

EXPERT SPEAK

Should you go for sweep-out deposits?

These days, many banks offer sweep-out fixed deposits to customers where their savings account balances beyond a pre-decided threshold are moved to term deposits. **Shaikh Zoab Saleem** spoke to experts to understand if this is a good deal for retail consumers.



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Savings accounts today offer customers an omni-channel experience, transactional convenience, and interest income on balance. Banks offer interest rates on savings accounts and other deposits in accordance with Reserve



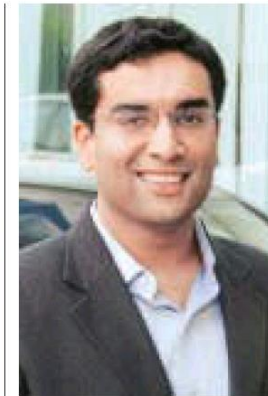
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Mutual Fund

Sweep-in fixed deposits have tremendous merit for investors, so do liquid fund offerings from mutual fund houses. Both these options provide the investors with an option to generate potentially higher returns than what a regular savings



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'Sweep out/Sweep in' deposits, known as 'Flexi deposits' in some banks, allow depositors to increase their interest income. It is a fact that many depositors park surplus money in savings accounts, which earn them 3.5% per annum barring a few selected banks.



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Sweep-in fixed deposits are particularly useful for building up your emergency funds, which keep you covered during unforeseen circumstances like medical emergencies, or unemployment.

This facility can also be

Bank of India (RBI) guidelines. Its directive to compute interest on a daily basis has benefited customers. But, we are in a declining interest rate regime and most banks, private and public sector, have reduced the interest on savings accounts and term deposits. This makes a strong case for sweep-out fixed deposit options. In this option, idle balance above a certain threshold in a savings account may be 'swept into' a fixed deposit. At first glance, this appears beneficial to customers, because interest payable on term deposits is higher than on a savings account. Here, the customers need to understand two things. One, the default tenure of the term deposit into which balance from the savings account are swept into; and two, the interest payable on the term deposits across all tenures, including below 12 months. A study of these rates may show the sweep-out proposition to be on par or only slightly better than savings account. Customers who maintain substantial idle balances in their savings account stand to benefit, if the interest offered on funds 'swept out' into deposits is indeed higher.

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account option would provide them.

Using such alternatives, the investors can not only meet their liquidity requirements and expenses but they can also get to save without having to face the recurring bother of execution difficulties. Possibly, using the sweep-in option the investors get to ramp up the required average balances without the additional necessity of locking in the funds.

As investor awareness rises, we believe that these options may find increasing relevance and eager acceptance with investors in the time ahead. Already these options are quite popular among the informed investor segments. Similarly, liquid funds or ultra short-term funds could be suited for short-term parking of surplus funds alongside fixed deposits, with liquid funds being appropriate for even a 1-day surplus.

Financial products such as these, offered by banking and mutual fund institutions, are intended to simplify and/or enhance the overall investor experience. Here, therefore, 'ignorance is bliss' should be morphed to read 'awareness is delight.'

The main purpose of parking money in savings account is liquidity. In the sweep out/sweep in facility, excess amount over an agreed minimum amount is converted into fixed or term deposits in the system, which earn higher interest of, say, 6-7% per annum. In case of need for withdrawal over the minimum amount parked in savings bank, the amount in the fixed or term deposits is redeemed, the required amount is used and the surplus balance is again reconverted to fixed or flexi deposit.

This enables the depositor to earn higher interest for the period of fixed deposit. The solution is executed by the system. But it has been experienced sometimes that the cheques presented for payment through clearing have been returned without factoring the fixed deposit. This is a reputation risk for the depositor. An alternative approach to manage surplus is to assess the emergency fund, say, 3-6 months' expenses and park it in savings bank linked to sweep out/sweep in facility.

Any excess over this emergency fund can be invested through liquid mutual funds.

used effectively to meet your short-term financial goals. Sweep accounts provide you with the necessary liquidity that you may need during emergencies and at the same time, earn you a much higher return on the deposit, compared to a regular savings account.

These accounts can also be extremely relevant for small businesses that need cash flow but also want to maximize the returns on their idle cash. However, before opting for a sweep account, one should keep a couple of factors in mind.

First, do not use this as your regular expense account, as you may need to use the sweep facility frequently and lose out on earning high returns. Keep it as a back-up for emergencies or for an intended short-term goal.

Second, one must remember that different banks have different structures for their sweep facility. Therefore, before you choose one, ensure you have compared all alternatives available on the features like any pre-closure charges involved, minimum threshold allowed, tenure of the fixed deposit and fixed multiples for the withdrawal.