

Making “Savings Bank Account” more Dynamic Can Benefit Both Banks and Account Holders

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Abstract: *The paper focuses on to study the current level of scope for the Savings bank account offered by banks, and about enriching the product with added dynamics to its product profile to draw more utility value to people out of the account. This would help people stretch their spending scope on a routine, on the one hand, and to meet some special needs calling for funds, which they may not be able to make available, wholly from their regular monthly earnings - providing a financial leeway needed to meet the short term requirements. For Banks too, it would definitely be additional earnings from the product in a significant way. Study is done to identify the features of the current profile of the Savings bank account to analyze the operational scope of the account and to look at possible ways to make the product more dynamic, to be able to benefit both the bankers and the account holders. The Savings bank account which is now only having a limited scope to only deposit and withdraw money, from the point of view of the account holder, could have more operational possibilities through which the end results suggested could be achieved.*

Keywords: Savings Bank account – disposable income – debit card - Jan dhan account

1. Introduction

“In 1611, Hughes Délestre published a booklet on the establishment of “pawn shops”, which already included the idea of promoting saving. Délestre gave voice to the need to offer workers the possibility of depositing small amounts at a modest interest rate, so as to mitigate periods of hardship. In a 1697 booklet, Daniel Defoe introduced a similar idea. Both, however, remained mere ideas until well into the 18th century, when philanthropic and social-liberal ideas envisaged savings banks as a means to fight and prevent poverty” (Ref.No1)

“In Hamburg a savings bank was founded in 1778, “for people of lesser means”, and a few years later the Oldenburg and Kiel savings banks were established. During the first years of the 19th century, the number of savings banks grew rapidly in Germany, but the movement was stunted by the Napoleonic Wars. SAVINGS BANKS AND ECONOMIC DEVELOPMENT: SWEDEN IN THE 19TH CENTURY 28 Independent of the German process, similar institutions were established in Great Britain. In 1798, an institution was founded in Tottenham, which resembled savings banks, and the following year another one in Wendover. But the first savings bank with modern characteristics, which served as a standard for the British and Nordic systems, was founded in 1810, in Ruthwell, in southern Scotland. From then on, the ideas that formed the foundation of the European savings banks movement were a subject of serious consideration.” (Ref.No.1)

Savings bank account is primarily to facilitate for one to save money from out of the earnings. So it means that it is more a deposit account with withdrawals permitted. That has been the philosophy behind the Savings bank account. It is also to be noted that the bank can close the account if there is reason to believe that the purpose of the account is not as stated. (Ref.No.2)

BSBDAs

Looking at the larger purpose, Savings bank account, as a bank’s product, is a part of government’s financial inclusion drive and meant to inculcate the habit of savings. After long years, now consequent to the digitalization of all the bank’s operations due to the needs of the large population and to provide services efficiently, support products such as Passbook, Cheque book, ATM card are being charged for debiting the account holders for the same. Reserve Bank of India recommended / advised the banks to provide them as a free facility considering the needs of weaker sections, who cannot maintain the minimum balance even in their Basic Savings Bank Deposit Accounts (BSBDA) .(Ref.No3)

For years, the Savings bank – as a financial bank product – has not changed and the product features remained untouched. People with significant disposable incomes keep their monies in the bank account. When one has more than one bank account, it is deposited by spreading the amounts and parked in different accounts of different banks. Often people operate one account more than others though others are also operated with less frequency. Reasons for the same are unknown. It is a decision that the account holder takes. But the features of SB Account have largely been same and unchanged. People can only deposit when wanted and withdraw when required.

The account holder does not normally direct his attention on to know how much interest he will get and for maximizing it what he should do. Interest earning, though it happens, is a trivial matter and many times, he/she would not be checking whether interest is earned and whether the earned interest is properly calculated. The formula for calculation of interest is not largely unknown to the account holder, nor would they be keen to know. But all the information is available for public to know. The Savings Bank account holder understands the account more as a secure place to park the

money for withdrawing when required rather than focusing on the interest that could be earned

For banks it is, however, a different matter and it has great significance. The money available for them from the deposits by crores of account holders make a very big chunk of money to finance and earn interest on them which will be double or triple of what the banks need to pay to the SB account holders, as interest. Interest credit is done normally once in a quarter or half-yearly, calculated on the daily balance in the account.

So the Savings bank accounts more aid the banks to invest in the development of industries and businesses either through equity participation or other financing options of different time durations. Government ensures twin objectives of creating Savings as a habit to the people on the one side and reinvesting the amounts in different enterprises, which is essential for the growth of economy, inflation control & raising the general living standards of the people, which figure in the National economy at different levels.

Account holder is not restricted on the number of deposits that he / she could do. But except Cheques, drafts and other instruments drawn in the account holder's favour, assigned instruments of Third party / others are not permitted and not given credit. Further the banks do not pay on accepted cheques in favour of the account holder, unless they are cleared and realized. Only in special cases, banks allow looking at the age and health of the account, which again is done on the discretion powers of the individual bank managers

Overdrafts

Overdraft is a facility which is allowed only in exceptional cases. In the normal circumstances when cheques are drawn in excess of the balance amount in the account, they are returned unpaid and in such cases a service charge is to be paid by the account holder. ***So in effect, Savings Bank account holders cannot enjoy the overdraft facility as a matter of rule or practice.(Ref.No.2)***

Current Accounts in Banks

Unlike Savings Bank account the Current account does not earn any interest. Except the aspect of saving in SB Account, there is no difference between Current account and Savings bank account. Some banks, privately owned, are now coming out with certain special schemes wherein even the current accounts earn interest, upon fulfilling the conditions thereof. Current Account in a bank is opened for businesses largely - proprietary, partnership or incorporated companies, private or public and it is mandatory for a business organization of any structure to open a current account in a bank. Professionals offering their professional services to the clients are also permitted to open Current Accounts, but they are non-interest bearing. Even the Public Sector Companies are required to open a Current account in a nationalized bank/s before the companies' operations start. Current account is more for parking securely the companies' funds, apart from, of course, the transparency required for the businesses. Current account does not restrain the account holders in the

operation of the account – i.e. any number of deposits and withdrawals are permitted. ***(Ref.No.4)***

2. Literary Survey

As a part of the study to understand the current features of Savings bank account, information provided by the Public sector banks – such as SBI, Axis Bank, etc., were referred. While doing so, in order to adopt product differentiation, what extensions to the product are being taken for marketing advantage by different banks also was taken into consideration. From the perspectives that the banks have, it could be concluded that each of them is looking for a product advantage, but they are unable to take a strikingly winning strategy since they are having to play within the policy boundaries

3. Methods & Approach

The methodology adopted to study is to go through the information available and provided by banks and the shared personal experiences of people in general, as every adult is mostly an SB Account holder, going by the needs of the drive for financial inclusivity – which is also the general vision of the Government now.

4. Results & discussions

The paper enables scope for study to look at the Savings Bank Account's current features - philosophy behind this age old financial product. It is a Small Saving for future providing squirrel-support to National economy, if we have to say so, secured Parking of small money month after month, Withdrawing money when required, something that would give a psychologically elated feeling of having the habit to save. It would give a pride of Identity, looking at the lower and upper middle class level population, at least 2-3 decades ago. (now the poor class has to be included - post Jan Dhan drive)

But now it is mandatory for every individual to have an SB account and it is the banking-face of any individual. Times changed because people changed. But sadly the product did not change with the changing people and times. The marketing myopia (it is called in marketing jargon which is **"liking something too much and not to have a change"**), **has been so strong (could be) that the Policy makers have not felt like directing focus on the product.**

Yes, there is a great potential in the product which is not unleashed. Huge market could be tapped by adding features to the existing product profile, which means business and it could be made an attractive and Augmented product of a giant size

When one can use the Debit card (which is the identity of being Savings Bank Account holder) for purchases of products and services spending the money lying in their account as balance, why cannot he/she purchase money with the credibility and trust developed over years and displayed, acting as a guarantee (which is another name for a loan) for short or long drawn time periods. It may be considered as an "Un-secured loan". But unlike the Credit cards – especially

those issued by foreign and other private banks and credit-offering companies, who issue their cards to people without the having any Saving bank account with the card-issuing bank, with regard to the Public sector banks the security is the Savings bank account and along with which the credibility and trust built over years and displayed by the account holder would act as a security. For offering cash credits to the account holders in small amounts (as could be decided by the banks) the bank account and the health of the account would act more than the security that would be otherwise looked for. Further Savings bank account could also be linked to the salary credits with the written consent taken from the organizations where the account holder works, or even if he/she runs a small business, the same could itself stand as commitment from the account holder side. (Ref.No.6)

In the race to run closely or even win the race with China in the economic war, a more dynamic SB Account would add to the various measures that the Government is taking. It is since the people's movement at the grassroots level - both in production/distribution and Consumption is very essential, and all the more, as every Savings Bank account holder is a grass root level individual.

The policy initiative of the Government of India to expand the Savings bank account base through Jan-dhan (for direct transfers of Subsidy and other cash benefits to the account holders) and its run-away success positively indicates that SB Account holders in future would have a more vibrant part role in the economy of the country. This is aimed at making every individual citizen to be a formal contributor to the economy of the country, only through which the goals of National economy could be achieved. "Run by Department of Financial Services, Ministry of Finance, under this scheme 15 million bank accounts were opened on inauguration day. The Guinness Book of World Records recognized this achievement, stating: "The most bank accounts opened in one week as a part of the financial inclusion campaign is 18,096,130 and was achieved by the Government of India from August 23 to 29, 2014". By 27 June 2018, over 318 million bank accounts were opened and over 792 billion (US\$12 billion) were deposited under the scheme." (Ref.No.8)

With over 40 crore beneficiaries in its kitty in last six years, Pradhan Mantri Jan Dhan Yojana (PMJDY) can now be scaled up in terms of offerings.

The flagship financial inclusion scheme of the Centre, which has been dubbed as biggest inclusive scheme in the world, has a steady growth since its introduction on August 15, 2014.

(Ref.No.7)



According to senior official of State Bank of India (SBI), the dormancy rate in the accounts which is at 15 per cent on an average (it varies from bank to bank) is also another indication of the popularity of the scheme. This could actually be lower if one factors the dormancy due to multiple accounts of a beneficiary in different banks.

(Ref.No.7)

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services, namely, a basic savings & deposit accounts, remittance, credit, insurance, pension in an affordable manner. Under the scheme, a basic savings bank deposit (BSBD) account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet, by persons not having any other account.

(Ref.No.7)

The purpose of Savings bank account, as discussed, therefore, has been mainly for promoting Savings and also to fulfill the drive for inclusivity. There was time when only small percentage of people used to have even the Savings bank accounts. The reason for it was that the disposable incomes were hardly anything and even the households with the Savings habit did not opt for a Savings bank account. Improving & enterprising economic scenario, over decades, saw more people having professional incomes and the earnings through small businesses. With the incomes growing savings bank needs were felt. Added to this, Government consistently propagated the savings, as a need and the habit of saving thus became essential. Today nobody could get away without having a Savings Bank account, since it became a part of life, and also to satisfy the mandatory needs.

Savings bank account, being the banking face of an individual, should have more to give to the account holder than it is now intended for. As it is:

- 1) It is an identity that the individual gets; whenever he/she earns, they get the credit online, with bank account got linked.
- 2) It is the account that one pays through towards anything that is payable, either through cheque or online, leaving cash payments aside.
- 3) It is this account that is normally given when a bank account is sought for any engagement – personal, professional, business, trading, purchases, etc.

So for all practical purposes, the SB account of the individual is considered as an authentic identity which speaks of more than just the account holder. As such if the Savings bank account becomes more dynamic with the features that it does not have now, could not only make the account holder to benefit out of it, but also the bank to benefit in its earnings. Currently, the account holder can only pay towards purchases of products, utilization of services and other payments due using the money lying in their SB account. When there is a need for more money than the balance lying in the bank account, one cannot do anything - right at present. Credit card might be one option that the individual could think of. But it is very costly when the repayment possibility crosses 20-30 days. *The instances of needs cropping up are more for most of the account*

holders, and many such needs are left un-served, letting potential consumption opportunities go by un-served. Needs thus arising are not always for spending for consumption, but also for small businesses that they could venture into.

Economy of a state or a country does not improve only through big projects, manufacturing and trading activities of select few industries, traders and service providers. With more and more people at the grass root level becoming enterprising to earn money by investing their time in the economic activities the overall economy of the state / country expands faster and there will be a great amount buzz around. All such things would start with money requirement in the beginning and also as they move along, with time, as the needs keep growing. Healthy economic indices are the reflections of continuously increasing demand and supply of products and services - both in terms of numbers and value.

So in order to try and make more people at the grass root level to come into the economic activity (beyond being consumers), by developing small products and developing services for consumption, their contribution to the economy will grow. Small Production and service enterprises to support large industries also would add to the GDP. For any economic activity – be it creation of small products or developing of service meeting the needs of skills, establishment and operations, requirement of small finance will be a key factor, which the banks could primarily provide through the Saving bank accounts, when the account holders venture out to do. So the needs such as the following could be met through offering of credit / finance as an extension to SB accounts, as a matter of policy.

1) Short duration fund requirement:

An individual at any level would require funds to use and most of the times, it would be beyond the available funds in the SB Account. Such funds requirement could be for different purposes, for purchases, return of loans, unplanned payments towards anything. People would need money which may be more than the balance in the account.

In the case of a Credit card usage, an individual in a middle class income group making a purchase invariably chooses to pay the bill once in a month, on a date comfortable to him/her, of course, within the due date, and even that a minimum amount due option is chosen. Purchase value being more the minimum amount due would not cover purchase value fully and it will end up in an interest payable at 3.5% on the unpaid balance. So there is a huge pay out as interest, happening without even people realizing that such a thing is happening. A savings bank's Short duration Fund at say at 1.5 – 2% interest would mean a big solace to the account holder. ***It will mean to the bank that it is positioning below the Credit Card interest rate, strategizing to take a good share from the captive market.*** There would be a huge population of SB account holders who could avail such a benefit, which will be a Win-Win situation for the bank and also to the account holder. (Ref.No.5)

2) Professionals' needs

Professionals would quite often come across sudden fund requirements. It could be payment of some supporting professional charges, cost of small and supporting equipment, out of pocket expenses – any other expenses that go to enhance the professional income possibilities through efficient and effective service.

The needs for professionals are too many and will be there too often. An “SB account extension finance” for short duration will mean a great benefit to the professional and for bank it will be an additional interest-business.

3) Business proprietors & Directors of companies

Services of theirs often call for sudden and unplanned expenses, which they cannot account in the company, due to legal limitations. There would be a number of needs when they would look for personal spending as large sums. Credit Cards are the options that are chosen, but then the charges are significantly larger when credit card option is chosen.

4) Financial support for Women empowerment

Women entrepreneurs are a significant part of the Savings bank account holders. Large number of women are now getting into service based businesses for which they would need periodically certain funds which may not be large and also not for longer durations. The intermittent periods of finance requirements can be met with the extension financing as an off-shoot of SB Account. This could be made as a policy under women empowerment initiative, offering lesser interest and promoting women enter small service businesses apart from production and distribution of household products as a local enterprise.

The financing possibility if created as an additional feature to SB Account to be availed by the account holders (healthy accounts) at an interest rate larger than what flows out as SB account interest payment, but at the same time priced cheaper than the Credit card charges – which are now anywhere between 36% per annum and above for beyond the credit free period of 20 days and above – will mean a huge business opportunity for banks.

(Ref.No.5)

The cost of such financing done by banks at the rates which will be congenial to people and provide necessary working space to benefit out of it through earnings will be something that people would be most welcoming. It will also be a win-win situation, as said earlier. The banks get their interest money – considerable enough to match the levels that they would earn otherwise, through other sources. And for those who avail the financing available through SB accounts, will be able to see their incomes growing. It will be a significant step forward in creating more production, distribution and consumption opportunities, which, considering the huge & potential possibilities available, could push the economy forward in a measure that the Government is looking for.

Other Add-ons

1) Account holders could look at meeting the needs of production & marketing / distribution and other enterprising possibilities in a small way.

- 2) Account holders could be allowed to make new purchases of the high priced items, especially Home appliances, electronic goods, etc., which are done once in 3 – 5 years – offering them short term financing facility.
- 3) Could have the feature enabling the SB Account holder with the card to make a purchase with an EMI conversion possibility.
- 4) Even the personal loan of amounts – say a month's salary or an amount that could be arrived at looking at the according to the account holder's capacity to repay with the interest which works out and is nominally above the 7 or 8% (permissible according to the eligibility and repayment capacities of the account holder – after screening the past history of the account and if found a healthy account
- 5) They could continue to get the communications from the bank on Product discounts, Gift coupons and exchange offers made by the traders and merchandisers and dealers in Home appliances, electronic goods, Garment stores and other utilities., with whom the banks engage with tie ups

The highly positive trend of fast expanding Jandhan accounts and less dormancy of accounts as has been recorded – which is 15% on an average, speaks about the popularity of the accounts and future possibility of making the SB Accounts more vibrant with the finance-extension focus. The popularity can be expected to be huge and operations could be wider and beneficial for the account holders and the significantly higher earnings for the banks, respectively.

5. Conclusion

From what has been observed from the points which were considered for discussion in the paper, it could be clearly construed that there is a tremendous potential in the Savings Bank account as a product of banks, working on which the account holder of a Savings bank could be made to gain advantage of accessing finance when required, of course, within the eligible levels, which could be used for variety of purposes – could be spent for purchase of products / things or services as a consumer OR spent for producing small household products, OR spent for acquiring professional skills to provide services by setting up own practice OR spent for setting up a PRODUCTION / SERVICE PROVIDING facility of domestic/supportive nature. There are umpteen numbers of products and services providing opportunities of routine nature, which even the unskilled / low skilled people could carry out. Regulated finance for these requirements, made available from the suggested extension of finance possibility as an add-on feature to Savings Bank Account could work well to contribute to the National economy from the grass root level people (who are hitherto only consumers). Since the Savings bank account base is huge in the country, which has 99% of coverage of the households by a bank account, the opportunity for banks will be huge. Big success in economy could be achieved only through inclusive efforts taken to make the grass root level citizens in the country vibrant and active participants in the National economic growth.

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A.V. Sekhar, Associate Professor, Trainer, Researcher & Writer. A.V. Sekhar is an Associate Professor currently working in Dr. MGR Educational & Research Institute (Deemed University), Maduravayal, Chennai-95. He has been in teaching and training for the last 17 years, apart from developing educational products and training modules with content required for such courses & programs. A writer with an experience of more than 20 years, he is a content developer and has long stint in creative & academic writing and he has vast experience in the preparation of wide range of documents. Having worked as an Associate Editor for the House Journal of a Para-education company having nation-wide operations, his strong forte is writing, editing, proofing. Mr. Sekhar is also an English language communication skill trainer having two decades of experience. Associated with Cambridge University (ESOL) he was closely involved in preparing students for their range of examinations - KET, PET, FCE, etc. He had not only trained many batches of students for the said exams apart from IELTS, but also served as Centre Examiner for two years. He attended enhanced training and also a two-day Conference representing CUE English (Pvt) Ltd., (a partner for the programs for CAMBRIDGE UNIVERSITY in Chennai) at Cambridge-shire, England, in the year 2009. During the association for close to 4 years, he was involved in several of the Cambridge University Centre's Course material & Training module development apart from centre administration & exam administration. He travelled to five overseas countries for attending conferences, training and as special invitee. Mr. Sekhar worked in marketing field representing MICO (Robert Bosch), Jhavar gand Times Group corporate companies for a total of 35 years (from 1978 till 2013). He holds his Masters in Marketing & Sales securing Gold medal, from Bhavan's Dr. Rajendra Prasad Institute of Management, Hyderabad chapter. His flair for Research and Writing continues and he reads and writes on the varied topics in economics, commerce, management, education, etc., and has huge collection of his own written works.



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