



BANKING AND FINANCE

Decoding the Banking Laws (Amendment) Act, 2025

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The Banking Laws (Amendment) Act, 2025 was introduced by legislation to cater to the needs of new India by modernising the banking system that is now outdated in a way that it fails to include digital necessities that make the process less time taking and limit scope of mistakes. This not only will lead to internal benefits but will help India have a better positioning among her global competitors.

The new reforms aim to be useful in enhancement of governance, to strengthen the safeguards of depositor and investors, to improve the audit quality in public sector banks and address the shortcomings and vulnerabilities of past failures by banks.

Table of contents

- [1. Legislative Scope and Implementation](#)
- [2. Sections 10 to 13- Scope of nomination framework](#)
 - [A. Increase in Nominees](#)
 - [B. Modes of Nomination](#)
- [3. Governance Reforms](#)
 - [A. Redefining 'Substantial Interest' \(Section 3\)](#)
 - [B. Co-operative Bank Governance \(Section 4 & 14\)](#)
- [Audits & Accountability: PSBs Get Real Authority](#)
- [Major Wins for Customers and Governance](#)
- [Comparison of Banking Law Changes \(Previous vs. Amended\)](#)
- [Conclusion](#)

Below is a detailed analysis of the major aspects of the Amendment.

1. Legislative Scope and Implementation

This will act as a transformative step as it amended five cornerstone legislations that define India's financial architecture:

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**

Implementation Timeline: The provisions of the Act were notified in two distinct stages to facilitate smooth adoption:

- **Stage 1 (Effective August 1, 2025):** Covered Sections 3 to 5 and 15 to 20 (Governance and Audit reforms).
- **Stage 2 (Effective November 1, 2025):** Covered Sections 10 to 13 (Nomination Framework).

2. Sections 10 to 13- Scope of nomination framework

A huge amount of funds lies across banks as unclaimed deposits, often because no nominee was recorded. To address this, the Act introduces a depositor-centric framework designed to ensure smoother claim settlements, and provide faster access for families. This will lead to higher customer satisfactions and along with it save a lot of unnecessary delay in settlement of claims.

A. Increase in Nominees

Depositors now have the flexibility to designate **up to four persons** as nominees for their bank accounts, deposits, and lockers.

B. Modes of Nomination

The Act introduces specific facilities to minimize disputes and reduce the need for judicial intervention:

- **Simultaneous Nomination:** This allows depositors to nominate multiple persons and allocate the deposit amount among them percentage-wise upto 100%
- **Successive Nomination:** This is critical for **articles in safe custody and safety lockers**. It ensures seamless succession in the event of a nominee's death by establishing a clear order of precedence.

3. Governance Reforms

The Act updates governance norms to reflect inflation, economic growth, and democratic principles.

A. Redefining 'Substantial Interest' (Section 3)

- **Old Rule** set the threshold at ₹5 lakh (a limit since 1968).
- **New Rule:** has increased the threshold to amount of ₹2 crore.
- **Impact:** This regulatory change is designed to revamp governance standards, reflecting the inflation and growth the economy has witnessed over the decades.

B. Co-operative Bank Governance (Section 4 & 14)

- **Change:** The maximum tenure for directors (excluding the Chairperson and whole-time directors) in Co-operative Banks has been increased from **8 years to 10 years**.
- **Rationale:** This aligns Co-operative banks with the **97th Constitutional Amendment**, which mandates democratic governance and elevates the status of co-operatives in the country's political and economic framework. (Note: Tenure for directors in other banking companies remains unchanged).

This legislation is a giant leap for the banking sector. We're finally moving away from those restrictive, "one-size-fits-all" rules and into a structure that makes sense for modern finance.

Audits & Accountability: PSBs Get Real Authority

The changes around auditing, especially for Public Sector Banks (PSBs), are pretty significant:

- **Real Auditor Pay:** The old, regulated fee structure for auditors is **out**. The banks' boards are now **empowered to set the remuneration** themselves. Why is this a big deal? Because it lets PSBs compete to hire top-tier professionals. You want better audits? You need to pay for better talent. This is a huge step for improving audit quality.
- **Cleaning Up Unclaimed Funds:** The new rule lets PSBs transfer unclaimed funds—shares, interest, and old bond money—to the Investor Education and Protection Fund (IEPF). It sounds technical, but it simply means PSBs are finally aligning with the same transparent rules that all companies follow. It's about creating a single, clear system for managing forgotten money.

One of the clunkiest parts of the old system was the reporting schedule. That's finally fixed!

- **The Problem:** Reporting requirements used to revolve around "last Friday" or "alternate Fridays." That's an outdated model that caused unnecessary headaches and a ton of manual work.
- Now, all reporting dates are tied to the **15th and the last day of the month**. This instantly aligns the bank's reporting cycle with its accounting cycle. It reduces manual burnout, makes automation way easier to adopt, and just cleans up the entire system's efficiency.

Major Wins for Customers and Governance

The Act has made some profoundly flexible changes that directly benefit the customer:

- **Nomination Flexibility:** This is a big one. Depositors are no longer limited to just one person for a nomination. You can now name **up to four people!** Likewise, locker nominations have evolved from a simple name to a detailed **chain of succession**—it's much clearer for asset transfer now.
- **The New Money:** The financial definition of 'substantial interest' has been updated to reflect current market values. That threshold for ownership influence has skyrocketed from a trivial ₹5 lakh to a hefty **₹2 crore**. It just acknowledges that ₹5 lakh isn't the same as it was decades ago.
- **Co-op Leadership:** Governance tenures for co-operative banks have been extended from eight years to ten years, bringing them up to the constitutional standard. It provides for more stable, long-term leadership.

This whole package moves banking from a single, restrictive road to a multi-lane highway of flexible, modern options.

That's a perfect request for making sense of the changes! The recent **Banking Laws (Amendment) Act, 2025** (often referred to based on the 2024 Bill) introduces sweeping reforms across multiple acts to modernize governance, audit, and customer-facing processes.

Here is a comparison table summarizing the most impactful amendments:

Comparison of Banking Law Changes (Previous vs. Amended)

Area of Change	Previous Law (Status Quo)	New Law (Amendment Act, 2025)	What it Means
Nomination Limit (Deposits & Lockers)	Only One Nominee allowed per account or locker.	Up to Four Nominees allowed per account or locker.	Enhances Customer Convenience & Succession. This is a huge win for depositors, simplifying inheritance and reducing disputes over unclaimed money. Nominees can be simultaneous (divided share) or successive (priority list).
Substantial Interest Threshold	Set at ₹5 Lakh (or 10% of paid-up capital), a limit unchanged since 1968.	Raised to ₹2 Crore (or 10% of paid-up capital).	Modernizes Governance Scrutiny. The old limit was irrelevant due to inflation. The new, higher threshold ensures that only those with a truly <i>substantial</i> financial stake are flagged for regulatory scrutiny and conflict-of-interest checks.
PSB Auditor Remuneration	Fixed by the RBI in consultation with the Central Government.	Public Sector Banks (PSBs) are Empowered to fix their own auditors' pay.	Improves Audit Quality. PSBs can now compete to hire top-tier audit professionals by offering competitive market-linked salaries, thereby strengthening financial oversight and transparency.
Unclaimed Funds	Only Unpaid Dividends were clearly defined for transfer to the IEPF.	Unclaimed Shares, Interest, and Bond Redemption Amounts are also included.	Boosts Investor Protection & Transparency. PSBs are now aligned with the practices of private companies. Unclaimed funds (after 7 years) are transferred to the Investor Education and Protection Fund (IEPF), making the claim process clearer for the rightful owners.
Regulatory Reporting Dates	Based on the old "Alternate Friday" or "Last Friday" system (a non-calendar-based cycle).	Aligned to the 15th and the Last Day of the month/fortnight.	Streamlines Operations. This move aligns regulatory compliance dates with standard calendar and accounting cycles, drastically reducing manual workload and making it much easier for banks to adopt automated reporting systems.
Director Tenure (Co-op Banks)	Maximum consecutive tenure was 8 Years .	Maximum consecutive tenure is extended to 10 Years .	Strengthens Leadership Stability. Aligns co-operative bank governance with the 97th Constitutional Amendment, promoting continuity and democratic governance within the co-operative banking sector.

Conclusion

The transformative nature of this legislation, the Act has moved the banking sector from restrictive, single-point access to flexible, multi-layered options. Where previously a depositor was limited to a **single nominee**, the new law expands this right to **up to four persons**. Similarly, locker nominations have evolved from a simple nomination to a **successive chain of priority** to ensure clearer asset succession.

Financially, the definition of ownership influence has changed significantly; the threshold for **'substantial interest'** has leaped from a mere **₹5 lakh to ₹2 crore**, reflecting modern valuations. Governance tenures in co-operative banks have been extended from **8 to 10 years** to match constitutional standards. Furthermore, Public Sector Banks have transitioned from regulated auditor payment structures to **board-decided remuneration**, and the industry-wide reporting cycle has shifted from the volatile **'Reporting Friday'** model to a stable schedule based on the **15th and last day of the month**.

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