

Banks get innovative to beat ongoing deposit crunch

livemint.com/industry/banking/banks-get-innovative-to-beat-ongoing-deposit-crunch-rbi-yes-suryoday-jana-small-finance-raise-funds/amp-11727001729166.html

Anshika Kayastha

September 24, 2024

Next Story 


Business News/ Industry / Banking/ Banks get innovative to beat ongoing deposit crunch
5 min read 24 Sep 2024, 06:15 AM IST

Anshika Kayastha

Lenders are not just competing with one other but also equities, mutual funds and insurance products that have been drawing household savings.



Smaller private lenders and small finance banks typically offer rates 2-2.5% higher than larger or universal banks. (Mint)

 Gift this article

India's small and mid-sized private lenders are experimenting with new products to win deposits as they compete with larger peers to raise funds to meet growing credit demand.

Lenders, including Suryoday Small Finance Bank, Yes Bank and Jana Small Finance Bank, are tying up with fintechs to offer fixed deposits (FDs) without the need to open a bank account, flexible borrowing limits linked to deposits, FDs tracking the benchmark repo rate of the Reserve Bank of India and easy withdrawals.

Demand for loans in a growing economy has set off a deposit war among banks. Lenders are not just competing with one other but also equities, mutual funds and insurance products that have been drawing household savings. Bank credit growth has consistently outpaced deposit accumulation for the past two years. According to the latest data from RBI, as of September 6, bank credit growth was 13.3% higher on year compared to a deposit growth of 11.1%.

Smaller private lenders and small finance banks typically offer rates 2-2.5% higher than larger or universal banks. But given the competition for accumulating deposits, this spread or gap has narrowed to about 1% as smaller banks are limited in their ability to hike rates beyond a certain point as that impacts their margins. In such a situation, depositors generally prefer larger, well-known names, forcing smaller banks to consider other ways to attract depositors, according to experts.

Also read: Why small finance banks want to glide faster into universal banking

The rise of aggregators like StableMoney, Moneycontrol and Bankbazaar, which offer fixed deposits from multiple banks on a single platform, has also allowed lenders to showcase customised products.

Suryoday Small Finance Bank's deposits through such tie-ups are growing month-on-month, said Kanishka Chaudhary, chief financial officer at the lender. "That's one experiment that has worked out very well for us. It's a channel that we will continue to invest in as a source of mobilising deposits."

With an average ticket size is around ₹50,000-70,000 and average tenure is two years, the bank currently garners around ₹50-60 crore per month through standalone FDs, where customers are not required to open a savings bank account, and the total book now stands at ₹250-300 crore. The lender aims to tie up with 3-4 partners who can help add deposits worth ₹200-250 crore a month, Chaudhary said.

Suryoday Bank has also tied up with Blostemand Tarrakki, platforms that provides infrastructure for banks and fintechs to offer investment products.

The lender is also working on a long-duration FD to mimic something like an NPS (National Pension System) or SIP (Systematic Investment Plan) where depositors can make defined monthly contributions, Chaudhary said. On making contributions for 11 years, customers will receive twice the amount paid in instalments staggered over the following 11 years.

"We are not trying to suggest that our 'RD product with annuity' will be a substitute for an insurance product, but we are just trying to bring out a proxy product that will have more flexibility, which other products may not have," he said.

Also read | Mint Explainer: How banking staff is paying price for digitalization-led growth

Slow beginning

Off-take of new products is still low. Customers first deposit a small amount of money and then almost immediately take it out to test if withdrawals are as easy as promised, an industry expert said. Once they have comfort and assurance, they start depositing higher amounts.

"If you want to get a new set of customers to the bank, then you have to give them flexibility to withdraw, no redemption penalty at the time of withdrawal and a return with a quick T+0 settlement," said Ajay Kanwal, chief executive officer at Jana Small Finance Bank. "This way we can compete in the short-term money market."

The lender has a ₹2,000 crore short-term asset book of supply-chain financing. The bank can use 10-15% of the total book to offer six-month deposits, said Kanwal. "We think this could be a new set of short-term deposits in future."

Earlier this month, the bank launched a 'Liquid Plus' FD targeting high-net-worth individuals, offering a rate of 6.75% for tenors ranging from 7 to 180 days for a minimum deposit of ₹10 lakh for retail deposits and ₹3 crore to ₹200 crore for bulk deposits.

Also Read: India's deposit insurer is overcharging commercial banks

To wealthy clients and companies who usually seek short-term investments options to park surplus deposits, the bank offers same-day (T+0) redemption and partial withdrawal before maturity without any penalty, besides an instant overdraft facility.

Most major lenders such as Axis Bank, HDFC Bank, ICICI Bank, Bank of Baroda and Kotak Bank have been partnering with aggregator platforms such as Bankbazaar to offer standalone FDs or sweep facilities--that transfer funds from the account to a fixed deposit after a certain threshold. Smaller peers such as SBM Bank India, AU Small Finance Bank and RBL Bank, among others, are partnering with fintechs like Mobikwik and PhonePe to

curate more targeted products for platform users. SBM Bank India recently tied up with Mobikwik, offering the payment platform's users credit lines against an FD opened with the bank.

In June, Yes Bank launched a repo-linked floating rate FD for a tenure of 1-3 years.

Not Easy

Experts, however, are not too optimistic about how successful such products would be in garnering deposits.

"It (a repo-linked product) could help in an upswing cycle of interest rate, but right now when we're expecting interest rates to come down, even this innovation might not take off because people might want to lock into higher rates," Hardik Shah, MD and Partner, BCG India.

Shah suggested targeting institutions instead, especially in transaction banking to manage daily services like payments, cash flows, and trade finance. "Right now, their ability to serve institutions with the right technology integration and customisation on the transaction banking side is very limited, they need to up their game on that."

Shalini Warriar, executive director at Federal Bank, sees an opportunity here.

Also read | GenAI will transform banking with focused customer experiences: Deutsche Bank

While the Reserve Bank of India's regulations mandate small businesses to have their collection account with their largest lender, there are customers who potentially may not need borrowing facilities but only current account (CA) facilities which are easy to use, she said.

"70% of our CA relationships are sole proprietors or small partnerships. That's where innovation can and does happen," Warriar said. These would include cash management and trade solutions, she said.

(With inputs from Gopika Gopakumar)

OPEN IN APP

Catch all the Industry News, Banking News and Updates on Live Mint. Download The Mint News App to get Daily Market Updates.