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RESERVE BANK OF INDIA

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July 1, 2015

Ashadha 10, 1937(Saka)

**All Scheduled Commercial Banks  
(excluding RRBs)**

Dear Sir / Madam

**Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts**

Please refer to the [Master Circular DBOD No.Dir.BC.15/13.03.00/2014-15 dated July 1, 2014](#) consolidating the instructions/guidelines issued to banks till June 30, 2014 relating to Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts. This Master Circular consolidates instructions on the above matter issued up to June 30, 2015.

Yours faithfully

**(Lily Vadera)  
Chief General Manager**

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हिंदी आसान है, इसका प्रयोग बढ़ाए

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## **Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts**

### **A. Purpose**

To consolidate the directives on interest rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts issued by Reserve Bank of India from time to time.

### **B. Classification**

A statutory guideline issued by the Reserve Bank in exercise of the powers conferred by the Banking Regulation Act, 1949.

### **C. Previous instructions**

This Master Circular consolidates and updates the instructions on the above subject contained in the circulars listed in **APPENDIX**.

### **D. Application**

To all Scheduled Commercial Banks, excluding Regional Rural Banks

## 1 Definitions

For the purpose of this circular:

- (a) “Demand liabilities” and “Time liabilities” mean the liabilities as shown in the return submitted by the bank under sub-section (2) of Section 42 of the Reserve Bank of India Act, 1934;
- (b) “Demand deposit” means a deposit received by the bank, which is withdrawable on demand;
- (c) “Savings deposit” means a form of demand deposit which is a deposit account whether designated as “Savings Account”, “Savings Bank Account”, “Savings Deposit Account” or other account by whatever name called which is subject to the restrictions as to the number of withdrawals as also the amounts of withdrawals permitted by the bank during any specified period;
- (d) “Term deposit” means a deposit received by the bank for a fixed period and which is withdrawable only after the expiry of the said fixed period and shall also include deposits such as Recurring/Cumulative/Annuity/Reinvestment deposits, Cash Certificates, and so on;
- (e) “Bulk Deposit” means single Rupee term deposits of ₹ 1 crore and above;
- (f) “Notice deposit” means term deposit for specific period but withdrawable on giving at least one complete banking day’s notice;
- (g) “Current Account” means a form of demand deposit wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings Deposit nor Term Deposit;
- (h) “Countervailing interest” means any benefit of interest allowed on any account in the nature of current account maintained with the bank by its borrower;
- (i) “Budgetary allocation” means the allocation of funds by the Government made through the budget, wherein all the Government’s expenditure is reflected. Any institution, irrespective of the fact that it is a Government Department, Semi-Government or Quasi-Government Body, which receives grants, loans

or subsidies from the Government is said to depend on budgetary allocation. Government grants to institutions are also in the nature of the budgetary allocation. Government's subscription to the share capital of these institutions also forms part of the budgetary allocation. Local bodies like Municipal Corporations, Zilla Parishads, Taluka Panchayats and Gram Panchayats are given grants in the nature of 'compensation and assignments', which also form part of budgetary allocation, although taxes collected by these bodies are not covered under the definition and scope of budgetary allocation of Central and State Governments;

- (j) "Public Sector Bank" means the State Bank of India constituted under the State Bank of India Act, 1955 or any subsidiary bank as defined in clause (k) of Section 2 of the State Bank of India (Subsidiary Banks) Act, 1959 or any corresponding new bank as defined in clause (b) of Section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.

Note: NRO/NRE deposits can be accepted only by banks, which are authorized by Reserve Bank to accept such deposits.

## **2. Guidelines**

Commercial banks should not pay interest on deposits of money accepted or renewed by them in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) Accounts (NRE) except on the terms and conditions specified in the ensuing paragraphs.

## **3 Domestic Deposits**

A domestic rupee account may be opened as current, savings or term deposit.

### **3.1 Minimum tenor of Term Deposits**

The minimum tenor of domestic term deposits is seven days

### **3.2 Interest Rates on Savings Deposit**

Consequent to the deregulation of interest rates of domestic savings deposits accounts held by residents in India with effect from October 25, 2011, banks

are free to determine their savings bank deposit interest rate, subject to the following two conditions:

- (i) First, each bank will have to offer a uniform interest rate on savings bank deposits up to Rupees one lakh, irrespective of the amount in the account within this limit. While calculating interest on such deposits, banks are required to apply the uniform rate set by them on end-of-day balance up to Rupees one lakh.
- (ii) Second, for any end-of-day savings bank balance exceeding Rupees one lakh, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

### **3.2.1 Calculation of Interest on Savings Deposits**

In view of the satisfactory level of computerization in commercial bank branches, scheduled commercial banks were advised to calculate interest on savings bank accounts on a daily product basis with effect from April 1, 2010.

### **3.3 Interest Rates on Term Deposits**

With effect from October 22, 1997, RBI has given the freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). Banks are, however, not allowed to discriminate in the matter of interest paid on deposits, between one deposit and another, accepted on the same date and for the same maturity, whether such deposits are accepted at the same office or at different offices of the bank. Interest rates paid by the bank should be as per the schedule and should not be subject to negotiation between the depositor and the bank.

Banks are allowed to offer differential rate of interest on domestic term deposits on the basis of the following:

**(a) Tenor of Deposits**

Banks are allowed to offer differential rates of interest on term deposits on the basis of tenor.

**(b) Size of Deposits**

Banks are allowed to offer differential rates of interest on the basis of quantum for single term deposits of ₹ 1 crore and above.

**(c) Availability of early withdrawal option**

With effect from April 16, 2015 banks have been allowed the discretion to offer differential interest rates based on whether the term deposits are with or without-premature-withdrawal-facility, subject to the following guidelines:

- i. All term deposits of individuals (held singly or jointly) of ₹15 lakh and below should, necessarily, have premature withdrawal facility.
- ii. For all term deposits other than (i) above, banks can offer deposits without the option of premature withdrawal as well. However, banks that offer such term deposits should ensure that at the customer interface point the customers are, in fact, given the option to choose between term deposits either with or without premature withdrawal facility.
- iii. Banks should disclose in advance the schedule of interest rates payable on deposits i.e. all deposits mobilized by banks should be strictly in conformity with the published schedule.
- iv. The banks should have a Board approved policy with regard to interest rates on deposits including deposits with differential rates of interest and ensure that the interest rates offered are reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

**3.4 Calculation of Interest on Term Deposits**

Banks are free to adopt any methodology for calculation of interest on deposits. However, they should provide information to their depositors about the manner of calculation of interest appropriately while accepting the deposits and display the same at their branches. If a Fixed Deposit Receipt matures and proceeds



are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest.

### **3.5 Floating Rate Term Deposits**

A bank may offer floating rate domestic term deposit clearly linked to an anchor rate. In order to ensure transparency, banks should not use internal or derived rates while offering floating rate deposit products. Only market-based rupee benchmark rates, which are directly observable and transparent to the customer, should be used by banks for pricing their floating rate deposits.

### **3.6 Frequency of payment of interest on Savings and Term Deposits**

With effect from November 29, 2013, banks have the option to pay interest on savings deposit and term deposits at intervals shorter than quarterly intervals. Interest on savings bank accounts should be credited on regular basis whether the account is operative or not.

### **3.7 Payment of interest on accounts frozen by banks**

Banks are advised to follow the procedure detailed below in the case of Term Deposit Accounts of customers frozen by the orders of the enforcement authorities:

(i) A request letter may be obtained from the customer on maturity. While obtaining the request letter from the depositor for renewal, banks should also advise him to indicate the term for which the deposit is to be renewed. In case the depositor does not exercise his option of choosing the term for renewal, banks may renew the same for a term equal to the original term.

(ii) No new receipt is required to be issued. However, a suitable note should be made regarding renewal in the deposit ledger.

(iii) Renewal of deposit should be advised by registered letter / speed post / courier service to the concerned Government department under advice to the depositor. In the advice to the depositor, the rate of interest at which the deposit is renewed should also be mentioned.

(iv) If overdue period does not exceed 14 days on the date of receipt of the request letter, renewal should be done from the date of maturity. If it exceeds 14 days, banks should pay interest for the overdue period as per the policy adopted by them, and keep it in a separate interest free sub-account which should be released when the original fixed deposit is released.

Further, with regard to the savings bank accounts frozen by the enforcement authorities, banks should continue to credit the interest to the account on a regular basis.

### **3.8 Discretion to pay additional interest not exceeding one percent on deposits of bank's staff and their exclusive associations**

3.8.1 A bank may, at its discretion, allow additional interest at a rate not exceeding one per cent per annum over and above the card rate of interest subject to following conditions:

- (i) The additional interest is payable only so long as the person continues to be eligible for the same and in case of his ceasing to be so eligible, till the maturity of a term deposit account;
- (ii) In the case of employees taken over pursuant to the scheme of amalgamation, the additional interest is allowed only if the interest at the contractual rate together with the additional interest does not exceed the rate, which could have been allowed if such employees were originally employed by the bank.

3.8.2 In respect of a savings or a term deposit account opened in the name of:

- (a) a member or a retired member of the bank's staff, either singly or jointly with any member or members of his/her family; or
- (b) the spouse of a deceased member or a deceased retired member of the bank's staff; and
- (c) an Association or a fund, members of which are members of the bank's staff;

The bank should obtain a declaration from the depositor concerned, that the monies deposited or which may, from time to time, be deposited into such account belong to the depositor as stated in clauses (a) to (c) above.

3.8.3 For the purposes of sub-paragraph 3.8.2:

- (i) “a member of the bank’s staff” means a person employed on a regular basis, whether full-time or part-time, and includes a person recruited on probation or employed on a contract of a specified duration or on deputation and an employee taken over in pursuance of any scheme of amalgamation, but does not include a person employed on casual basis.
  - (a) In the case of employees taken on deputation from another bank, the bank from which they are deputed may allow additional interest in respect of the savings or term deposit account opened with it during the same period of deputation;
  - (b) In the case of persons taken on deputation for a fixed duration, or on a contract of a fixed duration, the benefit will cease to accrue on the expiry of the term of deputation or contract, as the case may be.
- (ii) “A retired member of the bank’s staff” means an employee retiring whether on superannuation or otherwise as provided in the bank’s Service/Staff Regulations, but does not include an employee retired compulsorily or in consequence of disciplinary action;
- (iii) “Family” means and includes the spouse of the member/retired member of the bank’s staff and the children, parents, brothers and sisters of the member/retired member of the bank’s staff, who are dependent on such member/retired member, but does not include legally separated spouse;

3.8.4 Bank Employees’ Federations in which bank employees are not direct members are not eligible for additional interest.

3.8.5 In case of domestic deposits, it will be in order for banks to give their resident Indian retired staff, who are senior citizens, the benefit of higher interest rates

as admissible to senior citizens over and above the additional interest of not exceeding one per cent payable to them by virtue of their being retired members of the banks' staff.

**3.9 Discretion to pay additional interest not exceeding one per cent on deposits of Chairman and Managing Director and Executive Directors of the bank**

A bank may, at its discretion, pay additional interest not exceeding one per cent per annum over and above the card rate of interest on deposits accepted/renewed from Chairman, Chairman & Managing Director, Executive Director or such other Executive appointed for a fixed tenure. However, they are eligible to get the benefit under paragraph 3.8 above only during the period of their tenure.

**3.10 Discretion to pay interest on current accounts maintained by Regional Rural Banks with sponsor banks**

Banks may pay interest on current account of a Regional Rural Bank sponsored by them. However, banks are encouraged not to pay interest on the current accounts maintained by RRBs with them.

**3.11 Discretion to pay interest on the minimum credit balance in the composite cash credit account of a farmer**

A bank may, at its discretion, pay interest at a rate based on its perception and other relevant factors on the minimum credit balance in the composite cash credit account of a farmer during the period from the 10<sup>th</sup> to the last day of each calendar month.

**3.12 Discretion to pay Additional interest to Army Group Insurance Directorate (AGID), Naval Group Insurance Fund (NGIF) and Air-Force Group Insurance Society (AFGIS)**

A Public Sector Bank is permitted to pay additional interest of 1.28 per cent per annum over and above the normal rate of interest permissible in terms of directives on interest rates on deposits issued by Reserve Bank of India, from

time to time, only on the term deposits for two years and above of Army Group Insurance Directorate (AGID), Naval Group Insurance Fund (NGIF) and Air-Force Group Insurance Society (AFGIS), provided such deposits are not in any way linked with payment of insurance premia by the bank.

### **3.13 Deposit Scheme for Senior Citizens**

(i) Banks have been permitted to formulate, with the approval of their Boards of Directors, fixed deposit schemes specifically for resident Indian senior citizens, offering higher and fixed rates of interest as compared to normal deposits of any size. These schemes should also incorporate simplified procedures for automatic transfer of deposits to the nominee of such depositors in the event of death.

(ii) 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.

### **3.14 Prohibition on payment of additional interest rate on Term Deposits**

It will not be in order for banks to offer higher/differential rate of interest, as compared to other deposits of similar tenure, on deposit schemes framed by them on the basis of the Bank Term Deposit Scheme, 2006, announced by Government of India vide their notification No. 203/2006 dated July 28, 2006. It will also not be in order for banks to offer higher/ differential rate of interest on deposits received under the Capital Gains Accounts Scheme, 1988.

### **3.15 Penalty on premature withdrawal of term deposit**

The bank will have the freedom to determine its own penal interest rate in respect of premature withdrawal of term deposits. The bank should ensure that the depositors are made aware of the applicable penal rate along with the deposit rate. While prematurely closing a deposit, interest on the deposit for the

period that it has remained with the bank will be paid at the rate applicable to the period for which the deposit remained with the bank and not at the contracted rate. No interest is payable, where premature withdrawal of deposits takes place before completion of the minimum period prescribed. The bank should, however, notify such depositors of its policy of disallowing premature withdrawal in advance, i.e., at the time of accepting such deposits.

### **3.16 Conversion of a term deposit, a deposit in the form of daily deposit or a recurring deposit for reinvestment in term deposit**

A bank, on a request from the depositor, should allow conversion of a term deposit, a deposit in the form of daily deposit or recurring deposit, to enable the depositor to immediately reinvest the amount lying in the aforesaid deposits with the same bank in another term deposit. Banks are permitted to formulate their own policies towards conversion of deposits.

### **3.17 Renewal of Overdue deposits**

All aspects concerning renewal of overdue deposits may be decided by individual banks subject to their Board laying down a transparent policy in this regard and the customers being notified of the terms and conditions of renewal including interest rates, at the time of acceptance of deposit. The policy should be non-discretionary and non-discriminatory.

### **3.18 Interest payable on the deposit account of deceased depositor**

- (a) In the case of a term deposit standing in the name/s of
- (i) a deceased individual depositor, or
  - (ii) two or more joint depositors, where one of the depositor has died,
- the criterion for payment of interest on matured deposits in the event of death of the depositor in the above cases has been left to the discretion of individual banks subject to their Board laying down a transparent policy in this regard.

- (b) In the case of balances lying in current account standing in the name of a deceased individual depositor/sole proprietorship concern, interest should be paid only from May 1, 1983, or from the date of death of the depositor, whichever is later, till the date of repayment to the claimant/s at the rate of interest applicable to savings deposit as on the date of payment.

### **3.19 Addition or deletion of the name/s of joint account holders**

A bank shall, at the request of all the joint account holders, allow the addition or deletion of name/s of joint account holder/s if the circumstances so warrant or allow an individual depositor to add the name of another person as a joint account holder. However, in no case should the amount or duration of the original deposit undergo a change in any manner in case the deposit is a term deposit.

A bank shall, at its discretion, and at the request of all the joint account holders of a deposit receipt, allow the splitting up of the joint deposit, in the name of each of the joint account holders only, provided that the period and the aggregate amount of the deposit do not undergo any change.

### **3.20 Rounding off of transactions**

All transactions, including payment of interest on deposits/charging of interest on advances, should be rounded off to the nearest rupee i.e., fractions of fifty paise and above shall be rounded off to the next higher rupee and fractions of less than fifty paise shall be ignored. Issue prices of cash certificates should also be rounded off in the same manner.

In the light of a judgement of the High Court of Gujarat, Ahmedabad, banks have been advised that they should ensure that cheques/ drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them. Banks should also review the practice being followed by them in this regard and take necessary steps including through issue of internal circulars, etc, to ensure that the concerned staff are well versed with these instructions so that the

general public does not suffer. Further, banks should ensure that appropriate action is taken against members of their staff who are found to have refused to accept cheques/ drafts containing fractions of a rupee. Any bank violating the aforesaid instructions would be liable to be penalised under the provisions of the Banking Regulation Act, 1949.

### **3.21 Issue of term deposit receipt**

(a) A bank should issue term deposit receipt indicating therein full details, such as date of issue, period of deposit, due date, applicable rate of interest, etc.

(b) It has been observed that Scheduled Commercial Banks, during the course of acting as Professional Clearing Members of Stock Exchanges/ Clearing Corporations, issue own Fixed Deposit Receipts with zero percent interest as security in favour of the Clearing Corporations. In this connection, it is advised that a Term Deposit Receipt (TDR)/ Fixed Deposit Receipt (FDR) is acknowledgement for a deposit received by a bank for a fixed term which is withdrawable only after the expiry of the said fixed period. A bank issues TDR indicating therein full details, such as date of issue, period of deposit, due date, applicable rate of interest etc. As such, issue of TDR/ FDR without a corresponding term deposit/ fixed deposit account in the books of the bank is not in order and will amount to violation of the extant guidelines on acceptance of deposits. The rate of interest payable on such deposits would be subject to the extant guidelines on 'Interest Rates on Rupee Deposits'.

### **3.22 Payment of interest on term deposit maturing on Sunday/holiday/non-business working day**

In respect of a term deposit maturing for payment on a Sunday or a holiday or a non-business working day, or Saturday in case of NRE deposits, bank shall pay interest at the originally contracted rate on the original principal deposit amount for the Sunday/ holiday/ non-business working day and also Saturday in case of NRE deposits, intervening between the date of the expiry of the specified term



of the deposit and the date of payment of the proceeds of the deposit on the succeeding working day.

In case of reinvestment deposits and recurring deposits, banks should pay interest for the intervening Sunday/holiday/non-business working day (as also Saturday in case of NRE deposits) on the maturity value.

### **3.23 Deposit Mobilisation Schemes**

Banks need not obtain prior concurrence of the Indian Banks' Association or prior approval of the RBI for introduction of their new domestic deposit mobilisation schemes. However, before launching new domestic deposit mobilisation schemes with the approval of their respective Boards, banks should ensure that the provisions of RBI directives on interest rates on deposits, premature withdrawal of term deposits, sanction of loans/advances against term deposits, etc., issued from time to time, are strictly adhered to.

### **3.24 Special Term Deposit Products with Lock-in Period**

Some banks were offering special term deposit products to customers, in addition to regular term deposits, ranging from 300 days to five years, with the following features:

- i. Lock-in periods ranging from 6 to 12 months;
- ii. During the lock-in period, premature withdrawal is not permitted. In case of premature withdrawal during the lock-in period, no interest is paid;
- iii. Rates of interest offered on these deposits are not in tune with the rates of interest on normal deposits;
- iv. Part pre-payment is allowed by some banks, subject to certain conditions.

As the special schemes, with lock-in periods and other features referred to above, which have been floated by some banks, were not in conformity with our instructions, banks that have floated such deposit schemes were advised to discontinue the schemes.

### **3.25 Advance against term deposit - Manner of charging interest**

When an advance is granted against a term deposit and the deposit stands in the name of-

- (i) the borrower, either singly or jointly;
- (ii) one of the partners of a partnership firm and the advance is made to the said firm;
- (iii) the proprietor of a proprietary concern and the advance is made to such a concern;
- (iv) a ward whose guardian is competent to borrow on behalf of the ward and where the advance is made to the guardian of the ward in such a capacity;

the bank would be free to charge interest rate without reference to its Base Rate including advances granted against NRE term deposits and repaid in Foreign Currency or Rupees.

If the term deposit against which an advance was granted is withdrawn before completion of the prescribed minimum maturity period, such an advance should not be treated as advance against the term deposit and interest should be charged as prescribed in terms of the Reserve Bank of India's directive on Interest Rates on Advances issued from time to time.

### **3.26 Margin on advance against term deposit**

The decision in regard to margin on advance against term deposit has been left to the discretion of individual banks subject to their Board laying down a transparent policy in this regard.

## **4 Non-Resident (External) Rupee (NRE) Deposit / Ordinary Non-Resident (NRO) Deposits**

The directions issued by Reserve Bank on NRE/ NRO deposits are contained in the Foreign Exchange Management (Deposit) Regulations, 2000 which came into force on June 1, 2000. A scheduled commercial bank which is an Authorised Dealer in foreign exchange shall pay interest on deposits of money accepted by it or renewed by it under NRE/ NRO Scheme as per instructions given below:

### **4.1.1 Interest Rates on NRE/ NRO Deposits**

With effect from December 16, 2011 banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposit under Ordinary Non-Resident (NRO) account (interest rates on term deposits under Ordinary Non-Resident (NRO) account are already deregulated) . However, interest rates offered by banks on NRE/ NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits. The ceiling rate of interest prescribed on NRE deposits prior to December 16, 2011 are given in Annex 1 of this circular.

### **4.1.2 Differential Rate of Interest on NRE/ NRO Term Deposits**

Instructions contained in paragraph 3.3 (a) and (b) above are mutatis mutandis applicable to NRE/ NRO deposits.

### **4.1.3 Maturity period of NRE/ NRO deposits**

With effect from April 29, 2003, the minimum maturity period for NRE deposits has been raised from six months to one year, making the maturity period for fresh NRE term deposits to three years, in line with FCNR(B) deposits. However, banks are allowed to accept NRE deposits above three years from their Asset-Liability point of view, provided the rate of interest on such long term deposits is not higher than that applicable to domestic deposits of comparable maturity.

Commercial banks have the freedom to accept term deposits of various maturities under the NRO scheme with the prior approval of their respective Board of Directors/Asset Liability Management Committee (ALCO). The minimum tenor of NRO term deposit is seven days.

#### **4.1.4 Payment of interest on NRE/ NRO term deposit maturing on Saturday/Sunday/holiday/non-business working day**

Instructions contained in paragraph 3.22 above are, mutatis mutandis applicable to NRE/ NRO deposits.

#### **4.1.5 Frequency of payment of interest on NRE/ NRO savings/ term deposits**

Instructions contained in paragraph 3.6 above are mutatis mutandis applicable to NRE/ NRO deposits.

#### **4.1.6 Renewal of Overdue NRE/ NRO deposits**

Instructions contained in paragraph 3.17 above are also applicable to renewal of overdue NRE/ NRO deposits.

#### **4.1.7 Marking of lien**

The account holder of NRE savings deposits can withdraw the savings deposits at any time and therefore, banks should not mark any type of lien, direct or indirect, against these deposits.

#### **4.1.8 Premature withdrawal of NRE deposits**

In the case of premature withdrawal of NRE term deposits for conversion into Resident Foreign Currency (RFC) Account, the bank should not levy any penalty for premature withdrawal. If such a deposit has not run for a minimum period of 1 year, the bank may, at its discretion, pay interest at a rate not exceeding the rate payable on savings deposits held in RFC accounts, provided the request for such a conversion is made by the NRE account holder immediately on return to India.

#### **4.1.9 Conversion of NRE deposits**

Conversion of NRE deposit into FCNR(B) deposit and vice versa before maturity should be subject to the penal provisions relating to premature withdrawal.

#### **4.1.10 Interest payable on the NRE deposit account of deceased depositor**

In the case of an NRE deposit account of a deceased depositor, when the claimants are residents, the deposit on maturity should be treated as a domestic rupee deposit and interest should be paid for the subsequent period at a rate applicable to a domestic deposit of similar maturity.

#### **4.1.11 Prohibition on payment of additional interest on deposits of Senior Citizen**

Banks are prohibited from payment of additional interest on Non-Resident deposits of Senior Citizens.

#### **4.1.12 Prohibition on payment of additional interest not exceeding one percent on deposits of bank's staff**

With effect from July 18, 2012 banks are not allowed to extend the benefit of additional interest rate on any type of deposits of non-residents. Accordingly, the discretion given to banks to allow the benefit of additional interest rate of one percent per annum as available to bank's own staff on deposits under Non-Resident accounts stands withdrawn.

#### **4.1.13 Compliance with Foreign Exchange Management (Deposit) Regulations, 2000**

As regards NRE / NRO deposit scheme, banks should note to adhere to the directions contained in Schedule 1 and 3 to the Foreign Exchange Management (Deposit) Regulations, 2000 as amended from time to time.

## 5. Exemptions

The provisions in the above paragraphs will not apply to:

- (i) 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, namely, all Scheduled Commercial Banks (excluding RRBs), Co-operative Banks and Primary Dealers;
  - (b) for which it has issued a participation certificate;
  - (c) under Foreign Currency (Non-Resident) Accounts (Banks) Scheme, Resident Foreign Currency Account and Exchange Earners Foreign Currency Accounts;
  - (d) under the Capital Gains Accounts Scheme, 1988, framed by the Government of India in pursuance of sub-section (2) of Section 54, sub-section (2) of Section 54B, sub-section (2) of Section 54D, sub-section (4) of Section 54F and sub-section (2) of Section 54G of the Income-Tax Act, 1961; and
  - (e) under the Certificate of Deposit Scheme.
- (ii) payment of interest on delayed collection of outstation instruments like cheques, drafts, bills, telegraphic/mail transfers, etc.

## 6. Prohibitions

No bank should -

- (a) pay interest on Current Account save as provided in paragraphs 3.10 and 3.18 (b) above;
- (b) pay countervailing interest on any current accounts maintained with it by its borrowers;
- (c) pay brokerage in the form of commission or gift or incentives on deposits in any manner or in any other form to any individual, firm, company, association, institution or any other person except -

- (i) commission paid to agents employed to collect door-to-door deposits under a special scheme. Banks have also been permitted to use the services of Non-Governmental Organisations (NGOs)/ Self Help Groups(SHGs)/ Micro Finance Institutions(MFIs) and other Civil Society Organisations(CSOs) as intermediaries in providing financial and banking services including collection of deposits through the use of the Business Facilitator and Business Correspondent models. Banks may pay reasonable commission/ fee to the Business Facilitators/ Correspondents, the rate and quantum of which may be reviewed periodically. The agreement with the Business Facilitators/ Correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.
  - (ii) inexpensive gifts costing not more than Rupees two hundred fifty ; and
  - (iii) incentives granted to staff members as approved by the Reserve Bank of India from time to time.
- (d) employ/ engage any individual, firm, company, association, institution or any other person for collection of deposit or for selling any other deposit linked products on payment of remuneration or fees or commission in any form or manner, except to the extent permitted in sub-clause (i) of clause (c) above.
- (e) launch prize/lottery/free trips (in India and/or abroad), etc. oriented deposit mobilisation schemes. It is clarified that banks should not offer any banking products, including online remittance schemes, with prizes /lottery/free trips (in India and/or abroad), etc. or any other incentives having an element of chance, except inexpensive gifts costing not more than Rupees two hundred fifty only, as such products involve non-transparency in the pricing mechanism and therefore go against the spirit of the guidelines. Such products, if offered, by banks would be considered as violation of the extant guidelines and the banks concerned would be liable for penal action.

- (f) resort to unethical practices of raising of resources through agents/third parties to meet the credit needs of the existing/prospective borrowers or to grant loans to the intermediaries based on the consideration of deposit mobilisation.
- (g) issue any advertisement/literature soliciting deposits from public highlighting only the compounded yield on term deposits without indicating the actual rate of simple interest offered by the bank for the particular period. Simple rate of interest per annum for the period of deposit should be indicated invariably.
- (h) pay interest on margin money held in current account.
- (i) pay interest on “deposit at call” receipts issued by it to the tenderers (contractors) for submission to Government Departments/Semi-Quasi Government bodies, local bodies, etc. against the money held in current account.
- (j) accept interest-free deposit other than in current account or pay compensation indirectly.
- (k) accept deposits from/at the instance of private financiers or unincorporated bodies under any arrangement which provides for either issue of deposit receipt/s favouring client/s of private financiers or giving of an authority by power of attorney, nomination or other-wise, for such clients receiving such deposits on maturity.
- (l) grant advances against fixed deposit receipts or other term deposits of other banks.
- (m) (i) open a savings deposit account in the name of Government departments/bodies depending upon budgetary allocations for performance of their functions/Municipal Corporations or Municipal Committees/ Panchayat Samitis/State Housing Boards/Water and Sewerage/Drainage Boards/State Text Book Publishing Corporations/ Societies/Metropolitan Development Authority / State/ District Level Housing Co-operative Societies, etc. or any political party or any



trading/business or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association.

Explanation

For the purposes of this clause, 'political party' means an association or body of individual citizens of India, which is, or is deemed to be registered with the Election Commission of India as a political party under the Election Symbols (Reservation and Allotment) Order, 1968 as in force for the time being.

(ii) The above prohibition will not apply in the case of organisations/agencies listed in **Annex 2**.

(n) accept interest free deposits other than in current account or pay any compensation indirectly. The creation of any fund to be utilized for charitable purposes in consultation with the depositors will not also be in order.

**Interest rates applicable to deposits held in  
Non-Resident (External) Accounts  
(paragraph 4.1.1)**

|       |                 |   |
|-------|-----------------|---|
| (i)   | Current         | Nil   |
| (ii)  | Savings Account | With effect from December 16, 2011, the interest rates are deregulated. However, interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits.   |
|       |                 | Since interest rate of domestic savings deposits was deregulated w.e.f October 25, 2011, the interest rate on NRE savings deposits for the period October 25 to December 15, 2011 was as prescribed in the circular DBOD.Dir.BC.89 & 90/13.03.00/2010-11 at 4% per annum.   |
|       |                 | From the close of business in India on November 17, 2005 to October 24, 2011, the interest rates on NRE savings deposits should be the same as applicable to domestic savings deposits instead of the LIBOR/SWAP rate for six months maturity on US dollar deposits.  |
| (iii) | Term Deposits   | With effect from August 14, 2013, in order to pass on the benefit of exemption provided on incremental NRE deposits with maturity of 3 years and above from CRR/ SLR requirements, banks were given the freedom to offer interest rates on such deposits without any ceiling. This dispensation was valid till February 28, 2014. With effect from March 1, 2014, the interest rate ceiling on NRE deposits reverted to the position prior to August 14, 2013 i.e. interest rates offered by banks on NRE deposits cannot be higher than those offered by them on comparable domestic rupee deposits. |
|       |                 | With effect from the close of business in India on December 16, 2011, interest rates on Non-Resident (External) Rupee (NRE) Deposits are deregulated. Accordingly, banks are free to determine their interest rates on both term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts.   |
|       |                 | From the close of business in India on November 23 to December 15, 2011, interest rates on NRE deposits for one to three years should not exceed the LIBOR/SWAP rates plus 275 basis points, as on the last working day of the previous month, for US dollar of corresponding maturities (as against LIBOR / SWAP rates plus 175 basis points effective from close of business on November 15, 2008).   |

|  |  |   |
|--|--|---|
|  |  | From the close of business in India on November 15, 2008 to November 22, 2011, interest rates on NRE deposits for one to three years should not exceed the LIBOR/SWAP rates plus 175 basis points, as on the last working day of the previous month, for US dollar of corresponding maturities (as against LIBOR / SWAP rates plus 100 basis points effective from close of business on October 15, 2008).  |
|  |  | The LIBOR/SWAP rates as on the last working day of the preceding month would form the base for fixing ceiling rates for the interest rates that would be offered effective from the following month.  |
|  |  | The above changes in interest rates will also apply to repatriable NRE deposits renewed after their present maturity period.  |
|  |  | With effect from April 29, 2003, , the maturity period of fresh NRE deposits should normally be one year to three years. In case a particular bank, from its Asset Liability Management point of view, wishes to accept deposits with maturity of more than 3 years, it may do so. Consequent upon the deregulation of interest rates on NRE deposits with effect from December 16, 2011 banks are free to determine interest rates on NRE deposits of different maturity, including deposits of more than 3 years subject to such rates not being higher than those offered on domestic deposits of comparable maturity. |
|  |  | For the purposes of operational convenience, the interest rates should be rounded off to the nearest two decimal points. For example, a computed interest rate of 3.676 per cent would become 3.68 per cent, and 3.644 per cent would become 3.64 per cent.   |
|  |  | FEDAI quotes/displays the LIBOR/SWAP rates on the last working day of each month using a web page that can be accessed by all the subscribers to the Reuters Screen. The rates should be taken as the base rates for fixing ceiling on the interest rates that can be offered effective from the following month.   |

**List of organisations/bodies to which the prohibition contained in  
Clause 6(m)(i) of the directive will not be applicable**

- (1) Primary Co-operative Credit Society which is being financed by the bank.
- (2) Khadi and Village Industries Boards.
- (3) Agriculture Produce Market Committees.
- (4) Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in a State or a Union Territory except societies registered under the State Co-operative Societies Acts and specific state enactment creating Land Mortgage Banks. .
- (5) Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the words 'Limited' or the words 'Private Limited'.
- (6) Institutions other than those mentioned in clause 6(m)(i) and whose entire income is exempt from payment of Income-tax under the Income-Tax Act, 1961.
- (7) Government departments / bodies / agencies in respect of grants/ subsidies released for implementation of various programmes / Schemes sponsored by Central Government / State Governments subject to production of an authorization from the respective Central / State Government departments to open savings bank account.
- (8) Development of Women and Children in Rural Areas (DWCRA).
- (9) Self-help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.
- (10) Farmers' Clubs – Vikas Volunteer Vahini – VVV.

## APPENDIX

### List of circulars consolidated in the Master Circular on Interest Rates on Rupee Deposits held in Domestic/NRO/NRE Accounts

| SI  | Circular No.  | Date       | Subject  |
|-----|---|------------|--|
| 1.  | DBOD.No.Dir.BC.46& 47/13.03.00/2000-2001                    | 4.11.2000* | Master Directive on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO), Non-Resident Special Rupee (NRSR) and Non-Resident (External) (NRE) Accounts |
| 2.  | DBOD.No.FSC.BC.61/24.91.001/2000                            | 29.12.2000 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds   |
| 3.  | DBOD.No.Dir.BC.62/13.03.00/2000-01                          | 03.01.2001 | Interest Rates on Deposits   |
| 4.  | DBOD.No.Dir.BC.64/13.03.00/2000-01                          | 03.01.2001 | Payment of Interest on the Term Deposit of a Deceased Depositor  |
| 5.  | DBOD.No.FSC.BC.80/24.103.001/2000                           | 20.02.2001 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Insurance Companies   |
| 6.  | DBOD. No.FSC.BC.85/24.103.001/2001                          | 01.03.2001 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Insurance Companies   |
| 7.  | <a href="#">DBOD.No.Dir.BC.104&amp;107/13.03.00/2000-01</a> | 19.04.2001 | Monetary and Credit Policy for the year 2001-2002 - Interest Rate Policy   |
| 8.  | <a href="#">DBOD.No.FSC.BC.125/24.92.001/2000-01</a>        | 25.05.2001 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers  |
| 9.  | DBOD. No.FSC.BC.01/24.91.001/2001-02                        | 05.07.2001 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds   |
| 10. | DBOD.No.FSC.BC.30/24.91.001/2001-02                         | 28.09.2001 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds   |
| 11. | DBOD.No.FSC.BC.31/24.92.001/2001-02                         | 28.09.2001 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers  |

|     |   |            |  |
|-----|---|------------|--|
| 12. | DBOD.No.FSC.BC.41/24.91.001/2001-02                         | 01.11.2001 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds             |
| 13. | DBOD.No.FSC.BC.49/24.92.001/2001-02                         | 24.11.2001 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers                    |
| 14. | DBOD.No.FSC.BC.51/24.92.001/2001-02                         | 04.12.2001 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers                    |
| 15. | DBOD.No.FSC.BC.85/24.92.001/2001-02                         | 03.04.2002 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers                    |
| 16. | <a href="#">DBOD.No.Dir.BC.93/13.01.09/2001-02</a>          | 29.04.2002 | Full Convertibility of Deposit Schemes - Non-Resident Indians - NRNR Accounts & NRSR Accounts                                  |
| 17. | DBOD.No.Dir.BC.38/13.03.00/2002-03                          | 05.11.2002 | Mid-term Review of Monetary and Credit Policy for the year 2002-03 - Interest Rates on Deposits by Banks/RRBs/Local Area Banks |
| 18. | DBOD.No.FSC.BC.45/24.92.001/2002-03                         | 03.12.2002 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers                    |
| 19. | <a href="#">DBOD.No.Dir.BC.50&amp;51/13.03.00/2002-03</a>   | 14.12.2002 | Opening of Saving Bank Accounts in the Name of certain Bodies/Organizations  |
| 20. | <a href="#">DBOD.No.Dir.BC.75&amp;76/13.03.00/2002-03</a>   | 28.02.2003 | Interest Rates on Deposits   |
| 21. | <a href="#">DBOD.No.FSC.BC.85&amp;86/24.91.001/2002-03</a>  | 26.03.2003 | Permission to Participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers                    |
| 22. | <a href="#">DBOD.No.FSC.BC.86/24.92.001/2002-03</a>         | 26.03.2003 | Permission to Participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds             |
| 23. | <a href="#">DBOD.No.Dir.BC.101&amp;102/13.01.09/2002-03</a> | 29.04.2003 | Deposit under Non-Resident (External) Rupee Accounts (NRE Accounts)  |
| 24. | <a href="#">DBOD.No.Dir.BC.1&amp;2/13.01.09/2003-04</a>     | 17.07.2003 | Interest Rate on Deposits under Non-Resident (External) Rupee Accounts   |

|     |   |            |  |
|-----|---|------------|--|
|     |   |            | (NRE Accounts)   |
| 25. | <a href="#">MPD.BC.237/07.01.279/2003-04</a>              | 17.07.2003 | Interest Rate on Deposits under Non-resident (External) Rupee Account (NRE Accounts)   |
| 26. | <a href="#">DBOD No.Dir.BC.25&amp;26/13.01.09/2003-04</a> | 15.09.2003 | Interest Rate on Deposits under Non-Resident (External) Rupee Accounts (NRE Accounts)  |
| 27. | <a href="#">DBOD No.Dir.BC.35&amp;36/13.01.09/2003-04</a> | 18.10.2003 | Interest Rate on Deposits under Non-Resident (External) Rupee Accounts (NRE Accounts)  |
| 28. | <a href="#">DBOD No.Dir.BC.68&amp;69/13.03.00/2003-04</a> | 13.02.2004 | Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts  |
| 29. | <a href="#">DBOD No Dir.BC.75&amp;76/13.01.09/2003-04</a> | 17.04.2004 | Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts  |
| 30. | <a href="#">DBOD No.Dir.BC.78/13.03.00/2003-04</a>        | 22.04.2004 | Committee on Procedures and Performances Audit on Public Services – Report No. III – Banking Operations : Deposit Accounts & Other Facilities relating to Individuals (Non-business) |
| 31. | <a href="#">DBOD No. Dir. 53&amp;54/13.03.00/2004-05</a>  | 01.11.2004 | Interest rates on Non-Resident (External) Rupee(NRE) Deposits  |
| 32. | <a href="#">DBOD No. Dir. 48/13.03.00/2005-06</a>         | 17.11.2005 | Interest Rate on Non-Resident (External) Rupee (NRE) Deposits  |
| 33. | <a href="#">DBOD.No.BL.BC.58/22.01.001/2005-06</a>        | 25.01.2006 | Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents   |
| 34. | <a href="#">DBOD No. Dir. 62/13.03.00/2005-06</a>         | 08.02.2006 | Interest Rates on Non-Resident Deposits  |
| 35. | <a href="#">DBOD No. Dir. 80/13.03.00/2005-06</a>         | 18.04.2006 | Interest Rate on Non-Resident (External) Rupee (NRE) Deposits  |
| 36. | <a href="#">DBOD.No.Dir.BC.54&amp;55/13.03.00/2006-07</a> | 31.01.2007 | Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR(B) deposits  |
| 37. | <a href="#">DBOD.No.Dir.BC.70/13. 01.01/2006-07</a>       | 30.03.2007 | Rounding off cheques to the nearest rupee  |

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|-----|---|------------|---|
| 38. | <a href="#">DBOD.No.Dir.BC.88&amp;89/13.03.00/2006-07</a> | 24.04.2007 | Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR(B) deposits                 |
| 39. | <a href="#">DBOD No. Dir. BC.39/13.03.00/2007-08</a>      | 25.10.2007 | Deposit schemes with lock-in period   |
| 40. | <a href="#">DBOD.No.Leg.BC.47/09.07.005/2008-09</a>       | 19.09.2008 | Payment of interest on accounts frozen by banks   |
| 41. | <a href="#">DBOD.No.Dir.BC.82/13.03.00/2008-09</a>        | 15.11.2008 | Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR(B) deposits                 |
| 42. | <a href="#">DBOD.No.Dir.BC.128/13.03.00/2008-09</a>       | 24.04.2009 | Payment of Interest on Savings Bank Account on a Daily Product Basis                                |
| 43. | <a href="#">DBOD.No.Dir.BC.77/13.03.00/2009-10</a>        | 19.02.2010 | Payment of Interest on Savings Bank Account on Daily Product Basis                                  |
| 44. | <a href="#">DBOD.No.Dir.BC.91/13.03.00/2009-10</a>        | 20.04.2010 | Conversion of term deposits, daily deposits or recurring deposits for reinvestment in term deposits |
| 45. | <a href="#">DBOD.Dir.BC.89 &amp; 90/13.03.00/2010-11</a>  | 03.05.2011 | Interest Rates on Deposits  |
| 46. | <a href="#">A.P.(Dir Series) Circular No.70</a>           | 09.06.2011 | Remittance of assets by foreign nationals-<br>Opening of NRO Accounts                               |
| 47. | <a href="#">DBOD.Dir.BC.42/13.03.00/2011-12</a>           | 25.10.2011 | Deregulation of Savings Bank Deposit Interest Rate-Guidelines                                       |
| 48. | <a href="#">DBOD.Dir.BC.59/13.03.00/2011-12</a>           | 23.11.2011 | Interest Rates on Non-resident (external) Rupee (NRE) Deposits and FCNR(B) Deposits                 |
| 49. | <a href="#">DBOD.Dir.BC.64/13.03.00/2011-12</a>           | 16.12.2011 | Deregulation of Interest Rates on NRE Deposits and NRO Accounts                                     |
| 50. | <a href="#">DBOD.Dir.BC.75/13.03.00/2011-12</a>           | 25.01 2012 | Deregulation of Savings Bank Deposit Interest Rate-Guidelines                                       |
| 51. | <a href="#">DBOD.Dir.BC.29/13.03.00/ 2012-13</a>          | 18.07.2012 | Interest Rates on Rupee Deposits held in Domestic, NRO and NRE Accounts                             |
| 52. | Mail Box Clarification                                    | 22.10.2012 | Interest Rates on Non-Resident (External) Rupee (NRE) Deposits                                      |
| 53. | <a href="#">DBOD.No.Dir.BC.74/13.03.00/2012-13</a>        | 24.01.2013 | Interest Rates on and Premature Withdrawal of Rupee Term Deposits                                   |
| 54. | Mail Box Clarification                                    | 03.04.2013 | Issue of Term Deposit Receipt   |
| 55. | <a href="#">DBOD.Dir.BC.40/13.03.00/2013-14</a>           | 14.08.2013 | Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits                      |



|     |  |            |  |
|-----|--|------------|--|
| 56. | <a href="#">DBOD.No.Dir.BC.69/13.03.00/2013-14</a> | 29.11.2013 | Periodicity of Payment of Interest on Rupee Savings/ Term Deposits             |
| 57. | <a href="#">DBOD.No.Dir.BC.71/13.03.00/2013-14</a> | 29.11.2013 | Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits |
| 58. | <a href="#">DBOD.No.Dir.BC.90/13.03.00/2013-14</a> | 31.01.2014 | Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits |
| 59. | <a href="#">DBR.No.Dir.BC.87/13.03.00/2014-15</a>  | 16.04.2015 | Interest Rates on Deposits   |

\*The circular dated November 4, 2000 replaces the basic directive dated December 27, 1985 and incorporates all amendments made/instructions issued upto that date.