Banks here cut deposit rates in line with global markets

Changes take effect from May; borrowing sentiment remains muted amid pandemic

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Banks in Singapore have recently announced reductions to interest rates on savings accounts, an expected and necessary move given the declining interest rate environment globally amid the coronavirus pandemic, experts said.

The changes to the DBS Multiplier, OCBC 360 and UOB One accounts will take effect from early next month.

Associate Professor Lawrence Loh from the National University of Singapore noted that the banks are under pressure, given the lowered interest rates by central banks around the world and a fall in consumer borrowing. The United States Federal Reserve has cut borrowing rates to near zero.

While bank lending in Singapore was up 0.2 per cent in February compared with the previous month on the back of higher business loans, the sentiment for borrowing for the rest of the year remains muted.

Consumer loans shrank 0.3 per cent in February compared with January, and fell 1.1 per cent compared with the same month last year.

“The fall in demand for consumer loans leaves banks more stretched, and they cannot continue to offer higher rates on deposits as they lower rates on lending,” Prof Loh said.

From May 2, OCBC Bank customers will receive a slightly lower bonus interest of 0.2 per cent for two categories – credit card spend of at least $500 and an increase in account balance by $500 compared with the previous month – on the first $35,000 of their deposits.

However, on the next $35,000 of account holdings for crediting of salary, customers will receive a higher bonus interest of 2.4 per cent, compared with the previous 2 per cent. But they will receive lower interest for credit card spend and for an increase in account balance.

The minimum salary credit requirement has also been lowered – from $2,000 to $1,800.

OCBC head of deposits Gregory Cher said: “To support customers who are joining the workforce during this challenging economic climate, the lowered minimum salary will allow them to benefit from the account’s salary credit bonus interest.”

One in every five OCBC 360 account holders is new to the workforce and aged between 23 and 28, he noted.

Under UOB One’s new rates, the total interest per year earned on the first $75,000, given that the customer meets the card spend minimum of $500 over a calendar month, will be lowered from 1.5 per cent to 0.5 per cent.

UOB One users will still receive higher interest rates for meeting the minimum card spend and either crediting their salary or making three Giro debit transactions.

But interest rates on account holdings will be lowered by between 0.2 percentage points and 0.9 percentage points, depending on the customer’s account balance.

Ms Jacquelyn Tan, United Overseas Bank’s head of personal financial services in Singapore, noted that this is the first revision to the UOB One rates since the account was launched in 2015.

The interest rates were lowered as a result of the fall in central banks’ benchmark rates, owing to slowing economic growth and exacerbated by the global spread of Covid-19, Ms Tan said.

DBS Bank’s Multiplier account will lower the interest rates earned on account holders’ first $25,000 by up to 0.25 percentage points, depending on their total eligible transactions per month.

Those who make less than $2,000 of eligible transactions a month will continue to earn 0.05 per cent interest per year.

This applies to those who credit their salary into the account and make one other transaction with the bank. Transactions include credit card spending or investments, and the salary credited also counts towards the eligible transaction amount.

In response to queries, a DBS spokesman said the DBS Multiplier rates were reviewed in tandem with the interest rate environment and in view of current market conditions, and will take effect from May 1.

In addition to the three local banks, Standard Chartered Bank has introduced revised rates for its BonusSaver account, which took effect last Wednesday.

It has lowered bonus interest rates on two components – card spend and bill payments – but has increased interest rates on investment or insurance transactions.

A spokesman for StarChart said it has been seeing an increasing trend of its BonusSaver clients allocating more of their money towards low-risk and stable means of growing their savings since last year. This was the reason for its upward adjustment of interest rates for the investment/insurance category.

Prof Loh said other banks are likely to follow suit and adjust their interest rates on savings accounts, as they deal with the squeeze on their margins.

Professor Ho Yew Kee of the Singapore Institute of Technology noted that the low interest rate environment will likely continue for the rest of the year and for some time to come. This may “hopefully support and encourage investment, borrowing and, ultimately, consumption and economic activities”.