

## **Chapter – 4**

### **Policy on Dealing with Dishonor of Cheques/ Electronic Mandate**

#### **4. Introduction:**

Dishonor 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. The specific instructions on the corrective steps to be taken to prevent recurrence of such instances (returning of Cheques) along with the guidelines for the procedure to deal with dishonor of such cheques are outlined in the following paragraphs.

#### **4.1. Return of Cheques by Bank Branches Citing “Link Failure” as a Reason:**

In situations of link / network /connectivity issues, branches are advised to proceed as under:

- (a)** Branch should explore other alternatives before returning the cheques viz. processing at the service / drawee / nearby branch as feasible.
- (b)** 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.
- (c)** Such cheques should be re-presented in the next clearing without waiting for a request from the payee.

#### **4.2. Procedure for Return / Dispatch of Dishonored Cheques:**

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

(b) The paying branch should return dishonored 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 without fail.

The collecting branches of our bank, on receipt of such dishonored 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 dishonored cheques to payees / holders immediately.

(d) 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".

#### **4.3. M.I.S. With Regard to Dishonored Cheques;**

(a) The branches shall maintain separate data in respect of each dishonored 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.

(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.

(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 Department.

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

**4.4. Dealing with Incidence of frequent Dishonor 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 three occasions during a financial year.
- (b) If a Cheque is dishonored for 2<sup>nd</sup> time during a financial year in respect of cheques mentioned in Para (a) above on a particular account of the drawer, a Cautionary Advice will be sent to the concerned constituent /Account holder's address, drawing his/her/their attention to aforesaid conditions, advising him/her/them about the consequential stoppage of cheque facility in the event of cheque being dishonored on next occasion (3<sup>rd</sup> time) on the same account during the financial year.
- (c) In the event of the dishonor of the cheque at 3<sup>rd</sup> instance in the same financial year, an informatory letter shall be sent on customer's communication address regarding further action/suspension of operation / closure of the account.

**4.5. Provision for passing/clearing of Demand Draft issued by our Bank.**

- (a) No demand draft will be returned by the Service branch/receiving branch, where wrong serial number is printed on the demand draft by the branch.
- (b) Where beneficiary details are partially missing on the demand draft.
- (c) There are discrepancies in Signature (along with signature serial no.) on demand draft of authorized officials.

In the above mentioned cases, the service branch/clearing house will seek detailed written information from the issuing branch about the Demand draft presented in clearing and after satisfying themselves and complying with the extant guidelines in the said context; the Demand Draft will be cleared. (If any Demand draft is returned on the above grounds, the Issuing Branch official along with Service branch official will be held accountable for the entire consequences arising thereof.)

**4.6. Procedure for return of ECS/NACH (Debit):**

- (a)** ECS/NACH debits are returned when there is no sufficient balance in the account, closure of accounts, or there is discrepancy in account particulars.
- (b)** ECS/NACH debits return for want of funds upto 3 times in a particular financial year will be taken an ordinary cause of affairs. At the return of ECS debit at 3<sup>rd</sup> time a Cautionary Advice will be sent to the concerned constituent/Account holder's address, drawing his/her/their attention to aforesaid conditions, advising him/her/them about the consequential revocation of ECS/NACH mandate in the event of return of ECS/NACH debit on the stated ground on next occasion (4<sup>th</sup> time).
- (c)** In the event of the return of the ECS/NACH debit at 4<sup>th</sup> instance in the same financial year, an informatory letter (via registered post/speed post) be sent on the communication address and the ECS/NACH mandate should be treated as revoked under advice to the user institution/ service provider. Further, also the branch may consider closing the account at its discretion by giving suitable notice to the customer.
- (d)** In the event of accounts already closed, branch should inform their customer by sending Registered /A.D letter on the last recorded address about return of ECS/NACH on account of closure of his/her account.
- (e)** In the event of discrepancies in the particulars due to which ECS/NACH are returned, branch should invariably contact the customer and inform him/her to update the particulars of his account with the respective organization. If the customer does not turn up to get the required information updated, the ECS/NACH mandate can be revoked as above.

- (f) In case of any failed/cleared ECS transactions, a separate text message will be sent to the account holder concerned. A report for Information on Failed/Cleared ECS Transactions will be available in CBS for Branches.

#### **4.7. Miscellaneous**

- (a) Frequent return of cheques in CC/OD accounts should be taken as EWS (Early Warning Signal) and the same should be analyzed – including diversion of money from other current accounts. For this, the branches shall inform the higher authorities of such incidents of returning of cheques. The need for continuance of these Credit facilities and the Cheque facility relating to these accounts shall be reviewed by appropriate authority higher than the sanctioning authority.
- (b) For the purpose of adducing evidence to prove the fact of dishonor of cheque on behalf of a complainant (i.e. payee / holder of dishonored cheque) on any proceeding relating to dishonored 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 dishonor 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 dishonor of the cheque to the payee / holder or the return of such dishonored cheque to him, to avoid any unpleasant action.

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