

Deposit mobilization

Designing and promoting accessible savings with digital tools

ABSTRACT

Title of the Case Study	Deposit Mobilization
Theme of the Case Study	Designing and promoting accessible savings with digital tools and education
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CERTIFICATE OF ORIGINALITY

This is to certify, that the Case Study and the Facilitation Note submitted by us are an outcome of our independent and original work. We have duly acknowledged all the sources from which the ideas and extracts have been taken. The project is free from any plagiarism and has not been submitted elsewhere for publication / presentation.

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Introduction

This case study aims to provide an in-depth analysis of the case on enhancing deposit mobilization in Indian banks. The primary focus is on addressing the declining trend in traditional deposit products due to the growing popularity of alternative investments. The note will explore the core challenges, strategic solutions, and optimal approaches for banks to regain market confidence and attract depositors.

Origin of Deposits and Schemes in the World and India

Global Origin of Deposits and Schemes

1. Ancient Banking Systems: The concept of deposits dates back to ancient civilizations like Mesopotamia and Egypt, where temples served as safe places to store wealth, primarily in the form of grain and precious metals. The ancient Greeks and Romans further evolved these practices, accepting deposits and providing loans.
2. Medieval Period: During the Middle Ages, banking activities were primarily conducted by merchant bankers in Europe. Italy, especially cities like Florence, Venice, and Genoa, became prominent banking hubs. Deposits were accepted for safekeeping, and rudimentary savings accounts began to emerge.
3. Modern Banking: The 17th century saw the establishment of banks like the Bank of England (1694) and later, banks across Europe began accepting deposits, paying interest, and offering various financial products. This era marked the beginning of modern deposit schemes.
4. Introduction of Schemes: Deposit schemes like savings accounts, fixed deposits, and recurring deposits began to be formalized with the growth of formal banking institutions. The focus shifted towards providing more secure and varied savings options to customers.

Origin of Deposits and Schemes in India

1. Ancient and Medieval Period: In India, the concept of deposits can be traced back to the ancient Vedic times, where the community would keep valuables with trusted individuals or local temples. During medieval times, indigenous bankers known as "Seths" or "Sahukars" played a crucial role in accepting deposits.
2. Colonial Era: The establishment of banks like the Bank of Hindustan (1770) and later the Presidency Banks set the foundation for modern banking. However, banking services were mostly limited to European clientele and wealthy Indians.
3. Post-Independence Era: The nationalization of banks in 1969 marked a significant turning point, making banking accessible to the masses. Government initiatives encouraged people to deposit savings in banks, leading to a surge in savings and fixed deposit schemes.

4. Recent Developments: With economic liberalization in the 1990s, private and foreign banks introduced more innovative schemes, enhancing the competitive landscape. Digital banking, internet banking, and mobile applications have made deposits and savings more convenient.

Changing Trends in Deposits and Schemes

1. Traditional vs. Digital: Traditionally, savings accounts and fixed deposits dominated the banking landscape. However, digital transformation has led to the rise of e-wallets, online fixed deposits, and investment-linked savings schemes.

2. Interest Rates and Flexibility: Interest rates on savings and fixed deposits have gradually declined globally due to monetary policies and economic conditions. To counteract this, banks offer flexible schemes like tax-saving deposits, sweep-in accounts, and variable interest options.

3. Customer-Centric Innovations: Banks now focus on customer-centric products such as zero-balance accounts, savings plans with insurance benefits, and goal-based savings schemes tailored to individual needs.

4. Technology Integration: Integration of technology like blockchain, AI, and fintech innovations has introduced new deposit schemes like peer-to-peer lending, digital gold, and neobanking products that cater to the tech-savvy population.

Changing Deposit Habits of the Indian Population over Time

1. 1960s-1980s: Post-nationalization, the Indian population relied heavily on fixed deposits, savings accounts, and recurring deposits. Government-run schemes like the Public Provident Fund (PPF) gained popularity among the middle class.

2. 1990s-2000s: Liberalization led to increased competition among banks. Awareness about financial planning and investments began to rise, encouraging a shift from traditional deposits to mutual funds, SIPs, and tax-saving schemes.

3. 2010s-Present: The digital revolution brought a dramatic shift in deposit habits. People increasingly prefer online and mobile banking. Instant access to financial products has popularized digital savings accounts, high-interest rate fixed deposits, and new-age financial products with lucrative returns.

4. Post-Pandemic Trends: Post-COVID-19, there has been a renewed focus on financial markets amongst youngsters. A noticeable trend is a cautious approach towards savings, with increased interest in health-linked savings schemes, Mutual Funds, Stock trading, Crypto currency and FOREX.

These changes reflect evolving economic conditions, technological advancements, and shifts in consumer behaviour, driving a dynamic landscape for deposits and savings schemes in India and globally.

Facilitation Note:

Discussion Points and Analysis

1. Understanding the Shift in Customer Behavior

- Younger investors are moving towards instruments like stocks and mutual funds due to the allure of higher returns and the user-friendliness of investment platforms. Traditional deposit products, perceived as outdated, fail to capture their interest.
- Banks need to adapt to this shift by understanding the evolving needs and risk appetites of different customer segments, particularly the tech-savvy younger generation.

2. Challenges Facing Traditional Deposits

- Interest Rate Disadvantage: Fixed Deposits (FDs) and Recurring Deposits (RDs) offer relatively low returns compared to market-linked investments, leading to a perception of lower value.
- Lack of Flexibility: Rigid terms in withdrawal and premature closure penalties deter potential customers who seek more adaptable financial products.
- Technological Gap: Traditional banks often lag behind fintech firms in terms of technology adoption, impacting the customer experience.

3. Proposed Solutions for Product Innovation

- Market linked and Inflation adjusted deposit products can become alternatives to MFs and Share markets.
- Innovative and personalized products with easy to use and operate platform.

4. Marketing and Rebranding of Deposit Products

- A key strategy is to rebrand traditional deposit products by highlighting their unique benefits, such as security, guaranteed returns, and stability—especially in volatile market conditions.
- Banks should also use targeted marketing campaigns that address specific customer pain points, educating them on the long-term benefits of balanced savings and investment approaches.

Potential Questions for Discussion

1. How can banks effectively market new-age deposit products to counter the growing appeal of mutual funds and stocks?
2. What role does technology play in reshaping the future of deposit mobilization in Indian banking?
3. In what ways can banks ensure that new deposit products comply with regulatory standards while still offering competitive benefits?

4. How can customer feedback be used to continually refine deposit products to keep them relevant in a rapidly changing financial landscape?
5. What strategies can banks adopt to educate customers on the importance of deposit products as part of a balanced financial portfolio?

Proposed Solutions

- Market-Linked Deposits: These products offer a hybrid solution that combines the security of traditional deposits with the potential for market-linked returns tied to market indices or mutual fund performance. This approach targets customers looking for a balance between safety and growth.
- Hybrid Deposits: Combine traditional FD features with a portion allocated to equities or mutual funds, offering fixed returns with opportunities for market-driven gains.
- Flexible and Gamified Products: By offering flexible withdrawal options and integrating gamification elements, banks can appeal to the younger demographic's preference for interactive and customizable financial solutions.
- Smart Deposits: Offer deposits with flexible withdrawal and top-up options, allowing customers to manage their funds without penalties, catering to their liquidity needs.
- Goal-Oriented Recurring Deposits (RDs): Enable customers to set specific financial goals (e.g., vacations, vehicle purchases, education) with tailored interest rates and special incentives for reaching milestones.
- Enhanced Digital Experience: Banks need to invest in technology to streamline processes such as digital account setup, real-time transaction tracking, and personalized financial planning tools.
- Loyalty Rewards: Provide additional interest rates or cashback for long-term depositors or customers renewing their fixed deposits.
- Integrated Digital Platforms: Develop user-friendly digital platforms that combine deposits with investment insights, financial analytics, and personalized advice, enhancing overall customer engagement.
- Instant Account Opening and Digital KYC: Streamline the deposit process with instant account setup, simplified KYC, and one-click renewals via mobile apps.
- Insurance-Linked FDs: Offer fixed deposits with insurance coverage, providing customers an additional layer of security for their savings.
- Inflation-Adjusted Deposits: Introduce deposits with interest rates that adjust based on inflation, preserving the real value of customers' savings over time.
- Customized Account Numbers: Offer premium savings and current accounts with personalized, memorable account numbers as an exclusive feature.
- Innovative Deposit Schemes: Create accounts that offer unique benefits, such as cashback for maintaining a minimum balance or periodic interest rate bonuses.

Alternative Approaches and Implications

- Collaboration with Fintech Firms: Partnering with fintechs can enable banks to offer cutting-edge deposit solutions without extensive in-house development costs. This approach, however, requires careful management of data privacy and compliance issues.
- Incorporating AI and Analytics: Utilizing AI for customer insights can help banks predict market trends and tailor their deposit products accordingly, making them more competitive against alternative investment options.

Optimal Solution and Justification

The optimal solution involves a combination of innovative product offerings and enhanced digital engagement strategies. Specifically, introducing dynamic, market-linked deposit products and flexible savings plans can directly address the needs of today's customers while maintaining the core benefits of traditional banking security.

Justification:

- This approach allows banks to diversify their product portfolio and appeal to a broader customer base, from conservative savers to those seeking higher returns.
- It leverages technology to enhance user experience, aligning with current trends in digital financial services.
- The strategy promotes a balanced investment philosophy, encouraging customers to maintain deposits as part of a diversified financial plan.

Conclusion

The case of declining deposit mobilization in Indian banks highlights the urgent need for innovation and strategic rethinking of traditional financial products. By embracing flexible, market-linked, and technology-driven deposit options, banks can re-engage customers and stabilize their funding base. A customer-centric approach, backed by data analytics and continuous product development, will be crucial for banks to sustain their role in a competitive financial market.

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