When your account turns dormant

A look at hassles you face when your savings account turns dormant, and the steps you need to take to reactivate it

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ARUN KUMAR, a 47-year-old serviceman went to the ATM of a leading bank to withdraw money but the machine would not process his transaction. He contacted the bank and learnt that his account had been declared dormant as he had not used it for the past two years. Like Kumar, many of us leave behind a trail of unused accounts when we switch jobs, move from one city to another, or because we never get around to closing the accounts that we no longer need.

Why account becomes inactive

If no transaction — credit or debit other than crediting of periodic interest or debiting of service charges — takes place in your savings account for more than 12 months, the account becomes inactive. And if the period exceeds 24 months the account is declared dormant or inoperative. The exact period after which a bank is declared inactive or dormant varies from one bank to another. For instance, ICICI Bank declares an account inactive after 15 months and dormant after 18 months. Punjab National Bank and Barclays, on the other hand, declare it as dormant after just six and three months respectively.

The inconvenience

Once an account turns inactive or dormant, you can't perform several operations. In case of an inactive account you cannot request that a cheque book be issued. Once an account turns dormant, the number of restrictions increases even further. You can't request that a cheque book be issued, the address be changed, the signature be modified, a joint holder be added or deleted, or an ATM/debit card be renewed. You will also not be able to withdraw money from an ATM or carry out any transaction either through internet banking or a branch of the bank.

However, even after your account turns inactive or dormant, interest is still credited to your saving account regularly. And if a fixed deposit receipt matures and you don't withdraw the proceeds, the amount left unclaimed in the saving account will attract the rate of interest applicable to this account.

Better-paying options

Mostly accounts turn inactive due to lethargy, lack of time, and so on. If the idea is to earn interest on money that you don't need in the near future, other options are available rather than letting it languish in a savings account where it earns a mere 3.5 per cent return.

SAVINGS CUM FIXED DEPOSIT ACCOUNT. If you wish to keep the money in the bank itself, then you can opt for a two-in-one account where any surplus above a certain level gets automatically swept into a fixed deposit account. Besides offering a higher rate of return, such an account offers the advantage of complete liquidity: you may withdraw the funds (above the bare minimum that you must maintain in the account) anytime you wish to.

LIQUID MUTUAL FUNDS. This is another attractive option for short-term funds. One can earn 5-6 per cent net of tax in these funds. Says Vishal Dhawan, a Mumbai-based financial planner: "A liquid fund is also more tax-efficient if one belongs to a higher tax bracket."

PUBLIC PROVIDENT FUND. Parking money in PPF is an attractive option if you don't need the money for the next several years. You earn an 8 per cent rate of return that is tax-free.

Disadvantages

- Keeping many bank accounts breeds confusion while calculating your income at the time of filing income tax. Interest earned is taxable at the marginal rate. "People should minimise the number of accounts they keep as it creates a problem in reporting interest earned at the time of filing taxes," says Vishal Dhawan, a financial planner.
- If you are not using your bank account regularly, you may not come to know that your bank has raised the minimum balance requirement and slapped penalty charges on you. You may end up having an account with debit balance.

So, if you do not intend to use an account, close it. Write an application with your account details and submit it to the bank. The account is closed on the spot.

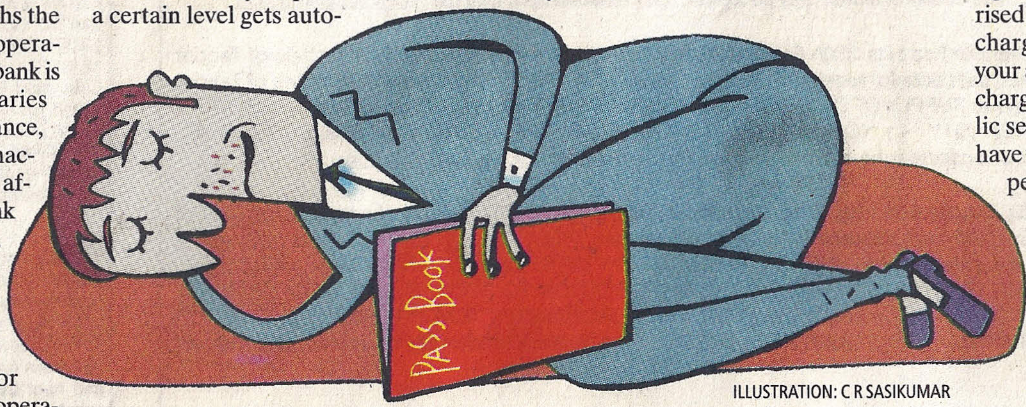

ILLUSTRATION: C R SASIKUMAR

How to reactivate an account

To reactivate an inactive account you need to conduct a transaction by cheque or ATM. In case you have other active accounts, you could send the bank a secure message from your Personal Internet Banking ID instructing it to debit Re 1 from this account to another.

To reactivate a dormant account, submit a formal application to the bank stating the reason for your absence, and provide a photo identity proof. Your signature will be verified by the authorised bank personnel. The bank may even charge you a small fee for reactivating your account. For instance, Barclays Bank charges Rs 250 plus service tax. Most public sector banks and co-operative banks have waived off the reactivation charge as per RBI guidelines.

In case you have not maintained the average minimum quarterly balance during your absence, you will have to the pay a penalty. SBI charges Rs 200 per quarter for not maintaining the minimum balance of Rs 1,000. The account usually gets activated within 24 hours.

To nip this problem in the bud, keep using your account before it turns inactive or dormant. Carry out a transaction once in a while in all your accounts if you want to escape bearing the penalty or having to run to the branch to reactivate the account. At least once a year, carry out a transaction: withdraw cash, transfer funds through any of the banking channels, or make a cheque payment to ensure that your account remains active.

VARIED STANDARDS AMONG BANKS

Bank	Reactivation charge	Time period (mths)
SBI	Nil	>12
PNB	Nil	>6
Bank of India	Nil	>6
Syndicate	Nil	>24
HSBC	Nil	>24
HDFC	Nil	>6
ABN Amro	Rs 300+ service tax	>24
Axis Bank	Nil	>12
ICICI	Nil	>18
IDBI	Nil	>24
Citibank	Nil	>6
Barclays	Rs 250+service tax	>3