Evolution of India’s Banking Regulation & Key Reforms Under the Banking Laws (Amendment) Act, 2025

India’s banking regulation framework has evolved alongside its economic and institutional development. Five foundational legislations continue to guide the country’s financial architecture, supported by periodic amendments that reflect changing economic realities and technological advancements.

Foundational Legislations in Indian Banking

1. Reserve Bank of India Act, 1934

The Reserve Bank of India Act, 1934 laid the legal foundation for the operations of the Reserve Bank of India (RBI).
The Act empowered the RBI to:

- Regulate the issue of banknotes
- Maintain monetary stability through reserves
- Manage the credit and currency system of the country

Over the decades, the RBI played a crucial role in establishing India’s financial institutions, including:

- Unit Trust of India
- Industrial Development Bank of India (IDBI)
- National Bank for Agriculture and Rural Development (NABARD)

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2. Banking Regulation Act, 1949

Introduced soon after independence, this legislation consolidated regulatory control over India’s banking sector.
It remains a cornerstone law ensuring:

- Banking stability
- Sound governance
- Consumer protection
- Systemic safety

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3. State Bank of India Act, 1955

This Act transformed the Imperial Bank of India into the State Bank of India (SBI).
Its objective was to:

- Expand banking services across rural and semi-urban India
- Strengthen financial penetration
- Serve broader developmental goals

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4 & 5. Nationalisation Acts of 1970 & 1980

In 1969, 14 major scheduled commercial banks with deposits above ₹50 crore were nationalised.
This move was later formalised through:

- **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970**
- **Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980**

These Acts aimed to channel banking services toward national development and social welfare.

Major Amendments Over Time

To strengthen India’s banking framework, several amendments were introduced, including:

- **Banking Regulation (Amendment) Act, 1994**
- **Banking Companies Amendment Act, 1994**
- **Banking Regulation (Amendment) Act, 2007**
- **Banking Laws (Amendment) Act, 2012**
- **Banking Regulation (Amendment) Act, 2020** (enhancing RBI’s powers over cooperative banks)

These focused on improving governance, capital adequacy, liquidity management through SLR/CRR reforms, and overall financial stability.

Banking Laws (Amendment) Act, 2025

This comprehensive reform amends five major laws:

- RBI Act, 1934
- Banking Regulation Act, 1949
- SBI Act, 1955
- Banking Companies Act, 1970
- Banking Companies Act, 1980

The Act aims to:
✔ Strengthen depositor protection
✔ Improve governance
✔ Enhance audit transparency
✔ Modernise cooperative bank regulation
✔ Streamline operational processes

The Act was implemented in two stages:

- **Stage 1:** Sections 3–5 and 15–20 (effective 1 August 2025)
- **Stage 2:** Sections 10–13 (effective 1 November 2025)

Why the Amendment Act of 2025 Was Needed

1. Rising Financial Inclusion

With rapid expansion of digital and rural banking, operational processes needed modernisation to reduce manual work and improve compliance.

2. Clarity in Asset Succession

Large unclaimed deposits exist due to lack of nominations. The Act addresses succession clarity and smoother asset transfer.

3. Uniform Terminology

Updated terminology improves regulatory consistency and tech integration across the banking system.

4. Alignment with Modern Accounting Cycles

Deadlines and reporting schedules needed updating for better automation and efficiency.

Fact Focus: Why Nomination Matters?

A significant volume of funds lies in banks as unclaimed deposits — often because depositors failed to record nominees.

The new nomination rules aim to:
✔ Reduce delays in claim settlement
✔ Ensure faster access for families
✔ Minimise legal disputes and court involvement

Key Reforms Under the Banking Laws (Amendment) Act, 2025

1. Modernised Nomination Framework (Sections 10–13)

- Depositors can nominate **up to four persons**.
- **Simultaneous nominations:** percentage-based, totaling 100%.
- **Successive nominations:** automatic succession for lockers and safe custody in case a nominee dies.

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2. Redefinition of 'Substantial Interest' (Section 3)

- Threshold increased from **₹5 lakh (set in 1968)** to **₹2 crore**.
- Enhances governance standards and aligns with inflation and economic growth.

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3. Governance Reforms for Co-operative Banks (Sections 4 & 14)

- Maximum tenure of directors (excluding chairperson and whole-time directors) raised from **8 to 10 years**.
- Brings cooperative banks in line with the **97th Constitutional Amendment** mandating democratic governance.

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4. Audit Reforms for Public Sector Banks (Sections 15–20)

- PSBs can now **fix auditors' remuneration directly**.

- Unclaimed shares, interest, and redemption amounts can be **transferred to the IEPF**, similar to company law practices.
- Enables higher audit quality and better transparency.

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5. Procedural & Operational Efficiency

- Statutory reporting references like "last Friday" or "alternate Fridays" have been replaced with
"last day of the month" or **"last day of the fortnight"**.
- Simplifies compliance and supports automation.

Impact of the 2025 Reforms on National Vision

1. Stronger Depositor Protection

Simplified nomination rules and clear succession mechanisms ensure smoother claim settlements.

2. Better Governance

Updated thresholds and director tenures strengthen internal management, especially in cooperative banks.

3. Financial Transparency

IEPF transfer rules enhance clarity and accountability in fund management.

4. Higher Audit Quality

Empowering PSBs on auditor remuneration increases the likelihood of attracting competent professionals.

5. Operational Efficiency

Modernised definitions and reporting norms reduce manual workload and enhance system reliability.

Conclusion

The Banking Laws (Amendment) Act, 2025 marks a major step toward modernizing India's financial architecture. By addressing governance gaps, improving depositor safeguards, and aligning regulatory structures with digital-age realities, the Act strengthens India's position as a stable, transparent, and forward-looking banking economy.

These reforms reinforce:

- **Stability**
- **Transparency**
- **Efficiency**
  — essential pillars for India's sustained economic growth in a rapidly evolving digital era.

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