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Short term investment options for beginners

As a first-time investor, navigating your way around the different terms and conditions that exist in the world of banking can be quite daunting. Before you do anything, it is wise to first do some research about the different options that are available so you can make an informed decision, advises Neil Thompson, Head of Product and Customer Value Proposition.

He says a good starting point for risk averse investors is to look at what various short term investment options are available. Investment deposit products are a good place to start. “They offer a safer investment option when compared to other investment types such as shares or the money market and earn a higher interest rate than depositing money in a savings account.” Thompson says these products are not ideal if a person is looking for liquid funds but are ideal if you are looking for something that can grow in the long term.

If you’ve ever considered taking out a fixed deposit or a notice deposit account, then here are the key differences...

What is a fixed deposit account?

A fixed deposit account is an investment account and a type of savings account in which money is deposited for a stated period of time and a fixed interest rate is paid in line with your preferred payment option such as monthly, yearly or at the end of the term. This varies from bank to bank. Generally no withdrawals are permitted and the money is only available once the term has expired, although you may find some fixed deposit products with a flexible feature, where you can withdraw a certain percentage of the investment before maturity date. Thompson says this is one of the easiest ways of making your money work for you. “Opening a fixed deposit account is both quick and easy and all you have to do is to deposit money into the account for a given period of time, for it to earn interest for you.”

The four top reasons for investing in a fixed deposit are:

- It encourages a savings habit as the money you deposit needs to be in the account for a period of time without you making any withdrawals.
- Investing in a fixed deposit account earns you a higher interest rate than depositing your money in a savings account.
- You are assured of returns for your investment.

- You get to choose how long you want to invest your money in a fixed deposit account ranging from 30 days to 5 years with an option to re-invest your money in order to see an even greater return.

What is a notice deposit account?

A Notice deposit works in a similar way, except that your money is available for withdrawal and the account does not have a maturity date, which means it can be used to either grow your savings or as an “emergency fund”. However, you are required to give notice of withdrawal over a specified number of days before making the withdrawal. If you fail to do so, you will have to pay a penalty fee to withdraw your required amount.

Thompson says a notice deposit account is ideal if you'd like to build up savings and grow your money over time and still have access to your money by giving notice of withdrawal for 7, 32 or 90 days - you choose. He says this account may be kept for an indefinite period depending on your saving goals and you can enjoy excellent interest rates while you have access to your finances, within the required notice period. He does caution that the interest rate on a notice deposit may change in line with prevailing market conditions.

Here is a table highlighting the general features of both accounts. These may vary slightly depending on which bank you are looking at.

Fixed Deposit Account	Notice Deposit Account
One off deposit of a lump sum. After a seven day period you will not be allowed to add money to your account.	You can add money to your account at any time.
Interest is paid out based on maturity i.e. on a monthly, biannually and yearly basis.	Interest can be paid monthly or on withdrawal.
Interest rate is fixed.	Interest rate changes.
Investment terms start from 3 months to 60 months.	Withdrawal notice periods start from 7 days to 90 days.
The account cannot be kept for an indefinite period, though a re-investment option is possible.	The account can be kept for an indefinite period.

“Ultimately, a fixed deposit and notice deposit account will add interest to your investment and both are great vehicles to use when setting investment goals for yourself,” concludes Thompson.

Ends

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