

Time to diversify: Spread your deposits across banks

Just as you monitor MFs' performance, keep an eye on parameters that reflect your bank's health

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Tamil Nadu-headquartered Lakshmi Vilas Bank (LVB) has been placed under a moratorium that will last from November 17-December 16, 2020. During this period, depositors cannot withdraw more than ₹25,000 (even if they have multiple accounts). If you are an LVB account holder, you would have many queries. Below, we try to answer some of the key ones.

Can I withdraw more than ₹25,000?

You can do so under special circumstances (see word box). In such circumstances, you can be paid either ₹5 lakh or the balance in your account — whichever is lower. Addressing a press conference, T N Manoharan, administrator, Lakshmi Vilas Bank, said: "Depositors will need to provide proof of exceptional circumstances to their branch, along with a request for an amount of more than ₹25,000." Approval will come from the Reserve Bank of India (RBI), so it could take some time.

Is my money safe?

The administrator assured that depositors' money is not at risk. According to Siddharth Purohit, research analyst, SMC Global: "The moratorium has been put in place for a month to avoid a run on the bank."

Accessing an amount of up to ₹25,000 may not be a problem. "Branches and ATMs will start operations in a phased manner from the morning of November 19," said Manoharan. The banking regulator has proposed to merge LVB with the Indian subsidiary of Singapore's DBS Bank. In the best-case scenario, depositors may not face more than a temporary liquidity problem.

What about my EMI?

Many customers would have their equated monthly instalments going from an LVB account. If it is less than ₹25,000, there will be no issue. Those whose EMI is higher could face a problem.

Most EMIs are paid in the first week of the month, so November's EMIs would have been deducted. EMIs for December could get stuck. A source at the RBI said that customers can

LVB DEPOSITORS MAY WITHDRAW MORE THAN ₹25,000 IF...

- Depositor needs it for his own or a dependant's medical treatment
- To meet the cost of higher education for self or a dependant, either in India or abroad
- To pay obligatory expenses related to marriage or other ceremonies of the depositor, his children, or any other dependant
- In any other unavoidable emergency

Source: Gazette of India, November 17, 2020

approach the administrator for amounts higher than ₹25,000.

If this does not work out on time, approach your lender. "Lenders offer leeway in such circumstances," says Arun Ramamurthy, a Mumbai-based credit advisory expert and author. According to him, you may pay your lender from another account or even deposit cash.

If your EMI for December does not go through, don't panic. Lenders report such events to credit bureaus in the first week of the next month. "If you pay before the end of December, there will be no impact on your credit report," says Ramamurthy.



YOUR MONEY

How do I avoid such events in the future?

Like your investments, you now need to diversify your deposits, too. "Spread your deposits across at least two banks," says Arnav Pandya, Mumbai-based certified financial planner and founder, Moneyeduschool. If the news flow about your bank turns adverse, withdraw your money immediately. Just as you, as a savvy investor, monitor your mutual fund investments, keep an eye on a few key parameters that reflect a bank's health. "If your bank's gross NPA rises above 6-7 per cent, that should sound a warning bell. If deposit, especially CASA, growth lags the industry average, that, too, is a sign of weakness," says Ankur Maheshwari, chief executive officer, Equirus Wealth Management. Adds Pandya: "Make sure your bank's net interest income is growing and the net interest margin is stable. Provisions should not be rising quarter after quarter."