

**POLICY ON COLLECTION OF CHEQUES /
INSTRUMENTS**



**OPERATIONS AND TECHNOLOGY SERVICE
DEPARTMENT
CENTRAL OFFICE, KARUR – 639 002**

POLICY ON COLLECTION OF CHEQUES / INSTRUMENTS

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Policy on Collection of Cheques/ Instruments

1. Introduction

Keeping in view the technological progress in payment and settlement systems and the qualitative changes in operational systems and processes that have been undertaken by a number of banks, the Reserve Bank of India had, with effect from 1st November 2004, withdrawn its earlier instructions to commercial banks on (i) Immediate Credit of local/outstation Cheques, (ii) Time Frame for Collection of Local / Outstation Instruments and (iii) Interest Payment for Delayed Collection. The withdrawal of these mandatory guidelines was expected to enable market forces of competition to come into play to improve efficiencies in collection of Cheques and other instruments. This collection policy of the Bank is a reflection of our on-going efforts to provide better service to our customers and set higher standards for performance. The policy is based on principles of transparency and fairness in the treatment of customers. The bank is committed to increased use of technology to provide quick collection services to its customers. This policy document covers the following aspects:

Collection of cheques and other instruments payable locally, at centers within India and abroad.
Our commitment regarding time norms for collection of instruments.
Policy on payment of interest in cases where the bank fails to meet time norms for realization of proceeds of outstation instruments.
Our policy on dealing with collection instruments lost in transit.
Policy on Collection of cheques and frequent return ECS Mandate Policy.

2. Arrangements for Collection:

2.1. Local Cheques :

All cheques and other Negotiable Instruments payable locally would be presented through the clearing system prevailing at the centre. Cheques deposited at branch counters and in collection boxes within the branch premises before the specified cut-off time will be presented for clearing on the same day.

Cheques deposited after the cut -off time and in collection boxes outside the branch premises including off-site ATMs will be presented in the next clearing cycle. As a policy, bank would give credit to the customer account on the same day clearing settlement takes place. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearinghouse. Bank branches situated at centers where no clearing house exists, would present local cheques on drawee banks across the counter and it would be the bank's endeavour to credit the proceeds at the earliest.

2.1. a Speed Clearing:

In order to speed up the process of clearing and to provide best service to the customers in the speedy realization of the cheques received by the banks across the country RBI has introduced a new system called a Speed clearing system. Under this system all bank branches coming

under CBS platform have to process the out station cheques (MICR) received by them as cheques received under local clearing. As a result of this instruction to the bankers, the time taken for realization of the cheques has come down. Reserve Bank of India has advised that the banks should not levy any additional charges for collecting and clearing of cheques up to and including Rs. 1.00 lakh in speed clearing in the interest of better service to small value customers. However RBI has permitted the banks to charge commission inclusive of service tax and other charges for such outstation cheques above Rs. 1.00 lakh presented in speed clearing.

All cheques received by any of the branches of the bank in inward clearing will be treated at par, and clearing charges will not be levied to the accounts for debiting such cheques.

All terms and conditions applicable for local clearing instruments will also apply to speed clearing.

2.3: Outstation Cheques:

Cheques drawn on bank's own branches at outstation centers will be collected using the inter-branch arrangements in vogue. Branches which are connected through a centralized processing arrangement and are offering anywhere banking services to its customers will provide same day credit to its customers in respect of outstation instruments drawn on any of its branches in the CBS network.

Cheques drawn on other banks at outstation centers other than those covered under 2.1.a above, will normally be collected through bank's branches at those centers.

2.3 Cheques payable in Foreign Countries.

Cheques payable at foreign centers where the bank has branch operations (or banking operations through a subsidiary, etc.) will be collected through that office. The services of correspondent banks will be utilized in country/centers where the correspondent has presence. Cheques drawn on foreign banks at centers where the bank or its correspondents do not have direct presence will be sent direct to the drawee bank with instructions to credit proceeds to the respective Nostro Account of the bank maintained with one of the correspondent banks.

Amendment:

The policy on US Dollar cheques collection scheme is made transparent in so far as it relates to time taken for collection of the US dollar cheques, charges for different modes of collection, service charges, paying interest on sighting the amount in Nostro accounts, compensation by way of additional interest for the delay and instant credit for small value cheques etc.

2.3. A: Cheques drawn on foreign countries are accepted for collection on the "Best effort basis". Such instruments will be forwarded to the correspondent banks for speedy collection as per the collection arrangements with them.

In respect of cheques/ drafts denominated in USD, GBP, EURO, AUD and CAD currencies, the instruments will be collected under "cash Letter Service" arrangement with correspondent banks.

In respect of other currencies, the instruments will be sent to the correspondent banks abroad for collection. Under the Cash Letter Service, the correspondent bank gives a provisional credit to the Nostro account and is on a recourse basis.

It is our endeavour to convert the foreign currency amount after taking into account the cooling periods as applicable to different countries.

Depending on the country the cooling period varies from 10 to 21 days for different currencies. The cooling period is the time the bank waits to know the return of the cheque(s) by the payee bank before giving credit to the customer. The time for return of the instruments cleared provisionally also vary from country to country.

As per the US treasury laws the instruments can be returned even after 1 year period in respect of altered cheques and forged instruments after 3 years.

Depending on the standing of the customers, bank will credit the amount to the customers account on 'Instant Basis', without waiting for the completion of the cooling period on specific request. Bank will convert the foreign currency amount so credited to its Nostro account after the cooling period by applying the TT buying rate and credit the rupee proceeds to the customer's account.

2.3. B: Payment of interest in the case of delayed collection: Bank will take all reasonable care to credit the proceeds of the foreign currency instruments once the cooling period is over. In case of delay for any other reason, compensation will be paid as per FEDAI Rules applicable to inward remittances.

2.3. C: Small value cheques: Customer's receive cheques of small value USD and other foreign currency cheques say for eg. 10 USD or 25USD or equivalent of foreign currencies received as gifts.

In case of return of such small value instrument for any reason or are payable in a country where we do not have correspondent banks, then the charges payable may be more than the value of the cheque and in the process of collection the bank will be liable to pay to the drawee bank / correspondent banks towards their handling charges. In such cases these facts are to be brought to the notice of the customer before handling small value instruments.

2. 3. D: Collection charges: Collection charges will be Rs.350 + service charges + Rs.150 towards postage. (Subject to change and will be notified in the web site of the bank of such changes)

2.3. E: For receiving Foreign currency by associations / organizations / trusts: It requires registration of the group with the Ministry of Home affairs, New Delhi. Then only any foreign contributions received will be credited to the account of the beneficiary as per the Foreign contributions Regulations Act of 1976.

Foreign remittances from the Indians staying abroad can be credited to the account which does not attract the FCR ACT of 1976. Where as foreign currency remittance by the residents will not be accepted as it tantamount to violation of the FCR ACT of 1976.

(Amendment duly approved by the Board in the meeting held on 29.12.2009 vide item no.E-1)

2.4 Immediate Credit of Local / Outstation Cheques / Instruments :

Branches / extension counters of the bank will consider providing the immediate credit for outstation cheques / instruments up to aggregate value of Rs. 15,000 tendered for collection by individual account holders subject to satisfactory conduct of such accounts for a period not less than 6 - 12 months. Immediate credit will be provided against such collection instruments at the specific request of the customer or as per prior arrangement. The facility of immediate credit would also be made available in respect of local cheques at centers where no formal clearing house exists.

The facility of immediate credit will be offered on Savings Bank / Current / Cash Credit Accounts of the customers. For extending this facility there will not be any separate stipulation of minimum balance in the account.

Under this policy, prepaid instruments like Demand Drafts, Interest / Dividend warrants shall be treated on par with cheques.

In the event of dishonor of cheque against which immediate credit was provided, interest shall be recoverable from the customer for the period the bank remained out of funds at the rate applicable for clean overdraft limits sanctioned for individual customers.

For the purpose of this Policy, a satisfactorily conducted account shall be the one

- i. Opened at least six months earlier and complying with KYC norms.
 - ii. Conduct of which has been satisfactory and bank has not noticed any irregular dealings.
 - iii. Where no cheques / instruments for which immediate credit was afforded returned unpaid for financial reasons.
- iv) Where the bank has not experienced any difficulty in recovery of any amount advanced in the past including cheques returned after giving immediate credit. Bank shall levy normal collection charges and out of pocket expenses while providing immediate credit against outstation instruments tendered for collection. Exchange charges applicable for cheque purchase will not, however be charged.

The facility of immediate credit would not be applicable to cheques collected under Speed Clearing.

2.5: Purchase of local/outstation cheques:

Bank may, at its discretion, purchase local/outstation cheque tendered for collection at the specific request of the customer or as per prior arrangement. Besides satisfactory conduct of account, the standing of the drawer of the cheque will also be a factor considered while purchasing the cheque.

3. Time Frame for Collection of Local / Outstation Cheques / Instruments:

For local cheques presented in clearing credit will be afforded as on the date of settlement of funds in clearing and the account holder will be allowed to withdraw funds as per return clearing norms in vogue at that centre.

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For cheques and other instruments sent for collection to centers within the country the following time norms shall be applied:

- a) Cheques presented at any of the four major Metro Centers (New Delhi, Mumbai, Kolkata and Chennai) and payable at any of the other three centers: Maximum period of 7 days.
- b) Metro Centers and State Capitals (other than those of North Eastern States and Sikkim) Maximum period of 10 days.
- c) In all other Centers where the bank has got its branches: Maximum period of 14 days.
- d) Cheques drawn on foreign countries: The Bank is committed to ensuring that instruments drawn in foreign currencies and payable outside India are collected in the quickest and most efficient manner. Towards this the bank may enter into specific collection arrangements with its correspondent banks in those countries for speedy collection of such instrument(s). Bank would give credit to the party upon realization of proceeds in the bank's Nostro Account with the correspondent Bank after taking into account cooling periods as applicable to the countries concerned.

Country / location specific norms wherever stipulated will be specified for foreign currency instruments and made known to the customers at the point in time of accepting instruments for collection.

The above time norms are applicable irrespective of whether cheques / instruments are drawn on the bank's own branches or branches of other banks.

4. Payment of Interest for delayed Collection of Outstation Cheques and cheques payable outside India:

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments under 3 a, b and c given below in case there is delay in giving credit beyond the time period mentioned above. Such interest shall be paid without any demand from customers in all types of accounts. There shall be no distinction between instruments drawn on the bank's own branches or on other banks for the purpose of payment of interest on delayed collection.

- a. Savings Bank rate for the period of delay beyond 7/10/14 days as the case may be in collection of outstation cheques.
- b. Where the delay is beyond 14 days interest will be paid at the rate applicable to for term deposit for the respective period.
- c. In case of extraordinary delay, i.e. delays exceeding 90 days interest will be paid at the rate of 2% above the corresponding Term Deposit rate.

- d. In the event the proceeds of cheque under collection was to be credited to an overdraft/loan account of the customer, interest will be paid at the rate applicable to the loan account. For extraordinary delays, interest will be paid at the rate of 2% above the rate applicable to the loan account.

5. Cheques / Instruments lost in transit I in clearing process or at paying bank's branch:

In the event a cheque or an instrument accepted for collection is lost in transit or in the clearing process or at the paying bank's branch, the bank shall immediately on coming to know of the loss, bring the same to the notice of the accountholder so that the accountholder can inform the drawer to record stop payment and also take care that cheques, if any, issued by him / her are not dishonoured due to non-credit of the amount of the lost cheques / instruments. The bank would provide all assistance to the customer to obtain a duplicate instrument from the drawer of the cheque. In line with the compensation policy of the bank the bank will compensate the accountholder in respect of instruments lost in transit in the following way:

- a. In case intimation regarding loss of instrument is conveyed to the customer beyond the time limit stipulated for collection (7/10/14 days as the case may be) interest will be paid for the period exceeding the stipulated collection period at the rates specified above.
- b. In addition, bank will pay interest on the amount of the cheque for a further period of 15 days at Savings Bank rate to provide for likely further delay in obtaining duplicate cheque/instrument and collection thereof.
- c. The bank would also compensate the customer for any reasonable charges he/she incurs in getting duplicate cheque/instrument upon production of receipt, in the event the instrument is to be obtained from a bank/ institution who would charge a fee for issue of duplicate instrument.

6. Force Majeure

The bank shall not be liable to compensate customers for delayed credit if some unforeseen event (including but not limited to civil commotion, sabotage, lockout, strike or other labour disturbances, accident, fires, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent bank(s), absence of the usual means of communication or all types of transportation, etc beyond the control of the bank prevents it from performing its obligations within the specified service delivery parameters.

7. Charging of Interest on cheques returned unpaid where Instant Credit was given:

If a cheque sent for collection for which immediate credit was provided by the bank is returned unpaid, the value of the cheque will be immediately debited to the account. Interest where applicable would be charged on the notional overdrawn balances in the account had credit not been given initially.

If the proceeds of the cheque were credited to the Savings Bank Account and was not withdrawn, the amount so credited will not qualify for payment of interest when the cheque is returned unpaid. If proceeds were credited to an overdraft/loan account, interest shall be recovered at the rate of 2% above the interest rate applicable to the overdraft/loan from the date of credit to the date of reversal of the entry if the cheque/instrument was returned unpaid to the extent the bank was out of funds.

8. Dealing with the frequent cheque return of valued Rs.1.00 crore and above

8.1 As per the Goiporia committee the branches / cco's have to ensure that the cheques dishonoured instruments are required to be returned / dispatched to the customer promptly without any delay, in any case with in 24 hours.

8.2 In order to streamline the procedure to be followed by the branches it is suggested that in addition to the existing instructions in respect of dishonoured instruments the branches are advised to cover all cheques dishonoured on account of insufficient funds and also to cover cheques dishonoured on account of settlement of transactions of stock exchanges.

8.3 Procedure for return/dispatch of dishonored cheques

- a. The branches should return the dishonoured cheques presented through clearing houses strictly adhere to the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Bankers' Clearing Houses. Similarly the branches on receipt of dishonoured cheques should ensure that they are dispatching such dishonoured cheques to the payees/holders immediately.
- b. With regard to the cheques presented directly to the bank for settlement of transaction by way of transfer between two accounts with the bank, it should return such dishonored cheques to payees/holders immediately.
- c. In respect of cheques presented directly to the branch for payment, Cheques dishonored for want of funds in respect of all accounts should be returned along with a memo indicating therein the reason for dishonor as "insufficient funds.
- d. Officers and staff are advised to adhere to the following guidelines and ensure strict compliance thereof to achieve the object of effective communication and delivery of dishonoured cheque to the payee

8.4 Return of cheques on account of lack of funds in the accounts:

Frequent return of cheques by the account holder over and above Rs.1.00 crore in their account damages the reputation of the bank. In order to discipline such customers the bank will have to take necessary action and to have necessary guidelines to be in place:

- a. The return of cheques by an account holder exceeds 2 cheques in a financial year on account of insufficient funds in their account, such account holders are to be advised to discipline themselves by providing sufficient funds in their accounts before issuing a cheque.

- b. In the event of frequent cheque returns even after the advice, the bank reserves the rights not to issue further cheque books to such indisciplined customers.
- c. Bank reserves the right to penalize the customers by imposing the penalties by way of cheque return charges one day interest @ BPLR with a minimum of ₹.300/- and maximum of Rs.7500/- (inclusive of all MCC accounts) + applicable S.T. (For local cheques of our bank Rs. 30 + S.T.) /can claim interest at 24% p.a (whichever is high) as prescribed by the bank from time to time to discipline the customer.
- d. If the cheques are returned beyond the level as stated above, the branch will have to send 3 notices within a period of 21 days giving a fair and reasonable opportunity to the recalcitrant customer inviting them to offer their explanation for such frequent returns.
 - 1. The first notice - Notice of caution should be issued advising the party to discipline himself by providing sufficient funds in their account.
 - 2. Second notice – Notice of Warning informing the customer that further cheque books will not be issued to them.
 - 3. Third Notice – Show cause notice should be issued asking the customer “Why the account should not be closed for the frequent return of the cheques?”
- e. If proper and satisfactory explanation has not been furnished by the drawer of the cheque, the bank will have every right to advise such customers for such voluntary closure of the account by surrendering the cheque books supplied to them.
- f. Even after serving three notices to such customers for the voluntary closure of the account by them, the bank reserves the right to close such accounts after issuing a final letter to such customers informing that the bank will close the accounts giving them 21 days notice after following the above laid down procedures.
- g. Before the bank takes any action of closing the account, if the customer has any reason to represent, can file their complaints for redressal with the next higher authority at the respective divisional offices where the branch is situated. After perusing the letter and proper hearing, if the authority viz, the Divisional Manager passes an order disallowing the customer's request, then it is final and cannot be repudiated.
- h. Thereafter the bank reserves the right to close the accounts. The entire process will be carried out in a systematic manner and the Bank's decision is final and cannot be repudiated.

8.5 Cheques returned by the customers for any other reason other than the above will be viewed by the bank from time to time and necessary advice will be sent to the account holders in the case of frequent cheque returns. However the bank reserves the right to provide services to such customers and can exercise its option of considering closure of the account after duly following the procedures laid down in the cheque issuance policy.

8.6 The above process will apply in the case of ECS debits also.

9. Dealing with the frequent cheque return of valued less than Rs.1.00 crore.

9.1 Return of cheques on account of lack of funds in the accounts:

In the event of the cheques frequently returned by the account holder where the value of the cheque is less than Rs.1.00 crore the following guidelines to be followed.

9.2 Dealing with incidence of frequent dishonor

- a) In a particular account if the cheques are returned on three occasions during the financial year for want of sufficient funds in their accounts no cheque book will be issued. The bank reserves the right to close such accounts at its discretion. In respect of advances accounts such as cash credit accounts, overdraft accounts, the need for continuance or otherwise of these credit facilities and the facility relating to these accounts should be reviewed by appropriate authority higher than the sanctioning authority.
- b) In respect of advances accounts such as cash credit account, overdraft account, for the purposes of introduction of the condition mentioned at (i) above in relation to operation of the existing accounts, banks may, at the time of issuing new cheque book, issue a letter advising the constituents of the new condition.
- c) If a cheque is dishonored for a third time in a particular account of the drawer during a financial year, CCOs / Branches should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheques book facility in the event of cheques being dishonored on the fourth occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.

9.3 Procedure for dealing with dishonoured cheques:

In the event of frequent cheques in an account, the customer will be warned and advised to keep sufficient balances in their accounts before the issue of cheques as it damages reputation of the bank.

In such cases, the bank will:

- a. Advise the customers to discipline themselves by providing sufficient funds in their accounts before issuing a cheque.
- b. In the event of frequent cheque returns the bank reserves the rights not to issue further cheque books to such in disciplined customers.
- c. Bank reserves the right to penalize the customers by imposing the penalties by way of cheque return charges one day interest @ BPLR with a min. of Rs.300/- and Maximum of Rs.7500/- (inclusive of all MCC accounts) + applicable S.T. (For local cheques of our bank Rs. 30 + S.T.) as prescribed by the bank from time to time to discipline the customer.
- d. If the cheques are returned beyond the level of 3 cheques in a financial year / the return percentage in the account is over 3% in a month and in the subsequent month too, then

the bank will issue a notice inviting the attention of the customer by asking "why the account should not be closed for the frequent return of the cheques giving a notice of 7 working days. The branch has to send a registered notice to the last known address of the account holder giving a notice of 7 working days. All such postal charges are to the debit of such customer's account.

- e. If proper and satisfactory explanation has not been furnished by the account holder for the frequent return of the cheques, the bank will have every right to advise such customers for voluntary closure of the account by surrendering the cheque books supplied to them.
- f. Even after serving three notices to such customers for the voluntary closure of the account by them, the bank reserves the right to close such accounts after issuing a final letter to such customers informing that the bank will close the accounts giving them 7 days notice after following the above laid down procedures.
- g. Before the bank takes any action of closure of the account, if the customer has any reason to represent, can file their complaints for redressal with the next higher authority i.e., at the respective divisional offices where the branch is situated. If the Divisional Manager passes an order disallowing the customer's request, then it is final and cannot be repudiated.
- h. Thereafter the accounts will be closed by the bank and a pay order will be sent to the account holder to his/ her last known address through R.P.A.D after deducting such charges. The entire process will be carried out in a systematic manner and the Bank's decision is final and cannot be repudiated.

9.4 In the event of Cheques returned by the customers for any other reason other than the above will be viewed by the bank from time to time and necessary advice will be sent to the account holders in the case of frequent cheque returns. However the bank reserves the right to provide services to such customers and can take action against any recalcitrant customers by force closure of the accounts after duly following the procedures laid down in the cheque issuance policy.

9.5 The above process will apply in the case of ECS debits and cheques returned on account of settlement of transactions in stock exchanges.

9.6 Bills for collection:

Bills for collection including Bills discounted required to be collected through another bank at the realising center will be forwarded direct by the forwarding branch to the realizing branch.

9.6.1 Payment of interest for delays in collection of bills:

The lodger's branch will pay interest to the lodger for the delayed period in respect of collection of bills at the rate of 2% p.a. above the rate of interest payable on balances of savings bank accounts. The delayed period will be reckoned after making allowance for normal transit period based upon a time frame of two days each for

1. Dispatch of bills.
2. Presentation of bills of drawees.

3. Remittance of proceeds to the lodger's bank.
4. Crediting the proceeds to drawer's account.

To the extent the delay is attributed to the drawee's bank, the lodger's branch will recover interest for such delay from the bank."

9.7 General:

For the purpose of adducing evidence to prove the fact of dishonor of cheque on behalf of a complainant (i.e. payee/holder of a dishonored cheque) in any proceeding relating to dishonored cheque before a court, consumer forum or any other competent authority, branches should extend full co-operation, and should furnish him/her documentary proof of fact of dishonor of cheques.

10. Dealing with complaints and Improving Customer Relations Complaints/ Suggestions box:

Complaints/Suggestions box should be provided at each office of the bank. The branches have to ensure that they are provided with complaints/ Suggestion box in their premises. Further, a notice requesting the customers to meet the branch manager should be displayed regarding grievances, if the grievances remain un-redressed.
