

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir

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

Please refer to our Master Circular No.DBOD. Dir. BC. 11/13.03.00/2003-04 dated August 14, 2003 on the above subject.

2. With a view to harmonizing present regulations pertaining to different interest rates for various categories of customers and products and also to review the regulations on operational aspects of deposits, Reserve Bank of India (RBI) had constituted a Working Group on 'Interest Rates on Deposits and Procedures' under the Chairmanship of Shri H. N. Sinor, Chief Executive Officer, Indian Banks' Association. After considering the recommendations of the Working Group, it has been decided to make the following changes in our extant guidelines:

(i) Renewal of overdue deposits

In terms of our existing instructions (paragraph 12 of our Master Circular dated August 14, 2003), banks are free to renew overdue domestic term deposits at an interest rate prevailing on the date of maturity provided the depositor approaches the bank within 14 days from the date of maturity of the deposit. In case the application for renewal is made 14 days after the date of maturity, the rate of interest offered should be the rate prevailing on the date of renewal of deposit. Banks also have freedom on the interest rate payable for the period between the date of maturity and date of renewal. On a review, it has been decided that 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.

(ii) Margin on advance against term deposit and Interest payable on maturity proceeds of deposit account of deceased depositor

The Master Circular dated August 14, 2003 -

- (a) prescribes that banks should maintain a reasonable margin on any financial accommodation allowed against the security of a term deposit and that they may determine the margin on a case-to-case basis (para 14), and
- (b) details the criterion for payment of interest on a matured deposit in the event of death of the depositor (para 15).

On a review, it has been decided that decisions in regard to the above may be left to the discretion of individual banks subject to their Board laying down a transparent policy in this regard.

(iii) Notifying RBI regarding change in interest on deposits and also the break-up of deposits according to different interest rate ranges

As per extant instructions issued in September 1997 as and when deposit rate structure and PLR are revised, banks are required to furnish the same to RBI, Department of Banking Operations and Development (DBOD) in the prescribed proforma (Return No. 7 of Manual of Instructions). Since the banks are submitting similar information to our Monetary Policy Department, submission of the return to DBOD may be discontinued.

3. An amending directive DBOD No.Dir.BC. 68/13.03.00/2003-04 dated February 13, 2004 on items (i) and (ii), is enclosed.

4. **Payment of interest on fixed deposit – Method of calculation of interest**

Indian Banks' Association (IBA) Code for Banking Practice is issued by IBA for uniform adoption by the Member Banks. The Code is intended to promote good banking practices by setting out minimum standards which Member Banks will follow in their dealings with customers. IBA, for the purpose of calculation of interest on domestic term deposit, have prescribed that on deposits repayable in less than three months or where the terminal quarter is incomplete, interest should be paid proportionately for the actual number of days reckoning the year at 365 days. It has been reported to us that some of the banks are adopting the model of reckoning the year at 366 days / 365 days in Leap year and in other years respectively. While banks are free to adopt their methodology, 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.

Please acknowledge receipt.

Yours faithfully

(C.R. Muralidharan)
Chief General Manager-in-Charge

Encl: As above.