

Make your money work harder

There are enough options to earn better returns than existing savings deposit rates

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With the country's biggest bank, the State Bank of India (SBI), cutting its savings deposit rate from four per cent to 3.5 per cent — a 50-basis point drop — many who keep their money in savings bank accounts, especially for quick liquidity, would be wondering whether it makes sense to continue doing so.

Financial advisor Harsh Roongta believes losing precious interest rate income just for liquidity is, by itself, a bad idea. "You can use a credit card to make all payments, and it is free cash for a certain period of time. Clear all your credit card bills at the end of the cycle and there will be no requirement to keep excess cash with banks," he argues. He recommends both corporate bonds and fixed deposits in which liquidity is a little less, say three-four days, but returns are much higher.

However, if you feel more comfortable with the weekly SMS which gives you the amount of cash you have in the bank account, opt for the auto-sweep facility all banks offer. This way, any amount above the specified limit is automatically transferred to a fixed deposit. The amount transferred is either in multiples of ₹1,000 or ₹5,000 going up to ₹10,000. The account-holder not only gets higher interest but also gets the money when she needs it, without needing to request the bank or paying any penalty. Say, for instance, you inform the bank that any amount above ₹50,000 will go into the auto-sweep facility, then the additional

MUCH ABOVE SAVINGS DEPOSIT RETURNS

(In %)

Fund	AUM (₹ cr)	6-month	1-year	3-year	5-year
ICICI Pru Liquid Plan(G)	30,846.86	3.28	6.83	7.87	8.41
Birla SL Cash Plus(G)	24,928.81	3.29	6.82	7.90	8.44
HDFC Liquid Fund(G)	22,601.64	3.22	6.72	7.84	8.37
Reliance Liquid-Treasury Plan(G)	22,087.94	3.30	6.85	7.88	8.40
SBI Premier Liquid Fund(G)	21,535.63	3.24	6.71	7.80	8.33
Axis Liquid Fund(G)	16,608.29	3.31	6.87	7.88	8.39
ICICI Pru Money Market Fund(G)	11,769.84	3.29	6.84	7.88	8.38
Kotak Liquid Fund-Reg(G)	11,382.86	3.28	6.81	7.85	8.38
LIC MF Liquid(G)	11,230.84	3.26	6.78	7.84	8.31
L&T Liquid Fund(G)	11,126.10	3.30	6.85	7.87	8.38
Category average		3.28	6.81	7.86	8.38

These are returns of 10 largest liquid funds

Source: Ace MF

amount will earn a higher rate of return.

SBI's Savings Plus Account and ICICI Bank's Money Multiplier Plan are examples of such accounts. In these, the customer has the option of choosing the deposit period between one year and five years. All such accounts offer a reverse-sweep mechanism as well, so as to enable a customer to make payments, withdraw cash or issue cheques in excess of the available balance in the savings bank. The money goes out on a last-in, first-out (LIFO) basis. And the remaining amount continues to earn a higher rate of return. The interest rate on these term deposits is in excess of six per cent for most banks.

Then, there are liquid funds or short-term debt funds. Some fund houses — such as Reliance, DSP BlackRock and Birla Sun Life — have also started offering instant redemption in their liquid funds. For most others, it takes 24 hours to withdraw money from liquid funds if the request is made on a working day. Reliance Mutual Fund, for example, offers a Visa-powered

card, Reliance Any Time Money, which acts like a debit card but is linked to the fund house's liquid fund. With this card, investors can withdraw money from ATMs and also pay for goods at merchant establishments. The daily limit is the lower of 50 per cent of the balance in the scheme or a maximum of ₹50,000 per day.

"By investing in a variety of instruments such as treasury bills, bank certificates of deposit and commercial paper of high-quality corporates, liquid funds can generate higher returns. These funds are likely to give you two-four percentage points' higher returns than the bank savings rate," says Amit Tripathi, chief investment officer—fixed income investments, Reliance Mutual Fund.

Investors must, however, bear in mind that debt funds are not as safe as a bank savings deposit. "The balance in a bank account is insured up to ₹1 lakh per customer. Investing in debt funds involves some risk, including the risk of a loss. Also, future returns in liquid funds can deviate from past returns," says Kunal Bajaj, founder and chief executive officer, Clearfunds.com, a Sebi-registered investment advisor.

YOUR MONEY

