7. Banking Laws (Amendment) Act, 2025- Economy

Step Towards New Age Banking in India. The Banking Laws (Amendment) Act, 2025 amends five key legislations to modernize India's banking framework, introducing up to four nominees for accounts to reduce unclaimed deposits. It also raises the "substantial interest" threshold to ₹2 crore and aligns co-operative bank director tenures with the 97th Constitutional Amendment.

Introduction

Sector Transformation- India’s banking sector has witnessed a significant transformation in recent years.

Legislative Step- The **Banking Laws (Amendment) Act, 2025** is a decisive legislative step aimed at strengthening governance standards, enhancing consumer protection, and adapting to modern banking needs.

Scope of the Act

The Act introduces a total of 19 amendments across five key legislations-

1. The Reserve Bank of India Act, 1934
2. The Banking Regulation Act, 1949
3. The State Bank of India Act, 1955
4. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
5. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980

Need for the Amendment

Addressing Rising Unclaimed Deposits

Problem- A substantial volume of funds lies unclaimed in banks, primarily because depositors often fail to appoint nominees, or the process is too rigid.

Solution- The Act establishes a structured and seamless succession mechanism to ensure these funds reach legal heirs efficiently.

Expanding Financial Inclusion

Complexity- As more households join the formal banking system, the variety and complexity of services have increased.

Modernization- Existing frameworks were outdated. New rules are needed to handle the massive scale of operations, rapid technology adoption, and surging transaction volumes.

Clarity and Uniformity in Operations

Standardization- The Act establishes uniform terminology to ensure smoother integration with emerging banking technologies.

Dispute Reduction- By formalizing clear asset succession rules, the Act aims to minimize disputes between banks and depositors/claimants.

Key Reforms under the Act

Modernised Nomination Framework (Sections 10–13)

This is a major shift from the previous single-nominee rule to a more flexible system.

Increased Limit- Depositors can now nominate up to four persons for their bank accounts.

Types of Nomination-

Simultaneous Nomination- Allows the depositor to allocate funds among multiple nominees on a **percentage basis** (totalling 100%).

Successive Nomination- Useful for articles in safe custody and lockers. It ensures a pre-defined chain of succession (e.g., *If Nominee A passes away, Nominee B becomes the beneficiary*), preventing legal vacuums.

Redefinition of ‘Substantial Interest’ (Section 3)

Threshold Revision- The monetary threshold for defining "substantial interest" has been raised significantly. *Previous Limit (1968)*- ₹ 5 Lakh. *New Limit*- ₹ 2 Crore.

Objective- This change accounts for inflation and economic growth over the decades, revamping governance standards to reflect current financial realities.

Governance in Co-operative Banks (Sections 4 & 14)

Constitutional Alignment- The amendments align director tenures with the 97th Constitutional Amendment.
Tenure Extension- The maximum tenure for directors in cooperative banks is increased from 8 years to 10 years. *Exception*- This extension excludes the Chairperson and Whole-time Director.
Note- The tenure for directors in other banking companies remains unchanged.
Audit Reforms in Public Sector Banks (PSBs) (Sections 15–20)
Auditor Remuneration- PSBs are now empowered to fix the remuneration of auditors independently (previously restricted). This allows them to offer competitive fees.
IEPF Transfer- PSBs are now permitted to transfer unclaimed shares, unpaid interest, and bond redemption amounts to the Investor Education and Protection Fund (IEPF). *Significance*- This brings PSBs in line with the practices already followed by private companies under the Companies Act, ensuring better utilization of unclaimed funds for investor awareness.

Impact of the Reforms (National Vision)

Impact Area	**Details**
Depositor-Centric	Safeguards public trust by simplifying claim settlements for families, ensuring money does not get stuck in "unclaimed" limbo.
Financial Transparency	The transfer of unclaimed amounts to the IEPF creates a transparent ecosystem for fund management and investor education.
Enhanced Audit Quality	By paying better remuneration, PSBs can now attract highly qualified audit professionals, improving the quality and rigour of financial audits.
Operational Efficiency	Updating operational definitions and simplifying procedures reduces red tape and aligns the sector with modern technological realities.

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