



How the proposed banking law amendments would affect you

New rules are aimed at easing claim process for the bereaved family and reduce unclaimed funds in the system

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The Banking Laws (Amendment) Bill, 2024, which allows bank account holders to have up to four nominees, marks a significant shift in how money invested in banking products by an individual can be managed and distributed after the person's demise.

The bill, passed by the Lok Sabha on 3 December, says nominees are only custodians and safekeepers representing the beneficiaries (if there is a testamentary document like Will/Trust deed) and heirs (in the absence of a testamentary document). They are not owners. But nomination is important as it aids the process of inheritance.

Rajat Dutta, founder of Inheritance Needs, said this change is aimed at providing opportunities to family members of the deceased to ensure ease in the claim process.

Mint compares the new bill to previous regulations and its benefits.

Existing regulations

The existing rules allow savings account and fixed deposit holders to register only one nominee. However, people could have two nominees in the case of a jointly held vault (locker).

The amendment addresses the issue of unclaimed funds in the banking system. "Managing unclaimed money is a burden on the financial system. The amendment will curb the asset flow to the DEAF and ensure they reach the family of the deceased (heirs or beneficiaries)," Dutta said.

For example, if earlier Mr A's spouse was the sole nominee, she would receive the funds on his demise. However, if his spouse predeceased him, the nomination would be invalid. If Mr A had a Will, the claim would need to prove its legitimacy. In the absence of a Will, the court would identify the heirs and their shares.

In case of no claim or resolution, Mr A's assets would move to the Reserve Bank of India's (RBI's) Depositor Education and Awareness Fund (DEAF).

Understanding the new bank nomination amendment

The recently proposed amendment now allows you to have 4 nominations in your bank.

What was the previous rule?

Bank accounts (savings/fixed deposits/recurring deposits): Only 1 nominee allowed.

Problems with previous rules: Single nominee

- ▶ Assets couldn't be transferred if the nominee predeceased the account holder.
- ▶ Legal delays arose without a secondary nominee or will.
- ▶ Unclaimed assets were transferred to DEAF* after 10 years.
- ▶ Caused family disputes and confusion.

What does the amendment say?

Bank accounts: Up to 4 nominees, with 2 options:

Joint nomination: Assign specific ratio (example, 50% to wife, 30% to son, 20% to daughter).

Successive nomination: Assets pass to the next nominee if the previous nominee is deceased (example, wife → son → daughter).



Need for uniform nomination rules

Current issue: Different formats across financial assets.

Asset	Nominees allowed
MF	3
Demat	3
Insurance	3
Bank	4

Solution:

- ▶ Standardize nominations across all products.
- ▶ Uniform rules will streamline inheritance and asset transfer to heirs.

*DEAF: Depositor Education and Awareness Fund

CASE STUDY

PREVIOUS RULE

Mr. A has a bank account with 1 nominee (his son).

Mr. A passes away, but his son passed away years earlier.

The bank cannot release funds easily, causing legal disputes and delays for the family.

New rule: Mr. A appoints 3 nominees: his wife, son and daughter.

Option 1: Successive nomination:

If Mr. A passes away, the wife inherits 100% of the assets.

If the wife is not alive, the son inherits. If both are deceased, the daughter inherits.

Option 2: Joint nomination:

Assets are divided as per the specified ratio: Wife (50%), son (25%), daughter (25%).

If a nominee dies, his or her share will be redistributed according to the applicable ratios.



PARAS JAIN/MINT

Established in 2014, it houses unclaimed balances from accounts inactive for over 10 years.

The proposed changes

These allow up to four nominees for bank accounts and fixed deposits, with two options: Joint nomination and successive nomination.

Joint nomination: This option enables account holders to assign a specific percentage of entitlement to each nominee (up to four). If no percentage is specified, shares are pre-

sumed to be equal. For example, if Mr A nominates his mother, wife, son and daughter, he can allocate specific ratios such as 50:30:10:10.

If his mother is deceased, then her 50% will be distributed to his spouse, his son, and his daughter in the ratio of 30:10:10. Thus, the derived distribution to be followed by the bank among surviving nominees would be: Wife 40%, son 30%, and daughter 30%.

Successive nomination: This provides a clear chain among nomi-

nees. The first nominee inherits 100% of the assets. If the first nominee is no longer alive, the second gets priority, followed by the third, and so on. This is easing the cash flow requirements of the bereaved family pending implementation of the Will or the resolution as per the succession law.

"Although a Will overrides nominations, the new rules ensure quicker access to funds for the bereaved family," Dutta said, adding that the change is a "boon for the struggling elderly".

Take, for example, the case of Mr B, a senior citizen who is under elderly care and his only daughter is married and settled overseas. As of now, Mr B has named his daughter the sole nominee. The new amendment gives Mr B the flexibility to name his caretaker a joint nominee at 5% and his daughter at 95%. With this, Mr B is securing himself against any possible malpractice upon his demise.

The importance of testamentary documents

While the amendments empower account holders with robust nomination options, Wills remain the ultimate document of authority. As Dutta said, "Nominees are not owners but custodians of the heirs or beneficiaries."

If a Will specifies a beneficiary different from the nominee, the nominee is legally bound to transfer the assets to the Will's beneficiary. For instance, if Mr A names his caretaker as the nominee for his bank account but specifies in his Will that the funds should go to his son, the caretaker is legally obligated to transfer the funds to the son as per the Will. If the nominee fails to handover the assets, the heirs can seek legal recourse.

In cases where no Will exists, the inheritance will follow the applicable succession laws.

Need for uniform rules

Dutta pointed out the importance of adopting uniform nomination rules across all financial products like bank products, mutual funds, life insurance policies, and demat accounts.

He said a standardized approach to nominations would simplify the inheritance processes, making it easier for heirs to claim assets while also reducing the administrative burden on each of the counterparties, i.e., banks, asset management companies, insurance companies, etc.



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