

# Bill Summary

## The Banking Laws (Amendment) Bill, 2024

- The Banking Laws (Amendment) Bill, 2024 was introduced in Lok Sabha on August 9, 2024. It amends the: (i) Reserve Bank of India (RBI) Act, 1934, (ii) Banking Regulation Act, 1949, (iii) State Bank of India Act, 1955, (iv) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and (v) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.
- **Definition of fortnight for cash reserves:** Under the RBI Act, scheduled banks must maintain a certain level of average daily balance with the RBI as cash reserves. This average daily balance is based on the average of the balances held by banks at the closing of business of each day of a fortnight. A fortnight is defined as the period from Saturday to the second following Friday (including both days). The Bill changes the definition of fortnight to the period from: (i) first day to fifteenth day of each month, or (ii) sixteenth day to the last day of each month. It also changes this definition under the Banking Regulation Act where non-scheduled banks are required to maintain cash reserves.
- **Tenure of directors of co-operative banks:** The Banking Regulation Act prohibits the director of a bank (except its chairman or whole-time director) to hold office for more than eight years consecutively. The Bill seeks to increase this period to 10 years for co-operative banks.
- **Prohibition on common directors in case of co-operative banks:** The Banking Regulation Act prohibits a director on a bank's board to serve on the board of another bank. This does not apply to directors appointed by RBI. The Bill extends this exemption to the director of a central co-operative bank. This exemption will apply where he is elected to the board of a state cooperative bank in which he is a member.
- **Substantial interest in a company:** Under the Banking Regulation Act, substantial interest in a company refers to holding shares of over five lakh rupees or 10% of the paid-up capital of the company, whichever is less. This may be held by an individual, his spouse, or minor child, either individually or collectively. The Bill amends this to increase the threshold to two crore rupees. The central government may alter the amount through a notification.
- **Nomination:** The Banking Regulation Act allows single or joint deposit holders to appoint a nominee for their deposit. Such a nominee can also be appointed 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. The Bill allows the appointment of up to four nominees for these purposes. For deposits, such nominees can be appointed either successively or simultaneously while for other purposes they can be appointed successively. In case of simultaneous nominees, the nomination will be effective in a declared proportion. For successive nomination, the nominee who has been named higher in the order of nomination will receive priority.
- **Settlement of unclaimed amounts:** The State Bank of India Act, and the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 provide for transferring unpaid or unclaimed dividend to an unpaid dividend account. If the money in the account remains unpaid or unclaimed for seven years, it is transferred to the Investor Education and Protection Fund (IEPF). The Bill widens the ambit of the funds that can be transferred to the IEPF. These include: (i) shares for which dividend has not been paid or claimed for seven consecutive years, and (ii) any interest or redemption amount for bonds which is unpaid/unclaimed for seven years. Any person whose shares or unclaimed/unpaid money is transferred to IEPF can claim the transfer or refund.
- **Remuneration of auditors:** At present, the remuneration paid to the auditors of banks is fixed by the RBI in consultation with the central government. The Bill empowers banks to decide the remuneration of their auditors.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.