

Quadrant II - Notes

Paper Code:

Module Name: Accepting Deposits-Importance of deposits, Classification & features of deposits-Demand deposits, (Current account deposits, Saving account deposits,

IMPORTANCE OF DEPOSITS

Savings and Investment Methods

Deposits are not only a part of the money supply, they also affect it in important ways. Governments create and spread money throughout the economy in response to key movers like investment. Investment is largely possible because people can move large sums of money by saving, transferring and withdrawing funds from bank accounts. Bank deposits are a primary tool for investment, and without them businesses would not be able to access funds from individuals at all.

Money Creation Through Demand Deposits

Businesses and individuals can also receive funds through the bank itself. Banks can affect the money supply through demand deposits, or loans that the bank funds through cash deposits it receives. By using interest rates to create their own profit, banks are also creating money to increasing the money supply in the economy. Banks cannot use all their reserves for loans, however -- the government requires them to keep a certain amount to satisfy withdrawals.

Federal Funds Rate

The government also controls the money supply to influence inflation and other parts of the economy through the federal funds rate. This is the rate at which banks lend to each other, usually for overnight loans that allow banks to meet very short-term obligations or raise investment money for a brief period of time. Because these loans are often millions or billions of dollars, changing the federal funds rate is an easy way to alter the money supply as a whole. If it is easy for banks to borrow money using Federal Reserve funds, it is unnecessary to keep large supplies of funds at hand. If rates rise, however, banks will respond

by raising their supply of reserves, contracting the money supply in the open market. Changing the rate also changes expectations regarding Treasury bonds, which are another tool the government uses to change the money supply.

Classification of Deposits

On the basis of purpose they serve, bank deposit accounts may be classified as follows:

- Savings Bank Account
- Current Deposit Account
- Fixed Deposit Account
- Recurring Deposit Account

Let us see all of these in detail now!

Savings Bank Account

As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example, the people who get salaries or the people who work as laborers. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited at any time in this account.

Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an [ATM card](#). Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on [savings bank account](#) varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

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Current Deposit Account

Big businessmen, [companies](#), and institutions such as [schools](#), colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

Banks open a [current account](#) for them. Like a savings bank account, this account also requires a certain minimum amount of deposit while opening the account. On this deposit, the bank does not pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

These accounts also have what we call the overdraft facility. For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of the deposit. This facility is known as an overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous [agreement](#) with the bank concerned.

Fixed Deposit Account

Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate.

This type of deposit account allows the deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. In that case, banks give lower interest than what was agreed upon. The interest on a fixed deposit account can be withdrawn at certain intervals of time. At the end of the period, the deposit may be withdrawn or renewed for a further period. Banks also grant a loan on the security of the fixed deposit receipt.

Recurring Deposit Account

While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period.

The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

Current Account

Current bank account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. It is also known as Demand Deposit Account.

Current account can be opened in co-operative bank and commercial bank. In current account, amount can be deposited and withdrawn at any time without giving any notice. It is also suitable for making payments to creditors by using cheques. Cheques received from customers can be deposited in this account for collection.

In India, current account can be opened by depositing Rs.5000 to Rs. 25,000. The customers are allowed to withdraw the amount with cheques, and they usually do not get any interest. Generally, current account holders do not get any interest on their balance lying in current account with the bank.

Current account holder get one important advantage of overdraft facility.

Features of Current Bank Account

The main features of current account are as follows:-

- Current bank accounts are operated to run a business.
- It is a non-interest bearing bank account.
- It needs a higher minimum balance to be maintained as compared to the savings account.
- Penalty is charged if minimum balance is not maintained in the current account.
- It charges interest on the short-term funds borrowed from the bank.
- It is of a continuing nature as there is no fixed period to hold a current account.
- It does not promote saving habits with its account holders.
- Banker requires KYC (Know your Customers) norms to be completed before opening a current account.
- The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.

What Is a Savings Account?

A savings account is an interest-bearing deposit account held at a bank or other financial institution. Though these accounts typically pay a modest [interest rate](#), their safety and reliability make them a great option for parking cash you want available for short-term needs.