

# Unclaimed Deposits in the Banking System: Causes, Utilization, and Regulatory Framework

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## ABSTRACT

Unclaimed deposits in the banking system have emerged as a significant concern in recent years due to the growing volume of inactive and dormant accounts. These deposits arise when account holders fail to operate their accounts for a prolonged period or when funds remain unclaimed due to lack of awareness, death of the depositor, or absence of nominees. This study aims to examine the causes of unclaimed deposits, analyze how banks utilize such funds, and evaluate the regulatory framework governing them, particularly in the Indian context. The research is based on secondary data collected from Reserve Bank of India (RBI) reports, banking publications, and academic literature. The findings reveal that inadequate financial literacy, procedural complexities, and communication gaps contribute significantly to the accumulation of unclaimed deposits. The study also highlights the role of the Depositor Education and Awareness Fund (DEAF) in managing such funds. It concludes with recommendations to enhance depositor awareness, simplify claim procedures, and strengthen regulatory mechanisms to ensure efficient utilization and rightful claim settlement.

**Keywords:** Unclaimed Deposits, Dormant Accounts, Banking Regulation, RBI, DEAF, Financial Awareness

## 1. INTRODUCTION

The banking system plays a pivotal role in mobilizing savings and fostering economic growth by channelizing funds into productive investments. Deposits constitute a primary source of funds for banks, enabling them to extend credit, support financial intermediation, and maintain liquidity within the financial system. However, a considerable portion of these deposits remains unclaimed over time, leading to inefficiencies and concerns regarding their management and utilization.

Unclaimed deposits refer to funds held in savings, current, or term deposit accounts that have not been operated for a prolonged period, typically ten years. Such deposits often arise due to factors such as the death of the account holder, lack of awareness among nominees or legal heirs, changes in contact information, or prolonged inactivity of accounts. The accumulation of these funds reflects gaps in financial awareness, communication, and banking practices.

In the Indian context, the issue of unclaimed deposits has gained increasing attention due to the rising volume of dormant and inactive accounts. The Reserve Bank of India (RBI) has implemented several regulatory measures, including guidelines on dormant accounts and the establishment of the Depositor Education and Awareness Fund (DEAF), to address this concern. Despite these initiatives, challenges

remain in identifying rightful claimants, simplifying claim procedures, and ensuring effective utilization of such funds.

Against this backdrop, the present study aims to examine the causes of unclaimed deposits, analyze their utilization within the banking system, and evaluate the regulatory framework governing their management. The study also seeks to highlight existing gaps and suggest measures for improving efficiency and depositor protection.

## 2. STATEMENT OF THE PROBLEM

The accumulation of unclaimed deposits has emerged as a significant concern for the banking sector, reflecting underlying inefficiencies in customer communication, record maintenance, and awareness levels. A substantial volume of funds remains idle in dormant accounts, indicating gaps in the effective management of depositor information and engagement. In many cases, depositors or their legal heirs are unaware of the existence of such accounts, resulting in prolonged dormancy and eventual classification as unclaimed deposits.

Furthermore, procedural complexities, inadequate transparency, and delays in claim settlement processes act as barriers for potential claimants. The absence or neglect of nomination facilities further complicates the identification of rightful beneficiaries, particularly in cases involving deceased account holders. These issues are compounded by low levels of financial literacy, especially among rural and less-informed segments of the population.

Consequently, a significant amount of financial resources remains unutilized within the banking system, raising concerns regarding accountability, efficiency, and depositor protection. Addressing these challenges requires a comprehensive approach involving improved regulatory mechanisms, enhanced awareness initiatives, and streamlined claim settlement procedures.

## 3. Objectives of the Study

The present study is undertaken with the following objectives:

- To identify and analyze the major causes contributing to the accumulation of unclaimed deposits in the banking system
- To examine the utilization and management of unclaimed deposits by banks
- To evaluate the regulatory framework governing unclaimed deposits in India
- To propose suitable measures for improving the management of unclaimed deposits and enhancing depositor awareness

## 4. Research Methodology

The present study adopts a descriptive and analytical research design to examine the issue of unclaimed deposits in the banking system. The study is primarily based on secondary data collected from credible and authoritative sources, including reports published by the Reserve Bank of India (RBI), annual reports of commercial banks, academic journals, government publications, and relevant online databases.

The research employs a conceptual and qualitative approach to analyze the underlying causes, patterns, and regulatory mechanisms associated with unclaimed deposits. Comparative insights are also drawn, where relevant, to understand global practices in managing such deposits.

The scope of the study is confined to the Indian banking system, with selective references to international frameworks to provide a broader perspective. The methodology focuses on synthesizing existing literature

and policy guidelines to derive meaningful insights and recommendations regarding the management and utilization of unclaimed deposits.

## **5. Review of Literature**

Existing literature highlights the growing concern of dormant accounts and unclaimed deposits as a significant issue within the banking sector. Several studies have emphasized that lack of financial awareness and inadequate financial literacy are primary factors contributing to the accumulation of unclaimed deposits. Depositors, particularly in rural and semi-urban areas, often fail to actively operate their accounts due to limited access to banking services, insufficient knowledge of financial products, and low engagement with formal financial systems.

Research on financial inclusion further indicates that while increased account penetration has been achieved, account usage remains inconsistent. This has led to a rise in inactive and dormant accounts, many of which eventually become unclaimed deposits. Scholars have also pointed out that poor communication between banks and customers, along with outdated or incomplete customer information, exacerbates the problem.

Regulatory interventions have been widely discussed in the literature. The Reserve Bank of India (RBI) has introduced several measures to address the issue, including guidelines on the classification of dormant accounts and the establishment of the Depositor Education and Awareness Fund (DEAF). These initiatives aim to enhance transparency, protect depositor interests, and promote financial awareness.

Furthermore, recent studies suggest that technological innovations—such as centralized databases, digital tracking systems, and online claim platforms—can play a crucial role in reducing the volume of unclaimed deposits. Despite these advancements, the literature identifies persistent gaps in implementation, coordination, and public awareness. Overall, the existing body of research underscores the need for more effective policy measures, improved communication strategies, and enhanced financial literacy to address the issue comprehensively.

## **6. Conceptual Framework**

Unclaimed deposits refer to funds held in bank accounts that have not been operated for a continuous period of ten years or more. These deposits may arise from various types of accounts, including savings accounts, fixed deposits, and recurring deposits. When an account remains inactive for a specified duration—typically two years—it is classified as a dormant account. If such accounts continue to remain inoperative and the funds are not claimed within the prescribed period, they are categorized as unclaimed deposits.

The conceptual framework of unclaimed deposits is based on the lifecycle of account inactivity. Initially, accounts become inactive due to non-operation by the account holder. Over time, prolonged inactivity leads to their classification as dormant accounts. If no transaction or claim is made for an extended period, the funds are subsequently transferred to designated regulatory mechanisms such as the Depositor Education and Awareness Fund (DEAF), as per regulatory guidelines.

This framework highlights the progression from active accounts to unclaimed deposits and underscores the role of factors such as depositor awareness, communication gaps, and regulatory interventions in influencing this transition. It provides a structured basis for analyzing the causes, management practices, and policy measures associated with unclaimed deposits in the banking system.

## 7. Causes of Unclaimed Deposits

The accumulation of unclaimed deposits in the banking system can be attributed to a combination of demographic, behavioral, and institutional factors. These causes reflect gaps in awareness, communication, and banking practices, which collectively contribute to the persistence of inactive accounts. The major causes are discussed below:

- **Death of the account holder without nomination:** In many cases, depositors fail to register a nominee for their accounts. Upon the death of the account holder, the absence of a designated beneficiary makes it difficult for legal heirs to identify and claim the funds, resulting in prolonged dormancy.
- **Lack of awareness among family members or legal heirs:** Family members are often unaware of the existence of bank accounts or deposits, particularly when proper documentation is not maintained. This lack of awareness significantly contributes to deposits remaining unclaimed.
- **Change in address or contact details:** Customers frequently change their residence or contact information without updating bank records. As a result, banks are unable to communicate effectively with account holders regarding account status or inactivity.
- **Migration and non-operation of accounts:** Migration for employment or other reasons often leads to neglect of bank accounts. Over time, such accounts become inactive and eventually dormant.
- **Inadequate communication and follow-up by banks:** Limited or ineffective communication from banks regarding inactive accounts and unclaimed balances can prevent customers from taking timely action.
- **Low levels of financial literacy:** A lack of financial knowledge and awareness, especially in rural and semi-urban areas, leads to poor account management and neglect of banking activities.

## 8. Utilization of Unclaimed Deposits by Banks

Unclaimed deposits are subject to strict regulatory guidelines and are not available for unrestricted use by banks for profit generation. In accordance with the directives of the Reserve Bank of India (RBI), balances in accounts that remain unclaimed for a period of ten years are transferred to the Depositor Education and Awareness Fund (DEAF).

The DEAF is primarily utilized for promoting financial literacy, enhancing depositor awareness, and safeguarding depositor interests. The fund supports initiatives such as awareness campaigns, educational programs, and research activities aimed at improving public understanding of banking services and financial management.

Prior to their transfer to the DEAF, unclaimed deposits may continue to be reflected as liabilities in the books of banks. However, banks are required to maintain proper records and ensure that these funds are readily available for settlement in case of legitimate claims by depositors or their legal heirs. Even after the transfer to the DEAF, banks remain responsible for processing and settling claims, with reimbursements being made from the fund as per regulatory provisions.

The regulatory framework governing the utilization of unclaimed deposits ensures transparency, accountability, and protection of depositor rights, while simultaneously enabling the effective use of such funds for public awareness and financial education.

## 9. Regulatory Framework

The Reserve Bank of India (RBI) has established a comprehensive regulatory framework to govern the

management and monitoring of unclaimed deposits in the banking system. This framework is designed to ensure transparency, accountability, and the protection of depositor interests while promoting efficient handling of dormant and inactive accounts.

Key regulatory provisions include the classification of accounts as dormant after a period of two years of inactivity. Banks are required to closely monitor such accounts and take necessary steps to re-establish contact with account holders. If the account remains inoperative for ten years, the balance is transferred to the Depositor Education and Awareness Fund (DEAF), as per RBI guidelines.

In addition, banks are mandated to disclose details of unclaimed deposits on their official websites to facilitate easy access and identification by depositors and their legal heirs. The RBI has also emphasized the need for simplified and customer-friendly procedures for claim settlement, ensuring that genuine claimants can access their funds without undue delay or complexity.

Furthermore, banks are required to maintain periodic communication with account holders through various channels, including notifications, emails, and SMS alerts, to prevent accounts from becoming inactive. These measures are complemented by regulatory oversight and reporting requirements to ensure compliance and effective implementation.

Overall, the regulatory framework reflects a structured approach to managing unclaimed deposits, balancing the objectives of depositor protection, financial transparency, and efficient fund utilization within the banking system.

## 10. Challenges in Managing Unclaimed Deposits

Despite the presence of a well-defined regulatory framework, the effective management of unclaimed deposits continues to face several operational and systemic challenges. These challenges hinder timely identification of beneficiaries and delay the settlement of legitimate claims. The key issues are discussed below:

- **Difficulty in identifying rightful claimants:** Establishing the identity of legitimate claimants is often complex, particularly in cases where account holders have not registered nominees or where records are outdated or incomplete.
- **Complex documentation requirements:** The claim process typically involves extensive documentation, including identity proof, legal heir certificates, and other formalities. This complexity can discourage claimants and lead to delays in accessing funds.
- **Legal disputes among heirs:** Conflicts among legal heirs regarding ownership of deposits can result in prolonged legal proceedings, further delaying the claim settlement process.
- **Lack of centralized tracking systems:** The absence of a unified, centralized database for unclaimed deposits across banks makes it difficult for claimants to locate and retrieve funds efficiently.
- **Limited awareness among depositors:** Low levels of financial literacy and awareness prevent many individuals from understanding the importance of account maintenance, nomination, and claim procedures.

## 11. Findings and Discussion

The analysis of unclaimed deposits in the banking system reveals that the issue is predominantly driven by a combination of behavioral, institutional, and informational factors. A key finding of the study is that lack of depositor awareness and inadequate financial literacy significantly contribute to the accumulation of unclaimed deposits. Many account holders fail to maintain updated records, communicate account

details to family members, or utilize nomination facilities, thereby increasing the likelihood of funds remaining unclaimed.

The study further highlights that ineffective communication between banks and customers, along with outdated customer information, exacerbates the problem. In addition, procedural complexities and documentation requirements discourage potential claimants from initiating the claim process. These factors collectively indicate that the problem is not merely operational but also rooted in broader issues of financial inclusion and customer engagement.

While the regulatory framework established by the Reserve Bank of India (RBI) is comprehensive and well-structured, its effectiveness is constrained by challenges in implementation, particularly in ensuring consistent communication, technological integration, and public awareness. The Depositor Education and Awareness Fund (DEAF) has emerged as an important mechanism for managing unclaimed deposits and promoting financial literacy. However, the study finds that greater transparency, improved accessibility, and enhanced public outreach are necessary to ensure that rightful claimants can easily identify and recover their funds.

## 12. Suggestions and Recommendations

In light of the findings, the study proposes the following measures to improve the management of unclaimed deposits and enhance depositor protection within the banking system:

- **Enhance financial literacy and awareness programs:** Banks and regulatory authorities should intensify financial education initiatives to increase awareness among depositors regarding account maintenance, nomination facilities, and claim procedures.
- **Mandatory nomination for all accounts:** Introducing mandatory nomination at the time of account opening can significantly reduce the incidence of unclaimed deposits and facilitate smoother claim settlement for legal heirs.
- **Development of a centralized digital tracking system:** Establishing a unified, centralized database accessible across banks would enable depositors and their families to easily locate unclaimed deposits, thereby improving transparency and accessibility.
- **Simplification of claim procedures and documentation:** Banks should streamline claim processes by reducing procedural complexities and minimizing documentation requirements, especially for small-value deposits, to encourage timely claims.
- **Strengthening communication between banks and customers:** Regular communication through digital channels such as SMS, email, and mobile applications should be enhanced to remind customers about inactive accounts and necessary actions.
- **Periodic audits and public disclosures:** Conducting regular audits and publishing updated information on unclaimed deposits can improve accountability and ensure compliance with regulatory guidelines.

## 13. Conclusion

Unclaimed deposits constitute a significant challenge for the banking system, highlighting critical gaps in depositor awareness, communication practices, and the effective implementation of regulatory measures. The accumulation of such deposits not only reflects inefficiencies in account management but also raises concerns regarding depositor protection and financial accountability.

While regulatory initiatives, particularly the establishment of the Depositor Education and Awareness Fund (DEAF), have contributed to better management and utilization of unclaimed funds, their overall effectiveness is constrained by limitations in awareness, accessibility, and procedural efficiency. The persistence of unclaimed deposits indicates the need for more proactive and customer-centric approaches within the banking sector.

Addressing this issue requires a multi-dimensional strategy that includes strengthening financial literacy, leveraging digital technologies for tracking and communication, and simplifying claim settlement procedures. Furthermore, enhanced coordination between banks, regulatory authorities, and customers is essential to ensure transparency, accountability, and timely access to funds.

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