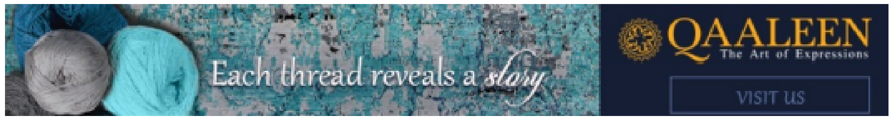

A Liquid Solution

Worried about falling interest rates? Use liquid funds.

by Renu Yadav

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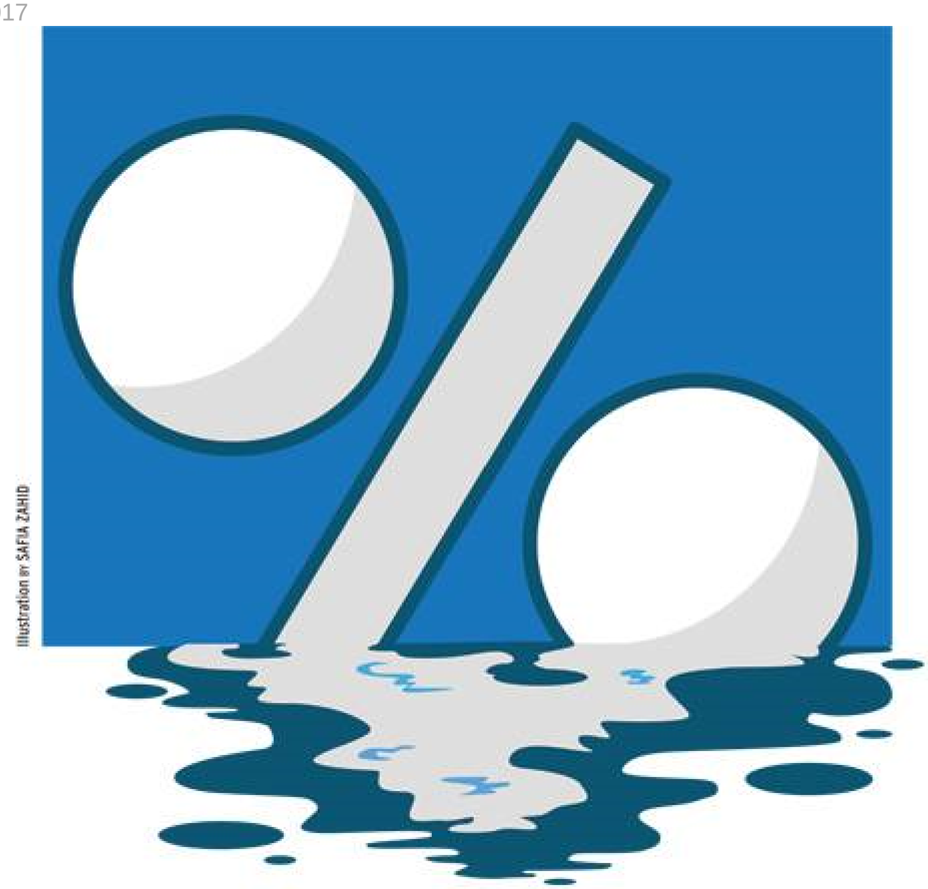


A Liquid Solution

Banks have slashed deposit rates to a multi-year low. The triggers include the broader decline in interest rates, excess liquidity after demonetisation and poor credit offtake. State Bank of India recently lowered the rate on savings account by 50 basis points (100 basis points is equal to one per cent) to 3.5 per cent. Others, including Bank of Baroda, Axis Bank, ICICI Bank, Punjab National Bank and Yes Bank, have also done the same.

We all keep some cash in savings accounts for day-to-day expenses for liquidity and convenience. Now, with interest rates as low as 3.5-4 per cent, it is unwise to keep a large sum of money in savings accounts, as considering inflation, one is actually earning negative returns. That is why experts have started asking people to keep minimum cash in savings accounts and park the rest in better alternatives. "Ideally, 15 days to one month expenses are good enough for savings accounts, especially as there are instruments like credit cards for emergencies," says Vishal Dhawan, Founder, Plan Ahead Wealth Advisor. One good alternative to savings accounts is liquid funds.

Good Options

Liquid funds are mutual fund schemes which invest in very short-term debt instruments such as certificates of deposit, commercial papers, treasury bills, etc. The average maturity of the portfolio can't exceed 91 days. Therefore, they have low volatility. The investment is fairly liquid, but redemption proceeds are available on a T+1 basis. "Considering that liquid funds have always offered a higher return than savings accounts, they are an excellent tool for managing cash flows for most investors, especially those who maintain large balances in savings accounts because of lack of time or inability to decide on where and how to invest," says Dhawan.

COMPARING THE ALTERNATIVES

	LIQUID MUTUAL FUNDS	SAVINGS BANK ACCOUNT
Type of Investment	Based on debt market movement. Has the potential to offer inflation-adjusted returns due to capital appreciation.	Offers fixed rate of return
Return	**7-8% (over the last one year)**	**3.5 to 6 per cent**
Safety of Capital	Relatively safe as liquid funds invest in very low maturity papers ranging from a few days to months and hardly take any credit risk	Investments as well as interest is gauranteed. There is an insurance up to Rs 1 lakh
Liquidity	**Very Liquid up to Rs 50,000, else T+1**	**Very Liquid**
Expense ratio	**0.02 to 1 per cent**	**Zero**

Over the past one year, liquid funds have delivered an average return of around 7 per cent (as on August 18, 2017). Over a period of three to five years, they have delivered around 8 per cent. For investments over three years, investors in liquid funds also enjoy indexation benefit on gains, which reduces the tax burden substantially.

Instant Access Facility

Capital market regulator Sebi has allowed mutual funds to provide instant access facility (IAF) to investors in liquid funds. Under this, you will be able to redeem your investment any time during the day. "The facility, offered by some mutual funds, has made the proposition even more attractive and reduced dependence on saving account balances. The money is available in less than 15 minutes. The whole idea is that a liquid fund should work like a savings account with better returns. We advise savvy investors to use the facility to earn higher returns on idle cash," says Vikash Agarwal, Co-founder, CAGRfunds, a Mumbai-based online wealth management firm.

As per Sebi regulations, mutual funds can offer IAF facility of up to Rs 50,000, or 90 per cent of the value of the investment, whichever is lower. This facility is not available to non-resident Indians. Funds can provide this facility only in liquid mutual funds.

"Regulations for instant redemption are a good move. They can create a new set of investors who want instantaneous access to funds on their mobile apps and also appeal to the digitally savvy younger generation. Given that this feature caters to the younger generation, the Rs 50,000 limit is reasonable," says Manoj Nagpal, CEO , Outlook Asia Capital.

The investor can redeem the money online through the application or the website of the fund house. Money is credited to the linked account and that too instantly as fund houses use the IMPS fund transfer facility. Mutual funds units equivalent to the amount withdrawn are adjusted from the investor's account on the next business day. The cost of the IMPS facility is borne by the fund houses. Nothing is deducted from the investor's money.

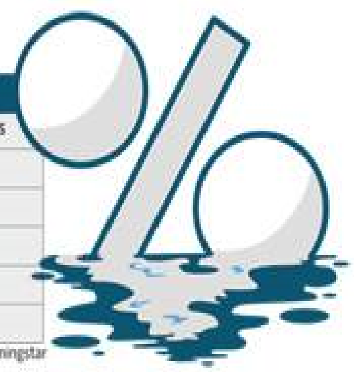
Gaining Popularity

Even prior to Sebi regulations, fund houses such as Reliance, DSP BlackRock, SBI and ICICI were offering this facility to retail and institutional investors. The amount offered under this facility was higher, up to Rs 2 lakh or 90 per cent of the investment value in most cases. The facility got a good response from investors, say the fund houses. "The number of transactions jumped three times in our underlying fund - Money Manager - because of this facility. Also, as the average size of the incremental transactions after this facility was launched was less than Rs 1 lakh, this meant that many retail investors were investing in our liquid scheme after the launch of this facility," says Santosh Navlani, SVP, DSP BlackRock Mutual Fund.

HIGH RETURNS

LIQUID FUNDS	RETURNS (%)			
	6 MONTHS	1 YEAR	2 YEARS	3 YEARS
Indiabulls Liquid	3.31	6.95	7.56	7.97
Franklin India TMA Super Instl	3.33	6.85	7.49	7.96
JM High Liquidity	3.34	6.92	7.49	7.93
Aditya BSL FRF S/T	3.33	6.87	7.46	7.93
Principal Cash Mgmt	3.33	6.87	7.45	7.92

Returns over one year are annualised; Source: Morningstar



"We have seen tremendous response from customers. More than two lakh investors have created accounts to access the instant withdrawal facility. We have processed close to 1.25 lakh investor instant redemptions with total value of Rs 300 crore," says Himanshu Vyapak, Deputy CIO, Reliance Mutual Fund. "The proposition is compelling. Most new mutual fund customers are taking trials with moderate amounts. The number of customers in the underlying scheme has more than doubled since the launch of this facility. It will continue to grow exponentially in days to come," he added. The fact that Sebi has come out with regulations also means that it supports the initiatives of the fund houses and wants to bring in uniformity in the offerings. However, fund houses have stopped offering the IAF facility under ultra short-term funds; they are offering it with only liquid funds, as per the new Sebi guidelines.

Any Time Money Card

Reliance Mutual Fund is also offering "Any Time Money Card," which works like a debit card. Investors can not only withdraw money from Visa-enabled ATMs using this card but can also use it at PoS Machines for shopping.

You can get this card only if you invest in Reliance Liquid Fund - Treasury Plan, Reliance Liquid Fund - Cash Plan, or Reliance Money Manager Fund.

You can withdraw 50 per cent of your investments, or Rs 50,000, whichever is less. For daily purchases, the limit is 50 per cent, or Rs 1 lakh, whichever is lower.

"This facility was introduced a couple of years ago with an intent to provide instant access to funds through a wide network of ATM and PoS machines. Any Time Money card is predominantly linked to customers' liquid fund investments and, therefore, is as a superior alternative to traditional savings accounts," says Himanshu Vyapak, Deputy CIO, Reliance Mutual Fund.

Should you go for it?

Experts feel that the Rs 50,000 limit is on the lower side. "Though the IAF is a nice feature to demonstrate the high liquidity of mutual funds, we believe it has limited practical use in wealth creation. Only if the regulators, both Sebi and RBI, allow liquid funds to be used for bill payments and third-party online transfers, akin to savings/current account transfers, will the use of liquid fund increase," says Nagpal.

But even without this facility, experts say that liquid funds are a good option to deploy cash in excess of day-to-day requirements given the returns they provide.

"We believe that not more than one month's expenditure is required to be kept in a saving bank account. Individuals can plan other expenditure and ensure that they can earn more by investing in liquid funds," says Agarwal of CAGRfunds.

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