a hybrid product which combines the features of a current account and a term deposit account. A current account is mainly maintained by business houses whereas a savings account is used mostly by individuals. The amount maintained under a current account normally does not provide any rate of interest whereas interest is paid for a savings account. The overall interest rate scenario has changed drastically in the last two decades, but the interest rate on saving accounts has been changed only thrice since 1978.

Yet two months on, only a handful of India’s banks have responded by raising interest rates and there’s hardly been a headlong rush by depositors seeking higher returns. Those that have lifted rates are small, private lenders with limited branch networks hoping to grab a bigger share of India’s retail banking market. In late December, Yes Bank pushed its savings deposit rate up to 7 per cent in an effort to grab depositors’ attention. However, large banks that dominate the industry report negligible, if any, account migration. Numbers are hard to verify, but Yes Bank, Kotak Mahindra and Indus Bank claim to have scored quick success by marketing their savings accounts.

REVIEW OF LITERATURE

NEWS PAPERS COMMENTS ON SAVING BANK INTEREST RATE DEREGULATION

NEWYORK TIMES: WHETHER THE BANKS SEE IT AS GOOD OR BAD NEWS, THE CHANGE IS COMING

By tradition many Indians consider it auspicious to spend money during Diwali on things like clothes, jewelry and homes. This year, however, some Indians may be thinking about saving, instead. In a surprise move, India’s central bank, the Reserve Bank of India, freed commercial banks to determine the interest rates on savings accounts for the first time in 34 years. Since 1977, a time that was the halcyon days of Indian socialism, the R.B.I. had determined the rates banks paid on savings deposits, last set at 4 percent earlier this year.

FINANCIAL TIMES: INDIA’S ‘BIG BANG’ WILL END LAZY BANKING

The winners and losers of India’s ‘big bang’ savings deposits deregulation appeared to be clear within moments of its unheralded announcement in Mumbai. The share prices of nimble, private banks eager to expand their market share in retail banking climbed. Those expected to prosper amid greater competition included Yes Bank and Kotak Mahindra, alongside international banks such as HSBC, Citibank and Standard Chartered.

BUSINESS LINE

The deregulation of the SB interest rate will intensify competition among banks and provide depositors with wider banking options. It will also increase depositors' interest income by around Rs 9,000 crore, credit rating agency CRISIL said. The agency expects the average interest rate on savings accounts in the banking system to increase by 50 to 100 bps over the medium term. However, this means increased pressure on banks' cost of deposits and profitability.

INDIAN EXPRESS: NOW YOU WILL GET MORE ON YOUR SAVINGS BANK DEPOSITS

In one of the last few steps towards further deregulating the Indian banking system, the Reserve Bank of India (RBI) allowed banks to fix their own interest rates on savings bank (SB) accounts. While it may come as good news for savings account holders who currently get just 4 per cent returns, it may come as an extra burden on banks that may have to shell out large sums if interest rates rise. This is also expected to affect the health of public sector banks especially at a time when they are seeking as much as Rs 20,000 crore for recapitalization in the current fiscal.

IMPORTANTS OF THE STUDY

1. With the help of this research an investor can know which bank is providing how much interest on savings
2. With the help of this research bank can know what customers want from banks and what will be the effect of deregulation of interest rate on banks.
3. This study will be of great use to students who are interested in knowing the working pattern of banks after deregulation of interest rate.
4. This study will provide the base to the research scholars for the further study in the related area.

OBJECTIVES OF THE STUDY

The purpose of this research is:

1. To know what is deregulation of interest rate.
2. To understand what is the need of Deregulation.
3. To know what are the effects of deregulation on banks and investors.
4. To know what are the trend in savings bank deposits in India.
5. To understand what are the advantages and disadvantages of Deregulation of Savings Bank Deposits Interest Rate in India

RESEARCH METHODOLOGY

The paper is based on regulatory frame work provided by RBI regarding deregulation of deposit interest rates in India. The study is based on secondary data collected from different news papers, websites, journals and books. Then analysis was made of the advantages and disadvantages of deregulation of interest rates in India.

HYPOTHESIS

1. There may be significant relationship between savings bank deposit and interest rate.
2. There may be significant relationship between interest rate deregulation and growth policies of India.

RESULTS AND DISCUSSION

Deregulating may allow an organization to conduct more activities than it could before; for example, it may allow a bank to make more high risk investments. Deregulation is intended to increase efficiency in the market by letting the Invisible Hand guide the economy apart from government intervention. Opponents, however, argue that deregulation increases the likelihood of fraud and unfair practices such as insider trading. Many analysts agree that deregulation helps firms on solid financial footing and hurts those that are not.

Interest rate is the price for loanable funds. Like every other commodity price, interest rate is determined by the forces of demand and supply for loanble funds. Among the other factors that determine interest rates are savings, investment, inflation, government monetary policy, and taxation. Savings represents the major supply of credit while investment represents the demand for credit. Whenever savings falls, while investment remains constant, there is pressure on interest rate to rise. Similarly, a fall in investment with savings remaining constant usually pushes up interest rate. Inflation is another factor that influences interest rates. Expectation about inflation influence interest rates movements. Government monetary policy is another factor that influences interest rates. An expansionary monetary policy which increases credit in circulation would pull down interest rate while contractionary monetary policy usually pushes up interest rates.

Interest rates deregulation is an economic term used to refer to a situation where by forces of demand and supply are allowed to determine the value of interest rates rather than its value being administered directly by monetary authorities. Interest rates deregulation in seen as a deviation from financial repression. It has been advocated by many economists that interest rate deregulation helps to enhance savings, boost investment and consequently help to enhance economic growth.

WHAT ARE THE FACTORS THAT INTENDED DEREGULATION TO OCCUR?

Deregulation is needed to:

- Strengthen the competitive forces,
- Improve allocative efficiency of resources,
- Strengthen the transmission of monetary policy,
- Product innovation,
- Price discovery.

EFFECT OF DEREGULATION ON BANKS AND INVESTORS

- Increase in competition
- Increase in interest rate
- Reduction in Net Interest Margin if not balanced by increase in landing rates
- Large Public sector banks like Punjab National Bank are examining ways how to offset the increase in Savings Bank Account.
- The bank has SB deposits aggregating Rs 1 lakh crore.

IMPORTANT ASPECTS REGARDING DEREGULATION

- New banks can now offer a higher interest rate to persuade customers to move away from their old banks. But as can be visualized, the interest rates paid by all banks on their savings accounts will rise. This will adversely affect banks' profitability.
- The banks will compete with each other on savings account interest rates therefore, a customer will benefit in the form of higher interest rates.
- When banks had to pay just 3.5% as interest, they were able to give free chequebooks, allow free cash withdrawals and charge a nominal fee for other services.
- If banks have to remain profitable, they have two options. **First**, increase the lending rates to ensure the same profitability in spite of paying a higher savings account rate. **Second,** cut costs related to savings accounts.
- As can be seen, banks have increased interest rates to get more savings accounts. But at the same time, they will be forced to remain competitive by moves such as an increase in the minimum balance requirements, having a tiered interest rate structure (wherein better rates are offered to customers with a larger balance), imposing a charge for issue of cheque books and so on.

Initially, the banks which have hiked the interest rate are:

- Yes Bank
- Kotak Mahindra Bank
- IndusInd Bank

The reasons behind that are:

- Relatively new players
- Fewer savings accounts
- Do not have a strong retail portfolio

SBI SAYS NO IMMEDIATE HIKE IN SAVING DEPOSIT RATES

On the other hand, India's leading state-owned bank SBI has not yet hiked the savings deposit rates.

State Bank of India: The rate will be increased by up to 1.25%, thus making it 5.25%. The decision is not yet taken.

- In contrast to Yes Bank, SBI already has 34% of its total deposits in savings bank account – which is amongst the highest industry ratio in terms of holding low cost funds to total deposits. Thus, SBI is seen in no hurry to introduce the deposit hike in very near-term.
- The banks which have raised savings deposit rates lack reach.
- The bank is sitting on a huge deposit base and has no concern regarding cost of deposits going up due to the deregulation.
- The total deposits in SBI's savings accounts are to the tune of nearly Rs 3.5 lakh crore, and a hike of one per cent in interest would mean that it would cost the bank Rs 3,500 crore, which will have to be passed on to the customers
- Lakshmi Vilas Bank can decide to give its savings account holders 5% while ICICI may decide to give its account holders 4%.
- Vijaya Bank - Savings Bank - 4.00 % p.a (Effective from 03 - MAY 2011)
- Since the large banks like SBI, ICICI Bank, Punjab National Bank (PNB) and HDFC Bank have not made any changes in their interest rates, other smaller banks have not felt the need to change the status quo.

- The country's largest urban cooperative Saraswati Bank announced on November 29 that it would offer 6% interest on savings deposits which will be payable every quarter.
- Axis and Bank of Baroda offers Savings Account Deposit Interest Rate @ 4% (for all amounts).

BANKER'S POINT OF VIEW

- As an impact of the soaring inflation, the real rate of interest on savings is negative and hence deregulation seems inevitable. However, banks hold a mixed opinion on the same.
- While the state-owned banks are more in favour of the regulated savings deposit rate, the private banks are mostly in favour of deregulation.
- Many banks affirm that if interest rates are to be deregulated then RBI should also deregulate the maintenance charges.

TREND IN SAVINGS BANK DEPOSITS IN INDIA

- Savings deposits are an important component of bank deposits. The average annual growth of savings deposits, which decelerated in the 1990s as compared with that of the 1980s, accelerated sharply in the decade of the 2000s. In this decade, the average growth rate of savings deposits exceeded that of both demand deposits and term deposits, notwithstanding the growth in term deposits outpacing that of savings deposits during the period 2005-10 (Table 1).

TABLE 1: AVERAGE ANNUAL GROWTH RATES: AGGREGATE DEPOSITS AND COMPONENTS (Per cent)

Period	Demand Deposits	Savings Bank Deposits	Term Deposits	Aggregate Deposits
1	2	3	4	5
1981-1990	19.5	17.1	19.8	18.9
1991-2000	12.5	15.7	17.4	16.1
2001-2010	16.2	19.4	18.2	18.2
(a) 2000-05	12.8	18.8	14.8	15.4
(b) 2005-10	19.7	20.1	21.7	21.0

Source: Calculations based on data in Statistical Tables Relating to Banks in India, RBI, Various Issues.

- Savings account penetration (number of savings accounts for 100 persons), which remained broadly unchanged between March 1996 and March 2005, increased significantly by March 2009. Per capita savings bank deposits also increased from Rs. 1,067 in March 1996 to Rs. 7,767 for March 2009. However, in recent years, the growth in per capita savings deposits was lower than that of aggregate deposits as reflected in the decline in the ratio of per capita savings deposits and per capita aggregate deposits (Table 2).

TABLE 2: SAVINGS BANK DEPOSITS: NUMBER OF ACCOUNTS AND PER CAPITA SAVINGS BANK

Deposits Year	Savings Bank Deposits (Rs. crore)	No. of Accounts per 100 persons	Per Capita Savings Bank Deposits (Rs.)	Per Capita Aggregate Deposits (Rs.)	Ratio of Col.4 to Col.5 (Per cent)
1	2	3	4	5	6
End-March 96	99020	26.0	1067	4932	21.6
End-March 00	231956	23.9	2317	8994	25.8
End-March 05	440339	25.3	4044	16874	24.0
End-March 09	896301	36.2	7767	35210	22.1

Source: Basic Statistical Returns of Scheduled Commercial Banks in India and Handbook of Statistics on the Indian Economy, RBI, Various Issues.

- As expected, data on the ownership pattern of savings deposits during 1998-2009 reveal that savings deposits are predominantly held by the household sector (Table 3).

TABLE 3: OWNERSHIP PATTERN OF SAVINGS DEPOSITS (Per cent)

Sector	1998	2009
1	2	3
I. Household Sector	84.8	83.6
II. Government Sector	8.4	9.1
of which:		
State Government	3.3	5.3
Local Authorities	1.9	1.7
Public Sector Corporations and Companies	1.7	1.2
III. Foreign Sector	5.3	6.0
IV. Private Corporate Sector (Non-financial)	0.2	0.4
V. Financial sector	1.4	0.8
VI. Total	100	100

Source: Statistical Tables Relating to Banks in India, RBI, Various Issues.

- An analysis of distribution of savings deposits by population groups reveals that between 2000 and 2009, savings deposits held in rural and semi-urban areas declined sharply, while those held in metropolitan areas increased. In 2009, the share of savings deposits held in metropolitan areas was more than that held in rural and semi-urban areas (Table 4).

TABLE 4: SAVINGS BANK DEPOSITS – ACCORDING TO POPULATION GROUPS (Per cent)

Year	Rural and Semi-urban	Urban	Metropolitan	Total
1	2	3	4	5
1991	42.7	25.7	31.6	100
1995	39.3	24.4	36.3	100
2000	40.1	25.4	34.5	100
2005	39.2	26.1	34.6	100
2009	36.2	26.1	37.8	100

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues

- Savings deposits also constitute a significant share of financial assets of the household sector. Their share ranged between 10 and 16 per cent of financial assets of the household sector between 2000-01 and 2008-09 (Table 5).

TABLE 5: HOUSEHOLD SAVINGS: FINANCIAL AND PHYSICAL

(As per cent of GDP at current market prices)

Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6	7	8	9	10
Gross Domestic Savings	23.7	23.5	26.3	29.8	32.2	33.1	34.4	36.4	32.5
Household Sector	21.6	22.1	22.9	24.1	23.3	23.2	22.9	22.6	22.6
Of which:									
1. Financial Assets	10.2	10.9	10.3	11.4	9.8	11.4	10.9	11.2	10.4
2. Physical Assets	11.4	11.3	12.6	12.7	13.5	11.8	11.9	11.5	12.2
Memo:									
Share of Bank Deposits in Household Financial Assets (per cent)	38.1	38.1	38.3	37.6	36.4	46.0	47.9	50.4	54.9
Share of Savings Bank Deposits in Household Financial Assets (per cent)	10.3	11.2	12.1	13.3	13.7	16.0	11.8	12.7	12.8
Share of Currency in Household Financial Assets (per cent)	6.3	9.5	8.9	11.3	8.5	8.9	10.2	11.4	12.5

Source: Reserve Bank of India

- To sum up, savings deposits are held largely by households. Savings deposits are a popular product and they constitute about 22 per cent of total deposits of scheduled commercial banks and about 13 per cent of financial savings of the household sector.

ADVANTAGES AND DISADVANTAGES OF DEREGULATION OF SAVINGS BANK DEPOSITS INTEREST RATE IN INDIA

ADVANTAGES

- To increase the share of savings account in total deposit: The savings rate was fixed at 3.50% from March 2003 to May 2011.
- However, during the period, the RBI changed both repo and reverse repo rates many times but the same was not reflected in the interest rates that the normal household gets. There was a huge gap between savings and term deposit rates and, hence, the ratio of savings deposit in total deposit fluctuated, mainly in rural areas. The deregulation would make such accounts more attractive in rural areas.
- RBI policies would become more effective: As savings accounts constitute around 22% of the total bank deposits, it provides a source of low-cost fund to banks. Even when the repo rate was hovering around 8.25%, the savings rate was fixed at 4% before deregulation.
- After deregulation, it is expected that savings rate would move in tandem with the RBI monetary policy, thus, making the policy more effective.
- Competition: Most banks would want to maximize their CASA ratio as it provides funds at low cost. Before deregulation there was hardly any competition in this segment. But after deregulation, it is expected that banks would try to lure customers by offering higher interest rates along with other innovations and flexibility to get as many accounts as possible.

DISADVANTAGES

- It might lead to asset-liability mismatches: As all banks offered similar rate of interest before deregulation, there was no incentive for customer to shift their savings from one bank to another and, hence, banks used such deposit to finance long-term loans. But, when the banks are free to set their own interest rates, it can wisely be assumed that banks with lower CASA ratio would offer attractive rate of interest to consumers, thus, leading to asset-liability mismatches.
- Could impact small households: When interest rates are deregulated, it could be on the downside as well. Banks would not be in a position to compensate savers properly if there is enough liquidity in the system. This would impact small savers and pensioners who depend only on savings rate interest for their livelihood.
- Unhealthy competition and systematic risk: Saving deposits offers low cost of funds and, hence, are very attractive for banks. To lure customers, each bank would try to offer higher rate of interest, thus, impacting their net interest margin. It would result in higher cost of funds for the bank which would ultimately be passed on to the borrower, leading to higher cost of borrowing. Deregulation of interest rates has its own pros and cons and it would be interesting to see what strategy banks adopt. It is expected that in a higher interest rate scenario they would be forced to provide much higher returns.

IMPACT ON LIQUID FUNDS

- Liquid funds are mutual funds that primarily invest in debt securities and offer higher post-tax returns as compared to savings deposits. They normally invest in commercial papers, certificate of deposits and treasury bills of maturities less than 91 days. Their mandate is to optimize returns while preserving capital.
- But with deregulation of interest rates in savings accounts, some investors might move their funds towards these as it offers higher liquidity and safety of the principal amount. The overall corpus might be impacted by reduced difference between yields of both options.
- However, liquid funds yield better returns if we take tax rate into account. It also provides a dividend option where only dividend distribution taxis deducted by fund houses before distribution. With deregulation, this category of mutual fund will definitely offer more innovation. Thus, one must spread his savings across liquid funds and savings account to get the benefit of both
- While savings deposits are easier to access and offer some degree of protection, higher yield combined with liquidity and taxation benefits make liquid funds attractive.

FINDINGS

- Prior to this change, banks must pay the 4.0% interest for all their savings bank customers. This is same for all the banks. It means that interest rates for the savings bank accounts are regulated by the Reserve Bank of India (RBI) and banks must follow that. This change happened only less than a year.
- The interest rate for the savings bank account was 3.5% for long time and recently only it has been increased to the 4.0%. Also, there were changes in the how the interest rates are calculated. First 10 days of the balance will not be taken for the calculation, also in the remaining days only the minimum balance will be taken for the interest rates calculation. This would result in very less benefit to the customers.
- Prior to making 4.0%, RBI has changed to the daily balance calculation for interest rates of 3.5%.
- Effective 25 October, RBI has explicitly sent notification to the banks for changing their savings bank interest rates. Simply, banks are free t0 set their interest rates for their customers. Till now they are compulsory to pay 4.0%.
- The RBI has told banks to pay a uniform rate to all customers having savings account balance of up to Rs 1 lakh. For balances above Rs 1 lakh, banks are free to choose interest rate bands.
- This would benefit the salary bank account holders who maintain the lump sum amount in the saving bank account.
- However, not all the banks would increase the interest rates immediately. India's largest bank State bank of India (SBI) has announced that they would not revise the interest rates immediately and it would affect the profitability of the bank. The following are the few banks that have revised the interest rates:
- Kodak Mahindra Bank, Yes Bank and IndusInd Bank have set the interest rates as 6% per annum for balances above R1 lakh and 5.5% for deposits less than Rs 1 lakh.

CONCLUSION

- In the run-up to the deregulation of SB deposit interest rates, the central bank had directed banks to pay interest on these deposits on a daily product basis with effect from April 1, 2010. Banks currently pay 4 per cent interest on SB deposits.

- The RBI said, henceforth, each bank will have to offer a uniform interest rate on SB deposits up to Rs 1 lakh. In the case of SB deposits over Rs 1 lakh, banks may provide differential rates of interest.
- Yes Bank responded to the RBI deregulation move by increasing the interest rate on all SB deposits by 200 basis points (1 per cent change is equal to 100 basis points) to 6 per cent. The bank also upped the Base Rate (the minimum lending rate) by 25 basis points to 10.5 per cent.
- "Most banks are not in a hurry to hike the interest rates on SB deposits as liquidity is comfortable. So they would not be very keen or desperate to raise the rates and lose the cost advantage. In any case, depositors looking for higher yields have moved into fixed deposits or into liquid mutual funds," said Mr Pratip Chaudhuri, Chairman, State Bank of India.
- The deregulation of the SB interest rate will intensify competition among banks and provide depositors with wider banking options. It will also increase depositors' interest income by around Rs 9,000 crore, credit rating agency CRISIL said.
- As SB rate deregulation is introduced in India in the present tight liquidity conditions, there is a possibility of an unhealthy rate war among banks, giving way to heightened volatility in their resource profile.
- As can be seen, banks have increased interest rates to get more savings accounts. But at the same time, they will be forced to remain competitive by moves such as an increase in the minimum balance requirements, having a tiered interest rate structure (wherein better rates are offered to customers with a larger balance), imposing a charge for issue of cheque books and so on.
- It is good move by RBI to benefit the customers. Another problem would arise is, banks would start feeling the more expenses and would increase the fees for other services. As per the record, thousands of crores are lying on the savings bank account, now banks has to pay the extra interest for that money. It would result in the more expenses for the bank. However, it is good for the customers to choose the bank which is offering the good interest rates.

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