The Banking Laws (Amendment) Bill, 2024

On Tuesday, December 03, 2024, Lok Sabha passed the Banking Laws (Amendment) Bill, 2024, during the winter session of Parliament, marking a significant step in reforming India's banking regulations. The Bill introduces comprehensive amendments to pivotal banking laws, including:

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

Key Amendments Proposed in the Bill

1. **Definition of Fortnight for Cash Reserves**

   Under the Reserve Bank of India (RBI) Act, scheduled banks are required to maintain a prescribed average daily balance with the RBI as part of their cash reserve obligations. This balance is calculated based on the average of the daily closing balances maintained by the banks over each day of a fortnight.

   a) **Current Definition**: A fortnight is defined as the period from Saturday to the second following Friday (including both days).

   b) **Proposed Change**: The Bill redefines a fortnight as: (i) First day to the 15 (fifteenth) day of each month, or (ii) 16 (Sixteenth) day to the last day of each month, both days inclusive.

2. **Tenure of Directors in Co-operative Banks**

   a) **Current Tenure**: The tenure for the director of a co-operative bank, except for a chairman or a whole-time director to hold the office is for a maximum of 8 (eight) consecutive years.

   b) **Proposed Change**: The Bill extends the maximum period from 8 (eight) to 10 (ten) consecutive years, offering continuity in governance for co-operative banks.

3. **Common Directors in Co-operative Banks**

   a) **Current Rule**: A director of a bank cannot simultaneously serve on the board of any other bank.

   b) **Exemption**: This rule is not applicable to directors appointed by RBI.

c) **Proposed Change**: The Bill extends this exemption for directors of central co-operative banks who are elected to the boards of state co-operative banks. This facilitates alignment in governance structures across the co-operative banking ecosystem.

4. **Substantial Interest in a Company**

a) **Current Definition**: Substantial interest refers to holding shares of over INR 5 lakh (Indian Rupees Five Lakh Only) or 10% (ten Percent) of a company's paid-up capital, whichever is lower.

b) **Proposed Change**: The Bill amends to increase the threshold to INR 2 crore (Indian Rupees Two Crore Only) reflecting contemporary capital structures.

c) **Provision**: The Central Government retains the authority to revise this limit through notifications.

5. **Nominations**

a) **Current Provision**: Single or joint deposit holders can appoint only 1 (one) nominee for items left in custody of a bank or for a locker hired from a bank. The nominee can access the deposit, articles, or locker in case of death of the person who nominated him/her.

b) **Proposed Change:** The Bill introduces provisions for the appointment of up to 4 (four) nominees for specified purposes. For deposit accounts, up to 4 (four) nominees may be designated, either simultaneously or successively. In the case of simultaneous nominations, the allocation is based on the specified proportions. For successive nominations, priority is given to the nominee listed higher in the order. For purposes other than deposits, nominees may only be appointed successively.

6. **Settlement of Unclaimed Amounts**

a) **Current Rule**: The State Bank of India Act and the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 mandate the transfer of unpaid or unclaimed dividends to an unpaid dividend account. If the funds in this account remain unclaimed or unpaid for 7 (seven) years, they are subsequently transferred to the Investor Education and Protection Fund (IEPF).

b) **Proposed Change**: The Bill widens the scope of funds eligible for transfer to the IEPF. These include (i) shares on which dividends have remained unpaid or unclaimed for 7 (seven) consecutive years, and (ii) unpaid or unclaimed interest or redemption amounts on bonds for a period of 7 (seven) years from the date of such interest or redemption became due for payment. Individuals whose shares or funds have been transferred to the IEPF retain the right to claim a refund or transfer of these amounts.

7. Remuneration of Auditors

a) **Current Provision**: The RBI determines the remuneration paid to bank auditors in consultation with the central government.

b) **Proposed Change**: The Bill suggests that the banks shall have the autonomy to fix the remuneration of their auditors.

This Amendment Bill can be accessed Here.

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