The Power of Banking: Put Your Money to Work

In today's complex financial landscape, investors often seek guidance on where to allocate funds effectively.

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Renowned investors like Warren Buffett and Radhakishan Damani emphasises certain key factors: good returns, safety, and liquidity. While various investment avenues offer these attributes individually, traditional banking deposits surprisingly offer a comprehensive solution that addresses all three aspects simultaneously.

Returns

Bank fixed deposits, commonly known as FDs, have been favoured by conservative investors seeking steady returns without significant risk. These deposits offered by the bank provide assured returns, currently averaging up to 9% depending on the bank and prevailing interest rates. The rate that is committed to you when you open a fixed deposit stays until the maturity of the deposit. More importantly, you have the option of tailoring this return the way you want. You can have all the interest on maturity or break it up into monthly or quarterly instalments, depending on your cash flow requirements.

There is even a facility to have a floating interest rate on your deposit. If you feel that interest rates are going up and you don't want to be locked in to just one rate, you can place a floating rate deposit. The rate of return here is linked to a specific benchmark rate. This enables you to earn more if rates rise.

Safety

Bank deposits come with an inbuilt safety mechanism, particularly in India, where all deposits up to a maximum of INR 5 lacs are insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC) a specialised division within the Reserve Bank of India. Thus, regardless of the bank you have opened a deposit with your money up to INR 5 lacs is secure. There is almost no other asset class that provides the safety of this order.

It is also important to note that banks in India are under the purview of the Reserve Bank of India. There are several regulations and safety measures that banks need to adhere to regarding depositor money. For example, a certain percentage of the money needs to be placed as a cash reserve with the RBI. An additional amount needs to be invested in government bonds. Thus, banks are obliged to invest depositors' money safely.

Liquidity

Money parked in a savings account with the bank is akin to cash in hand. It is accessible at all times for withdrawals as well as transfers through various channels, including online banking. With the added advantage of earning interest exceeding 7% on idle funds. For example, you may get your salary on the 1st of the month, and your car EMI must be paid on the 15th of the month. For the intervening 14 days, you can earn interest on your money by keeping it in a savings account or even in a short-term FD. Thus, deposits also work as cash management tools. You can invest your money for up to 10 years, the returns depend on the tenure of the invested.

Additional Benefits

Beyond the core offerings of liquidity, returns, and safety, banks also offer a plethora of additional benefits. Overdraft facilities and loans against bank deposits provide short-term liquidity solutions without the need for premature withdrawal of FDs Certain category of deposits also gives you tax benefits. Customized services such as online account opening and doorstep banking services by relationship managers simplify the banking process. Debit cards allow you to spend anywhere enabling cashless transactions. A prominent benefit is that senior citizens enjoy preferential interest rates for banking,

Conclusion:

Deposits with banks serve as powerful tools that help you manage your money better while giving you the triple benefits of safety, liquidity and attractive returns. Additionally, a banking relationship opens up the whole world of financial services to you. Whether it's to buy insurance, invest in mutual funds, or get advisory services, or opt for personal & home loans. A bank is today a multi-dimensional service provider available at your doorstep or at the click of a button.

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