

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1585

ANSWERED ON:04.03.2011

PENALTY ON PREMATURE WITHDRAWAL OF FIXED DEPOSITS

Kishor Shri Kamal

Will the Minister of FINANCE be pleased to state:

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- (a) whether the Government has assessed the problems faced by the depositors due to penalty on premature withdrawal of fixed deposits from the banks;
- (b) if so, the details thereof;
- (c) whether banks themselves have decided to impose this condition of penalty on premature withdrawal or it has been decided by the Reserve Bank of India (RBI);
- (d) if so, the details thereof;
- (e) whether such penalty has adverse impact on the Fixed Deposits (FDs); and
- (f) if so, the details thereof along with the corrective steps taken/being taken by the Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAN MEENA)

(a) to (f): Indian Banks Association (IBA) had reported that in the past levy of penalty on premature withdrawal of term deposits was mandated by Reserve Bank of India (RBI). However, now RBI has given freedom to the Board of Banks to decide on pre-payment penalty. If the premature penalty is not levied, banks will face huge interest rate risk as all depositors would opt for revised rate whenever the interest rate moves upwards. The banks have also been advised to inform the depositors about the pre-payment penalty at the time of acceptance of deposit.