Settlement of amount of the Deceased Accounts – From Pain Point to Process Reform

The Persistent Pain Point:

For decades, settlement of accounts after the death of a customer has been one of the most sensitive and frustrating aspects of retail banking. For bereaved families, already dealing with emotional and logistical pressures, long and cumbersome claim procedures add to the distress. For banks, the challenge is the other way around, they must balance speed and compassion with strict safeguards to prevent wrongful payouts, counterclaims, and legal liability.

Historically, this tension has often resulted in processes that are neither fast nor customer-friendly, with branch staff erring on the side of excessive caution. In many cases, branches have insisted on legal documents such as succession certificates[1] or probate[2] even when there is no dispute among the legal heirs, or there was a valid nominee or survivorship clause requirements that RBI has repeatedly discouraged.

The 2005 RBI Guidelines – Early Push for Simplification:

Following the recommendations of the Committee on Procedure and Performance Audit on Public Services (CPPAPS), RBI issued related guidelines in the year 2005. The emphasis of these guidelines for settlement of the deceased claims, was on:

- ***Valid Discharge:*** Payment to a nominee or survivor, after verifying identity and death, was to be treated as a full discharge of the bank's liability, irrespective of the amount involved.
- ***No unnecessary documents:*** Where a nominee/survivor clause existed, banks were told not to demand succession certificates, letters of administration, probate, or indemnities.
- ***Simplified no-nominee cases:*** For accounts without nominees/survivorship clauses, banks could settle claims up to a threshold (decided by the bank) based only on an indemnity letter and proof of death.
- ***15-day timeline:*** Settlement was to be completed within 15 days of receiving claim and proof of death.
- ***Publicity:*** Banks were to actively promote the nomination facility and survivorship clauses.

While progressive in intent, the 2005 instructions left important parameters, such as threshold limits, documentation for higher-value claims, and operational formats, to the banks' discretion. This led to variations in practice and, in many cases, the persistence of over-cautious documentation demands. While laying down cumbersome documentation, the bank perhaps ignored the fact that the money ultimately belonged to the legal heirs only and if there is no dispute and clear documents are provided, they need to return the money to the eligible person. However, since, the banks were not supposed to sit and judge the entitlement and eligibility of the claimant(s), the easier way out for them was to insist on the legal documents such as succession certificate or probate as the case may be.

The 2025 Draft Directions – Towards Standardisation & Accountability:

M/s. RBI has recently issued draft guidelines on ***Settlement of Claims in respect of Deceased Customers of Banks) Directions, 2025*** which primarily aim to harmonise the claim settlement process across all commercial and co-operative banks. Key features of the draft guideline include:

- ***Minimum threshold limit:*** INR 15 lakh for simplified settlement in no-nominee cases, with standardised document lists (Annex I-A to I-H).

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[1] *Indian Succession Act, under Section 372, Court can grant succession certificate in respect of a debt or security. A Succession Certificate is conclusive as against the persons owing such debts or liable for such securities which afford full indemnity to such persons.*

[2] *A probate is a process under which copy of a will is certified under the seal of a Civil Court with a grant of administration to the estate of deceased. It is sort of a certificate of Court certifying the genuineness of the will.*

- ***Nominee/Survivor Cases:*** No legal documents or indemnities required, regardless of amount, if identity, death, and absence of court orders are confirmed.
- ***Disputed/Willed Estates:*** Clear differentiation between Will without dispute (can act without probate) and contested estates (probate/letter of administration/succession certificate required).
- ***Lockers and safe custody****:* Detailed procedures for inventory, handover, and documentation.
- ***Digital Accessibility:*** Claims can be lodged at any branch or online, with acknowledgement and tracking facilities.
- ***Mandatory Timelines:***
  - 15 days from receipt of all requisite documents (deposit accounts & lockers).
  - Locker/article inventory to be scheduled within 15 days.
- ***Penalties for Delay:***
  - Deposits – Interest at Bank Rate + 4% p.a. on amount due.
  - Lockers/articles – INR 5,000 per day.
- Banks must display processes, forms, and document checklists on their websites and in branches.

Related Developments- Penalties as a Service Discipline:

The RBI's approach in these draft directions mirrors its recent policy in other service areas, such as mandatory timelines for return of title deeds after loan closure, where delays attract monetary penalties. The idea is to shift the cost of inefficiency back to the bank, creating a real incentive to comply.

However, experience suggests that penalties alone will not guarantee better service. There is a risk that branches, seeking to avoid penalties, may try to delay the "start date" of the 15-day clock, for example, by raising avoidable document objections or questioning claimant eligibility beyond what the guidelines require. This needs to be avoided by the Banks. The Court usually take a strict view in such matters as in the case of ***Sujit Kumar Ghosh v. Union of India,*** reported in 2014 SCC Online Ori 2632, decided on 08.11.2024, the State Bank of India was directed to pay INR 1 lakh as compensation for not returning the title deeds after closure of the loan.

As regards the effect of nomination, it needs to be understood that nomination does not confer ownership on the nominee rather the nominee receives the amount of deceased account in trust for and on behalf of the all the legal heirs. The position was clarified by the Hon'ble Supreme Court in the case of ***Smt. Sarbati Devi and Anr. Vs. Smt. Usha Devi***, reported in AIR 1984 SC 346, wherein it has been held, that -"A mere nomination made under Section 39 does not have the effect of conferring on the nominee any beneficial interest in the amount payable under the life insurance policy on the death of the assured. The nomination only indicates the hand which is authorised to receive the amount, on the payment of which the insurer gets a valid discharge of its liability under the policy. The amount, however, can be claimed by the heirs of the assured in accordance with the law of succession governing them."

The Calcutta High Court in the case of *Smt. Bharati Phulki & Anr. Vs Smt Kamla Bala Das & Ors. SA 36 of 2002* decided on 02.11.2017, held that the nominee can only receive the money deposited in the bank but cannot claim to be an absolute owner. The money deposited with the original account should be distributed to the claimants in accordance with the rule of Succession, although under the provision of Banking Regulation Act, the nominee, after the death of the testator, may have exclusive right to receive the amount lying in the account. Therefore, the moneys in the account as mentioned in schedule A, B and C devolves according to the Rule of Succession.

However, nomination carries legal force and serves to eliminate procedural hurdles and court processes in receiving money from the bank after the account holder's death. Therefore, every depositor should ensure that proper nomination is registered for all their accounts. At the same time, depositors should not harbour any misconception about the nominee's claim or rights during their lifetime, a nomination takes effect only upon the death of the account holder. Until then, the account holder(s) retains complete autonomy to operate the account, use the funds as they wish, and change or modify the nomination at any time.

Balancing Customer Ease and Bank Safeguards:

While the draft directions are a welcome and necessary reform, their success will depend on *clear internal SOPs to prevent branch-level over-compliance and also sensitising the staff to ensure correct interpretation of "requisite* *documents" and distinction between genuine disputes and procedural pretexts. Banks need to lay down robust record-keeping to defend against future claims. Banks also need to set up monitoring mechanisms to flag branches with repeat delays or excessive document demands.*

A. Suggestions for improvement in the system:

- ***Clear definition of requisite documents:*** RBI should publish an exhaustive, scenario-wise list of acceptable documents so branches cannot demand extras.
- ***Uniform threshold across banks:*** Fix a national standard threshold for simplified settlement to avoid inconsistent customer treatment.
- ***Digital end-to-end processing:*** Mandate fully digital claim submission, e-document verification, and e-signature acceptance to minimise branch visits.
- ***Avoiding branch-level delay tactics:*** Require banks to give written, time-stamped reasons for any delay, subject to RBI audit.
- ***Public awareness mandate:*** Require banks to send annual nomination status alerts with a simple update facility to all customers.
- ***Simplification in disputed cases:*** For small-value disputes, allow resolution under the Mediation Act, 2023 through bank-facilitated mediation or registered mediators before resorting to court.
- ***Standard forms across all banks:*** Make RBI's Annexure forms mandatory without alteration, except for bank logo and details.

Comparative Table between the 2005 RBI Guidelines and the 2025 RBI Draft Directions on Settlement of Claims of Deceased Customers:

Feature	2005 Guidelines	2025 Draft Directions
Nominee / Survivorship Clause Cases	Payment to nominee or survivor valid discharge; no insistence on succession certificate, probate, or indemnity (any amount)	Same principle; payment to nominee/survivor valid discharge if identity, death proof, and no court order; no legal documents or indemnity required (any amount)
Accounts without Nominee / Survivorship Clause	Banks to adopt simplified procedure up to a *minimum threshold* (not specified, left to bank's risk policy) with only indemnity letter	Simplified procedure up to threshold limit (minimum INR 15 lakh); requires claim form, death certificate, heir's ID, legal heir certificate/declaration, no-objection from other heirs, and indemnity; above threshold needs succession certificate or sworn affidavit plus sureties
Threshold Limit	Bank to set own minimum threshold limit (no RBI floor)	RBI mandates a minimum INR 15 lakh (banks may set higher)
Premature Closure of Term Deposits	Banks to allow premature closure on depositor's death; no penalty; clause to be in account opening form	Same provision; also covers joint deposits, survivor can withdraw if prior mandate exists without legal heir consent
Pipeline Flows (Credits after Death)	Two options: (i) open "Estate of" account for credits (no withdrawals), or (ii) return to remitter with "Account holder deceased" remark	Same two options; formal authorization to be obtained from nominee/survivors/legal heirs

Feature	2005 Guidelines	2025 Draft Directions
Locker / Safe Custody	Apply similar approach as deposits; guidelines to be issued separately	Detailed procedure provided: nominee/survivor can access without legal docs (if no dispute), inventory in presence of witnesses, handover against acknowledgment; no nominee case requires additional docs and indemnity
Timelines for Settlement	15 days from receipt of claim & proof of death, subject to satisfactory ID of claimant	15 calendar days from receipt of all requisite documents (deposit accounts & lockers)
Penalty for Delay	Not specified; only reporting of delays to Customer Service Committee of Board	Mandatory: interest at Bank Rate + 4% p.a. for deposit delays; ₹5,000 per day for locker/article delays
Dispute / Will Cases	Not expressly detailed; banks to adopt suitable safeguards	Detailed: Will without dispute, can act without probate if genuine; Will with dispute, needs probate/letter of administration/succession certificate; disputes require court order
Operational Standardization	IBA to prepare Model Operational Procedure for adoption	RBI provides standardized claim forms & document lists (Annex I-A to I-H) mandatory for use

Steps Customers Should Ensure While Opening the Account

A. Always Register a Nominee:

- Fill in the nomination form at account opening of the account.
- Give full details: name, address, date of birth, relationship, and contact information of nominee.
- If the nominee is a minor, mention the guardian's details in the form.
- Keep the acknowledgement slip issued by the bank , it is proof of valid nomination.
- Review and update the nomination whenever circumstances change (marriage, divorce, change of heirs).

B. For Joint Accounts – Opt for a Survivorship Clause

- If opening a joint account, choose "either or survivor" (or "anyone or survivor", "former or survivor") option.
- This ensures the surviving account holder can operate or close the account without legal paperwork.

C. Be Clear About Locker & Safe Custody Nominations

- For lockers or safe custody articles, make a separate nomination, nomination for a deposit account does not automatically apply to lockers.
- Mention survivorship rights if lockers are jointly hired.

D. Keep Account & KYC Records Updated

- Ensure KYC documents (ID and address proof) for you and your nominee are valid and up to date.
- Give a permanent address for communication and update it when you move.

E. Record Special Instructions for Term Deposits

- For For joint term deposits, give a premature withdrawal mandate upfront (so the survivor can withdraw without legal heir consent).
- Ensure the "no penalty on premature withdrawal on death" clause is recorded in the account.

F. Discussions and Document Will Provisions Carefully

- If you have a Will, make sure it does not conflict with the nomination (to avoid disputes).
- Keep copies accessible to your executor/legal heirs.

G. Keep Family Informed

- Share account details, nomination status, and locker arrangements with trusted family members.
- Tell them where the documents (passbooks, locker keys, KYC papers, Will) are kept.

Thus, better customer awareness and strict compliance with nomination and "either or survivor" arrangements can significantly reduce complications when settling deceased claims. These simple measures not only protect the interests of legal heirs and speed up access to funds or assets but also make the bank's role much easier by minimising disputes, documentation hurdles, and risk of wrongful payouts.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at [insights@elp-in.com] or write to our authors:

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