



POLICY

ON

DISHONOUR

OF

CHEQUES

Approved by the Board Agenda Item No. O-4 Dated 25.04.2019

Operations & Services
Head Office
Baroda

POLICY ON DISHONOUR OF CHEQUES

A. Scope:

The policy is based on the guidelines advised by RBI vide their circular letter No. DBOD.BC.Leg.113/09/ 09.12.001/2002-03 dated 26th June, 2003, for dealing with the procedure for dishonoured cheques for Rs. 1 Crore and above and vide circular no. RBI/2009-10/213, DBOD. NO. Leg.BC.59/09.07.005/2009-10 dated November 9, 2009 containing guidelines for dealing with incidents of frequent dishonor of cheques of value less than Rs.1 crore and frequent dishonor of ECS Mandates and Master Circular on Customer Service in Banks dated 1st July 2014.

B. Guidelines on Dishonour of Cheque

i. Return / dispatch of dishonored cheques

1. The paying branch should return dishonored cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Banker's Clearing Houses. The collecting bank on receipt of such dishonored cheques should dispatch it **immediately** to the payees /holders.
2. In relation to cheques presented direct to the paying bank for settlement of transaction by way of transfer between two accounts within the bank, it should return such dishonored cheques to the payees /holders **immediately**.
3. 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 "**Opening Balance Insufficient**"

ii. Action on dishonored cheques:

Head Office monitors the incidence of dishonoring of cheques for Rs.1.00 crores and above through the Statements annexed as per Annexure - 1 (Part A-1 & A-2) and Annexure - 2 (Part B-1 & B-2).

(Data for cheque return is fetched from Data Warehouse for Part A-1)

iii. Dealing with incidence of frequent dishonor:

1. With a view to enforce financial discipline among the customers in the event of dishonor of cheque valuing Rs.1.00 crore and above drawn on a particular account of the drawer on 4 occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued. Also, the bank may consider closing **of** account at its

discretion. However, in respect of advances accounts such as cash credit account, overdraft account, the need for continuance or otherwise of these credit facilities to these accounts should be reviewed by appropriate authority higher than the Sanctioning authority.

2. The condition mentioned at (1) above in relation to operation of the existing accounts, bank's branches should, at the time of issuing new cheque book, advise the constituents suitably.
3. When a cheque is dishonored for a third time on a particular account of the drawer during the financial year, bank should 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 dishonored on 4th occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.

iv. Evidence in respect of dishonored cheques

Cheque return memo should be issued in case of dishonoured cheques 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 cheques) in any proceeding relating to dishonored cheque before a court, consumer forum or any other competent authority.

C. Return of dishonour of Cheque:

Recommendation of the Goiporia Committee on return / dispatch of the dishonoured cheque to the customer promptly, without any delay, in any case within 24 hours have been adopted and accordingly cheques will be returned as under:

1. Return cheques must be properly entered in the "Cheques Return Register" for dishonor of cheques or maintained in system.
2. The paying branch should return dishonored cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Banker's Clearing Houses.
3. The collecting branch on receipt of such dishonored cheques should dispatch it immediately to the payees / holders in any case within a maximum period of 24 hours. If there is holiday on the next day, than on the first day when bank branch reopens after holiday.
4. In relation to cheques presented direct to the paying branch for settlement of transaction by way of transfer between two accounts within the Bank, it should return such dishonored cheques to payees/holders immediately, in any case within 24 hours.

5. Dishonoured cheques should be returned along with a memo signed by bank official indicating the reason for dishonor.
6. **Cheques received in Inward Clearing (drawn by our customers and presented by other banks in collection at MICR/NON-MICR/CTS centres will be honoured on the basis of clear opening balance available in the account.** Cheques dishonoured for want of funds in respect of all accounts should be returned along with a memo signed by bank official indicating the reason for dishonour as **“Opening Balance insufficient” and Date of Return.**
7. Data in respect of cheques drawn in favor of stock exchanges and dishonored should be consolidated separately irrespective of the value of such cheques as a part of MIS relating to broker entities and be reported to their respective Regional office. The Regional Offices report the data received to Head Office for apprising the Audit Committee of the Board as per format given in the Annexure to the policy.
8. Branches to ensure to maintain complete and proper record of the dishonored instruments and preserve the relevant records, as per extant guidelines applicable for record maintenance – for production of the same on demand by Court, Consumer Forum or any other competent Authority including the dispatch and proof of delivery to the payee in cases where ever possible. Branches should extend full co- operation to Court / Consumer Forum / any other Competent Authority.

D. Procedural guidelines for action to be taken in respect of Dishonour of Cheques for Rs.1 crore and above (drawn by our customer)

1. With a view to enforce financial discipline among the customers, branches should stipulate a condition for operation of accounts with cheque book facility that in the event of dishonor of a cheque valuing Rs.1.00 crore and above drawn on a particular account of the drawer on 4 occasions during the financial year for want of sufficient funds in the account, no fresh cheques book would be issued. Also the branch may consider closing of the account at its discretion.
2. However, in respect of advances accounts such as cash credit account, overdraft account, the need for continuance or otherwise of these credit facilities and the cheque facility relating to those accounts – where cheques valuing Rs.1 crore and above drawn on a particular account of a drawer are returned on 4 occasions during the financial year for want of sufficient funds in the account –is to be reviewed by appropriate authority higher than the sanctioning authority. Accordingly branches should incorporate such information in the credit / review proposal giving details of cheques returned, reasons, action taken etc. along with this provision of policy and RBI guidelines for suitable action by sanctioning Authority.
3. In relation to operation of existing accounts, branches should at the time of issuing new cheque book, advise the constituents of the condition. (Condition will be printed on cheque book with instructions to customer).

- 4.
5. When cheques are dishonored for 3rd time on a particular account of the drawer during the financial year, branches should 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 dishonored on 4th occasion in the same account during the financial year. The branch may issue similar cautionary advice if the branch intends to close the account.

D.1 Procedural guidelines for action to be taken in respect of Dishonour of Cheques for below Rs.1 crore (drawn by our customer)

1. RBI has not advised any definition of frequent dishonour of cheques of value of less than Rs.1 crore. For the purpose of this policy, in any account, if there is an incidence of dishonor of cheques of less than Rs.1 crore on 6 occasions in a financial year for want of sufficient funds, this will be considered as frequent dishonor of cheques.
2. Data in respect of cheques drawn in favor of stock exchanges and dishonored are to be reported separately irrespective of the value of such cheques.
3. With a view to enforce financial discipline among the customers, branches should stipulate a condition for operation of accounts with cheque book facility that in the event of dishonor of a cheque valuing less than Rs.1.00 crore drawn on a particular account of the drawer on 6 occasions during the financial year for want of sufficient funds in the account, no fresh cheques book would be issued. Also the branch may consider closing of the account at its discretion.
4. However, in respect of advances accounts such as cash credit account, overdraft account, the need for continuance or otherwise of these credit facilities and the cheque facility relating to those accounts – where cheques valuing below Rs.1 crore and drawn on a particular account of a drawer are returned on 6 occasions during the financial year for want of sufficient funds in the account – is to be reviewed by appropriate authority higher than the sanctioning authority. Accordingly branches should incorporate such information in the credit / review proposal giving details of cheques returned, reasons, action taken etc. along with this provision of policy and RBI guidelines for suitable action by sanctioning Authority.
5. When cheques are dishonored on 5th occasion in a particular account of the drawer during the financial year, branches should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheques facility in the event of cheques being dishonored on 6th occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.
A menu has been provided in Finacle to generate letters to be sent to customers for ensuring compliance of the guidelines.

Any deviation in the compliance of the above procedures by the branches / field functionaries is to be viewed seriously and necessary deterrent action will be required to be taken. Wherever , it is brought to light that there is delay in dispatching the dishonored cheques to the beneficiary, internal investigation to be carried out and suitable action taken thereafter so that any scope for causing delay in or withholding the communication of the fact of dishonor of the cheques to the payee / holder of such dishonored cheques.

D.2 Return of Dishonoured Cheques presented in outward clearing (i.e. for the cheques presented on behalf of our customers drawn on other banks)

Bank has centralized clearing functions in many cities at City Back Offices (CBOs) whereby processing of Inward and Outward clearing in respect of all branches of a city are carried out at CBOs. In such cases also, the guidelines mentioned above remain unchanged. However, operational process of return of cheques from CBO to paying / collecting branches as advised by way of various circulars and CBO Operational Manual should be strictly complied with.

CBOs and branches must comply with the procedure prescribed in respect of return cheques which inter –alia state that Bank (i.e. CBOs / Hub / Collecting branch etc) on receipt of such dishonoured cheques, should dispatch / deliver in person to the payees/holders immediately but in any case within a maximum period of 24 hours of return of instrument. If there is holiday on the next day, than on the first day when CBOs / Hubs / branch reopens after holiday.

D.2.1 CTS Clearing :

Guidelines for returning of Dishonoured Cheques are mutatis mutandis applicable to Branches / CBOs / Hubs under CTS Clearing.

E. Electronic Clearing Services Mandates (ECS):

Electronic Clearing Service (ECS) was introduced by Reserve Bank of India (RBI) in early nineties as a new method of effecting bulk and repetitive transactions electronically.

ECS (Debit):

In case of ECS (Debit) customer gives mandate for debiting his account for payment of various bills such as Telephone, Electricity, and Insurance Premium and also for repetitive debit in his account. This mandate is to be registered in the system after verification of the signature. Branches are to generate mandate serial no. through the system which is to be mentioned on the physical mandate letter for future reference. Branches should send a letter to user institution /service provider enclosing a photocopy of the Mandate letter (Original to be retained with the branch) requesting for User Debit Reference (UDR) number and mentioning that the mandate will become effective only upon receipt of UDR No. A copy of this letter should be endorsed to the account holder for information.

Procedure for return of ECS (Debit):

ECS debits are returned when there is no sufficient balance in the account, closure of accounts, or there is discrepancy in account particulars.

In case where ECS debits are returned for want of funds 6 times in a particular financial year, the branch should issue notice and the ECS mandate should be treated as revoked under advice to the user institution/ service provider. Also the branch may consider closing the account at its discretion by giving suitable notice to the customer.

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 (debit) on account of closure of his/her account.

In the event of discrepancies in the particulars due to which ECS debits are returned, branch should invariably contact the customer and inform him/her to update the particulars of his account with the respective organization.

F. Periodicity of Review:

The policy for “Dishonour of Cheques” containing guidelines for Dishonor of cheques for Rs.1 crore and above, Dishonour of cheques below Rs.1 crore and matters relating to frequent Dishonour of ECS mandates will be effective up to 31.07.2022.

Annexure-1

STATEMENT ON DISHONoured CHEQUES FOR RS.1.00 CRORE AND ABOVE FOR THE QUARTER ENDED -----

Branch : Region : Zone : Telephone NO.

(A – 1) Dishonoured cheques for Rs.1.00 crore and above - drawn by our customers maintaining account with our Branches (excluding cheques drawn in favour of Stock Exchanges)

Sr No./ BR.	Date of return	Chq. No.	Date of cheque	Amt	A/c Type & No.	Name of Drawer of chq	Name of payee	Presenting Bank	Reason of return	Date on which the chq was returned to the Payee	Date of actual delivery of cheque to Bank/ Payee	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

(A – 2) Dishonoured cheques for Rs.1.00 crore and above - Cheque deposited by our customers in their account drawn on other banks and returned unpaid by other Banks. (Excluding cheques drawn in favour of Stock exchanges)

Sr No./ BR.	Date of return	Chq. No.	Date of cheque	Amt	A/c Type & No.	Name of Drawer of chq	Name of payee	Presenting Bank	Reason of return	Date on which the chq was returned to the Payee	Date of actual delivery of cheque to Bank/ Payee	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

Date:

1. Signatory.....

2. Name of the signatory.....

Place:

3. Designation:

Annexure-2

STATEMENT ON ALL DISHONoured CHEQUES DRAWN IN FAVOUR OF STOCK EXCHANGES FOR QUARTER ENDED

BRANCH REGION ZONE TEL.NO.....

(B –1) Dishonoured cheques drawn by our customers in favour of stock exchanges –cheque drawn by our customers maintaining account with our branches.

Sr No./ BR.	Date of return	Chq. No.	Date of cheque	Amt	A/c Type & No.	Name of Drawer of chq	Name of payee	Presenting Bank	Reason of return	Date on which the chq was returned to the payee	Date of actual delivery of cheque to Bank/ Payee	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

(B-2) Dishonoured cheques drawn in favour of stock exchanges –cheque deposited by our customers /stock exchanges in their account with us and returned unpaid by other banks)

Sr No./ BR.	Date of return	Chq. No.	Date of cheque	Amt	A/c Type & No.	Name of Drawer of chq	Name of payee	Presenting Bank	Reason of return	Date on which the chq was returned to the payee	Date of actual delivery of cheque to Bank/ Payee	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

Date:

Place:

1. Signatory.....
2. Name of the signatory.....
3. Designation:

Format of Letter to be sent to customers when cheque is dishonored frequently.

Dear Sir/ Madam,

Re: Your Savings Account/Current Account No._____ and its irregular Status/ un-satisfactory conduct

It has been observed that cheques drawn on your account are being returned unpaid for financial reasons.

We therefore request as under.

1. As per rules, please ensure to maintain sufficient balance before issuing the cheques.
2. You are requested to confirm to us in writing within 30 days of receipt of this letter that you will observe the financial discipline and ensure satisfactory conduct of the account. Else we will be constrained
 - a. To stop issuing cheque book in the account and may ask to surrender of existing cheque books without any further delay /reference and /or
 - b. To close the said account without any further delay/ reference and issue BC/DD after deducting our charges/expenses etc from the balance amount in your account, which please note.

We further request you to use electronic channels for transfer of funds through RTGS, NEFT, IMPS, Net Banking etc. to avoid such incidents.

In case you need any guidance/ advice in this regard, kindly contact us in person within -15- days from receipt of this letter.

Yours Faithfully,

Chief Manager/ Senior Branch Manager/ Manager

Name of Branch_____

Address of Branch _____

Telephone No_____