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Banking Laws (Amendment) Bill, 2024: Key Changes and Implications

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On December 3, 2024, the Lok Sabha passed the Banking Laws (Amendment) Bill, 2024, ushering in a series of amendments to key banking legislations. These changes aim to enhance efficiency, governance, and customer convenience within the Indian banking system. Here's a concise overview of the amendments and their impact:



Fun Facts

- The word "bank" comes from the Italian word *banco*, meaning "bench," as early bankers operated from benches in marketplaces.
- Banks were the original "cloud" storage—keeping gold safe long before tech companies stored data!

Fun Facts

- The first recorded bank robbery in the U.S. was solved by a clue as small as a stray piece of chicken.
- Your crisp new bills are designed to survive a dip in the washing machine!
- Early Chinese banks accepted silk as currency—cashmere wasn't an option, though.
- The first credit card was invented because someone forgot to bring cash to dinner!
- Bank vaults are so secure, even Indiana Jones would have trouble getting in!
- Digital banking is so advanced, some transactions are faster than the blink of an eye.
- Banks still process millions of handwritten checks daily—it's old-school meets high-tech!
- In the 1950s, a British bank ran an advertising campaign featuring a lion in their office—talk about customer intimidation!

Key Amendments:

1. Faster Reporting by Banks

- **Change:** The time period for submitting returns by scheduled banks to the Reserve Bank of India (RBI) under Section 42 of the RBI Act, 1934, has been reduced from 7 days to 5 days.
- **Implications:** This will ensure quicker reporting, allowing RBI to monitor the banking sector more effectively. It's a step toward tighter regulatory oversight and operational efficiency.

2. Revised Definition of 'Substantial Interest'

- **Change:** The threshold for determining 'substantial interest' in a company or firm under the Banking Regulation Act, 1949, has been increased from ₹5 lakh to ₹2 crore (or as notified by the government).
- **Implications:** This revision aligns with current economic scales, reducing unnecessary scrutiny over minor holdings and focusing regulatory attention on significant stakes in banking-related entities.

3. Longer Tenure for Cooperative Bank Directors

- **Change:** The tenure of directors in cooperative banks has been extended from 8 years to 10 years.
- **Implications:** This provides stability and continuity in leadership, fostering consistent decision-making and long-term strategies for cooperative banks.

4. Remuneration of Auditors in State Bank of India

- **Change:** The State Bank of India (SBI) now has discretion to fix the remuneration of auditors, replacing the previous system where the RBI and Central Government decided this.
- **Implications:** Empowering SBI to determine auditor fees will streamline processes and ensure accountability in financial disclosures.

5. Expanded Scope of Unclaimed Assets

- **Change:** The scope of unclaimed assets eligible for transfer to the Investor Education and Protection Fund (IEPF) now includes unclaimed shares and interest or redemption amounts on bonds held with SBI for over 7 years.
- **Implications:** This amendment ensures unclaimed funds are put to productive use, enhancing public welfare and minimizing dormant liabilities in banking account

Nomination Reforms: Deposits and Lockers

1. Up to Four Nominees Allowed

- For deposits, account holders can now appoint up to four nominees, either successively (in priority order) or simultaneously (in specified proportions).
- For safe custody and lockers, only successive nomination is permitted.

Analysis:

- Successive Nomination ensures clarity in asset transfer over time, as each nominee receives the funds in a defined order.
- Simultaneous Nomination allows proportional asset division among all nominees, providing flexibility to account holders.

Fun Facts

- ATMs were inspired by vending machines, but instead of snacks, they dish out cash.
- The first-ever recorded bank was in Babylon around 2000 BCE, where temples doubled as secure vaults.
- Modern banking started in Italy during the Renaissance, with families like the Medicis setting up the first banks.
- Central banks, like the Federal Reserve, act as the “bank for banks,” ensuring stability and printing money.
- Banks essentially make money by lending your deposits and charging interest—turning your savings into their profit!
- Operations in a bank are like a symphony, with tellers, loan officers, IT, and compliance all playing their part.
- The first ATM, introduced in 1967, could only dispense £10 notes—no multi-currency option back then!

Fun Facts

- SWIFT codes aren't about speed; they're unique IDs banks use for international transactions.
- Cheque processing once took weeks; now, with OCR (Optical Character Recognition), it's done in minutes.
- Banks pioneered digital transformation with online banking in the 1980s—before the internet went mainstream!
- In 1979, a bank in Japan accidentally distributed 1.2 million yen instead of the intended 1,200 yen due to a printing error. It took weeks to retrieve the oversized "mistakes"!

Impact Analysis

1. Enhanced Regulatory Oversight: The reduction in reporting timelines ensures faster data availability, aiding RBI in maintaining systemic stability.

2. Simplified Governance Norms: Longer tenures and revised definitions reflect the evolving needs of the banking sector and align governance norms with modern-day realities.

3. Customer-Centric Changes: Allowing multiple nominees simplifies asset management for individuals, making it easier to designate beneficiaries.

4. Efficient Use of Unclaimed Funds: Redirecting dormant funds to public welfare through IEPF ensures economic resources are utilized efficiently.

Final Thoughts

The Banking Laws (Amendment) Bill, 2024, signals a progressive shift toward a more robust and customer-friendly banking framework. By streamlining reporting, redefining governance norms, and enabling better asset management for customers, the Bill strikes a balance between regulatory oversight and operational flexibility.

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