Quadrant II - Notes

Paper Code: COG101

Module Name: Pigmy deposits and Call deposits) Term deposits, (Fixed deposits, Recurring deposits) and Hybrid deposits or Flexi-deposits.

Pigmy Deposit Scheme is a monetary deposit scheme introduced by Syndicate Bank, India.

Money in amounts as small as five rupees can be deposited into an account on a daily basis, by a bank agent collecting the money from the account holder's doorstep. The scheme was introduced to help daily wage earners, small traders and farmers begin saving, as a means to fund their bigger capital requirements such as weddings or purchases of homes or vehicles.

Pigmy Deposit Scheme

Pigmy Deposit Scheme is a monetary deposit scheme introduced by Syndicate Bank, India. Money can be deposited into an account on daily basis. The amount may be as small as Rupees Ten. It can be called a recurring deposit scheme, as the money is deposited almost daily. The unique characteristic of this scheme is that a bank agent collects the money...

Call Deposit:
In deposit terminology, the term Call Deposit refers to a specific type of interest bearing investment account that allows a person to withdraw their money from the account without a penalty. In many cases the money can be withdrawn from a Call Deposit account without prior notification to the bank.

What Is a Call Deposit Account?
A call deposit account is a bank account for investment funds that offers the advantages of both a savings and a checking account. Like a checking account, a call deposit account has no fixed deposit period, provides instant access to funds, and allows unlimited withdrawals and deposits. The call deposit also provides the benefits of a savings account through the accrual of interest.

What Is a Term Deposit?
A term deposit is a fixed-term investment that includes the deposit of money into an account at a financial institution. Term deposit investments usually carry short-term maturities ranging from one month to a few years and will have varying levels of required minimum deposits.

The investor must understand when buying a term deposit that they can withdraw their funds only after the term ends. In some cases, the account holder may allow the investor early termination—or withdrawal—if they give several days notification. Also, there will be a penalty assessed for early termination.

Recurring Deposit,
commonly known as RD, is a unique term-deposit that is offered by Indian Banks. It is an investment tool which allows people to make regular deposits and earn decent returns on the

investment. Due to the regular deposit factor and an interest component, it often provides flexibility and ease of investments to users/individuals.

However, it is essential to know that RDs are different from Fixed Deposits/FDs . RDs are flexible in most aspects. An RD account holder can choose to invest a fixed amount each month while earning decent interest on the amount. RDs are an ideal saving-cum-investment instrument.

Most major banks in India offer Recurring Deposit Accounts, with a term that often ranges between 6 months to 10 years, also providing individuals with the opportunity to choose a term according to their needs. However, the interest rate, once determined, does not change during the tenure; and on maturity, the individual will be paid a lumpsum amount which includes the regular investments as well as the interest earned.

Hybrid Deposits or Flexi Deposits or MULTI OPTION DEPOSIT SCHEME (MODS) :

These deposits are a combination of demand and fixed deposits, invented for meeting customer's financial needs in a flexible manner. Many banks had introduced this new deposit product some years ago to attract the bulk deposits from individuals with high net- worth. The increasing competition and computerization of banking has facilitated the proliferation of this product in several other banks in the recent past. Banks have given their own brand names to such deposits e.g. Quantum Deposit Scheme of ICICI Bank, Multi Option Deposit Scheme (MODS) of SBI.

The flexi deposits show a fusion of demand and fixed deposits as reflected from the following features of the product:

– Only one savings/current account (Current Premium account or Savings Bank Premium a/c as already discussed above) is opened and the term deposits issued under the scheme are recorded only on the bank's books as no term deposit receipts are issued to the customer. However, the term deposits issuance and payment particulars would be reflected in the statement of the savings/current account for customer's information/record.

Flexi Deposits

A flexi deposit is a savings-cum-fixed deposit account. Flexi deposit is a hybrid product which combines the features of a savings account and a fixed deposit. It is a FD linked savings account. A flexi deposit provides the combination of liquidity of a savings account and high returns of a fixed deposit. This means that you can withdraw money from the account anytime either through a cheque or through an ATM like you do in a savings account. But at the same time as long as the money remains in the account it earns high returns of a fixed deposit (without any lock-in period) and not that of a savings account (3.5%). Sounds interesting ???? read on.

Now a days flexi deposits are offered by almost all leading banks. Different banks call this product by different names. Some banks called it Auto Sweep Facility, some call it Money Multiplier and while others refer to this product by their own names. Flexi deposits are similar to savings accounts. But here in a flexi deposit account the idle money beyond a set limit automatically gets transferred to a fixed deposit. The customer doesn't need to tell the bank to transfer this money in a fixed deposit every time. It happens automatically. Similarly when a customer wants to withdraw money and the balance in the savings account is not enough the FD is automatically broken in certain denominations and the money is transferred back to the savings account and available to the customer at the time of withdrawal. But the beauty of this system is that till the time the money remains in the FD it earns high return as compared to 3.5% in a saving account. Also when the FD is broken there is no penalty which happens in case of a traditional FD.