



Policy for dealing with Dishonour of Cheques including incidents of frequent Dishonour of Cheques / Any Electronic Mandate – Procedure Thereof

1. Preamble

Reserve Bank of India has called upon Banks to have a Board approved policy to deal with incidence of frequent dishonor of cheques. Dishonour of cheque is governed by the provisions of N I Act, 1881 whereas the dishonor of electronic fund transfer for insufficiency of funds in the account is governed by the Section 25 of Payment and Settlement System Act, 2007. Though guidelines existed for the procedure to be followed by branches in the event of return of cheques, there were no specific instructions on the corrective steps to be taken to prevent recurrence of such instances. The procedure to be followed for dealing with dishonor of cheques is outlined in the following paragraphs.

2. RETURN OF CHEQUES BY BANK BRANCHES CITING “LINK FAILURE” AS A REASON

Link failure is an operational disruption and such instances are mostly observed in remote locations where the cheque volumes are not significant. In situations of link / network /connectivity issues, branches are advised to proceed as under: -

Branch should explore other alternatives before returning the cheques viz. processing at the service / drawee / nearby branch as feasible.

After exhausting all avenues if it is necessary to return the cheque due to link failure, it may be returned under Reason Code 84 (Other reasons-Connectivity Failure), with no charges to be debited to the payee's account.

No charges shall be recovered from the payee for return of the cheque in such cases. Such cheques should be re-presented in the next clearing without waiting for a request from the payee.

3. Procedure for Return / Dispatch of dishonoured Cheques:

(Master Circular on Dishonour of Cheques – Procedure thereof – P&D Circular No. 2521 dt. 30.09.2010)

(a) As per recommendation of the Goiporia Committee all dishonoured instruments are to be returned / dispatched to the customer promptly without delay, in any case within 24 hours.

(b) The paying branch should return dishonoured cheques presented through clearing houses strictly as per the return discipline prescribed in terms of Uniform Regulations and Rules for Bankers' Clearing Houses. Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses (**URRBCH**) also prescribes that instruments returned unpaid should have a signed / initialed objection slip on which a definite and valid reason for refusing payment must be stated. Further date of cheque return be indicated on Cheque Return Memo unfailingly. The collecting branches of our bank, on receipt of such dishonoured cheques should dispatch it immediately to the payees / holders.

(c) In relation to cheques presented direct to the paying bank for settlement of transaction by way of transfer between two accounts with that bank, it should return such dishonoured cheques to payees / holders immediately.

(d) Cheques dishonoured for want of funds in respect of all accounts should be returned along with a memo indicating therein the reason for dishonour as "insufficient funds".

4. M.I.S. WITH REGARD TO DISHONoured CHEQUES;

(a) The branches shall maintain separate data in respect of each dishonoured cheque for **amount of Rs. 5 lacs and above for Rural, Rs. 10 lacs and above for Semi Urban, Rs. 25 lacs and above for Urban & Rs.50 lacs and above for Metro Branches**. This information will become the part of MIS on constituents and branches will submit consolidated report of such data to their respective Zonal Offices on monthly basis, on the prescribed proforma enclosed as per Annexures -I & IA.

(b) Further, in respect of cheques drawn in favour of Stock Exchange, branches shall consolidate the Data separately. This will also become part of MIS and shall be reported by the branches, to their respective Zonal Offices, on monthly basis, on the prescribed proforma, as per Annexures -II & IIA.

(c) Zonal Office shall scrutinize the statements on their receipt from the branches. They shall analyze and issue necessary guidance to the branches, if needed. At the end of the quarter, the Zonal Office shall submit a consolidated report to H.O. Inspection Deptt.

(d) H.O. Inspection Deptt. shall place the information before the ACB / MC every quarter. However, H.O. Inspection Deptt. shall lay down requisite internal guidelines for their Officers and staff and ensure adherence to achieve aforesaid object of effective communication and delivery of dishonoured cheque to the payee.

5. DEALING WITH INCIDENCE OF FREQUENT DISHONOUR OF CHEQUES / ANY ELECTRONIC MANDATE:

(a) With a view to enforce financial discipline among the customers, branches shall inform their customers, availing cheque book facility, that no further cheque book will be issued to them if their cheques amounting Rs. 5 lacs and above for Rural, Rs. 10 lacs and above for Semi Urban, Rs. 25 lacs and above for Urban & Rs. 50 lacs and above for Metro Branches are returned with the reason "insufficient funds / exceeds arrangement" on a particular account of the drawer on four occasions during a financial year.

(b) They shall further inform the customers that the bank has the discretion to close such Current accounts. Branches shall get an undertaking signed (Annexure-III) from the customer at the time of issue of Cheque Book in new / existing accounts.

However, in respect of advances accounts such as Cash Credit account, Overdraft /Bills Purchased accounts, the need for continuance or otherwise of these Credit facilities and the cheque facility relating to these accounts shall be reviewed by appropriate authority higher than the sanctioning authority. For this, the branches shall inform the higher authorities of such incidents of returning of cheques. Higher Authorities shall instruct the branches suitably, keeping in view the Bank's interest.

For closure of account, the matter may be referred to H.O.Advances Deptt or H.O. Law & Recovery Deptt for final approval along with their justification & recommendation.

(c) If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, Branches shall issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year. Similar cautionary shall be issued if a bank intends to close the account.

(d) Branches shall issue a letter to existing account holders advising the constituents of the new condition at the time of issuing a new Cheque book.

(e) The same procedure shall be adopted for handling frequent returning of Any Electronic Mandate. Accordingly, the information may be reported in the MIS as in the case of cheques. Notice will be sent to the customer after the return of Any Electronic Mandate three times & on the fourth times return, Any Electronic Mandate shall be withdrawn.

Note: If an account is having cheque book facility in addition to Any Electronic Mandate, then the incidents of dishonour will be taken into account for both dishonour of cheques and failed Any Electronic Mandate for computing the number of dishonour of cheques / Any Electronic Mandate.

6. GENERAL

For the purpose of adducing evidence to prove the fact of dishonour of cheque on behalf of a complainant (i.e. payee / holder of dishonoured cheque) on any proceeding relating to dishonoured cheque before a court, consumer forum or any other Competent Authority, the Branches shall extend full co-operation, and furnish him / her documentary proof of the fact of dishonour of cheque.

Further all the staff members shall refrain themselves for any collusion with the drawer of the cheque for causing delay in or withholding the communication of the fact of dishonour of the cheque to the payee / holder or the return of such dishonoured cheque to him, to avoid any unpleasant action.

Branches shall take note of these policy guidelines for strict compliance.

Zonal Managers shall ensure the compliance of these instructions by the branches under their jurisdiction.

The Bank reserves the right to amend/modify this Policy, as and when deemed fit and proper, at its sole discretion. This policy shall be valid till the time of its next review.
