

Policy on Frequent Dishonour of Cheques

1. Background

RBI directives require the banks to frame a policy to deal with the cases of frequent dishonour of cheques, due to financial reasons. It is intended that the policy and the procedures framed thereunder shall help in bringing financial discipline amongst the bank customers.

The Policy is framed based on RBI circular 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 dishonour of cheques of value less than Rs. 1 crore and frequent dishonour of ECS Mandates and Master Circular on Customer Service in Banks dated 1st July 2015.

2. Policy Directives

2.1 Procedure for return/ dispatch of dishonoured cheques

- i. Bank shall return dishonoured cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Bankers Clearing Houses. Bank, on receipt of such dishonoured cheques, shall dispatch it immediately to the payees/ holders.
- ii. In relation to cheques presented directly to the Bank for settlement of transaction by way of transfer between two accounts, dishonoured cheques shall be dispatched to payees/ holders immediately.
- iii. Cheques dishonoured shall be returned along with a memo indicating therein the reason for dishonour which shall also bear the signature / initial of the bank officials as prescribed in Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH).

2.2 Instances of dishonour covered in the Policy

- i. For purposes of this policy, dishonour of cheques, NACH/ECS Mandate due to the below mentioned reasons shall be considered:
 - *Lack of Sufficient Funds (Return Code 01)*
 - *Exceeds Arrangement (Return Code 02)*
 - *Effects Not Cleared, Present Again (Return Code 03)*
 - *Refer to Drawer (Return Code 04)*
- ii. Bank shall segregate the instances of dishonour of cheque/mandate as follows:
 - *Values below Rs. 1 Crores*
 - *Values equal to or above Rs. 1 Crores*
 - *Cheques issued in favour of stock exchanges to be consolidated separately (irrespective of the value) as a part of the MIS relating to broker entities*

2.3. Dealing with incidence of frequent dishonour of cheque, NACH/ECS mandate - Instances with value lesser than Rs. 1 crore

Bank shall initiate steps if the following thresholds are breached in a calendar month/quarter:

Nature of Account	No. of Instances in a calendar month	No. of Instances in a quarter
Savings Account	5 or more	12 or more
Current Account	10 or more	25 or more

- i. Send a caution letter to the customer on the breach of aforesaid threshold
- ii. Stop the cheque book facility if the aforesaid thresholds are breached in subsequent months in the remaining part of the financial year. Inform the customer about the action taken by the Bank.
- iii. Review the account for closure. In case the account is identified for closure, send a notice to the customer 30 days prior to closing the account.

- iv. If an account is having cheque book facility and NACH/ ECS mandate is also registered, then the incidents of dishonour will be considered for both dishonour of cheque and failed NACH/ECS for initiating action as per (i) and (ii) above.

2.4. Dealing with incidence of frequent dishonour of cheque, NACH/ECS mandate - Instances with value equal to or more than Rs. 1 crore

- i. Bank will place before the Audit Management Committee, every quarter, consolidated data in respect of the matters related to dishonoured cheques/ NACH/ECS return for amount of Rs.1 crore and above and Data in respect of cheques drawn in favour of stock exchanges and dishonoured irrespective of value of such cheques.
- ii. Bank shall initiate steps if 3 or more instances take place in a Financial Year. Send a caution letter to the customer on the breach of aforesaid threshold.
- iii. Stop the cheque book facility even if a single breach occurs after sending the aforesaid caution letter in remaining part of the financial year. Inform the customer about the action taken by the Bank.
- iv. Review the account for closure. In case the account is identified for closure, send a notice to the customer prior to closing the account.
- v. Any relief from the action can be given only after proper justification reviewed at appropriate level of authority.

2.5. Dealing with incidence of frequent dishonour of cheque, NACH/ECS mandate in case of Advances (CC/OD/TL)

- i. Analyse the reasons for dishonour of cheques. Such review shall be taken by an authority of a rank higher than the sanctioning official but up to the level of Chief Risk Officer.
- ii. Take further suitable action like updating the record of the borrower, reviewing cheque return data at the time of renewal of/change in limits of facility, review of

cheque dishonour data by portfolio monitoring department of the Bank etc. If required, stop issuance of further cheque leaves.

- iii. Any relief from the action can be given only after proper justification reviewed at appropriate level of authority.

3. Implementation of the Policy

- i. Bank has designed a suitable control structure to ensure strict adherence to the policy measures. This has been documented through a Standard Operating Procedure (SOP) document.
- ii. Appropriate authorities have been designated to generate information on the incidence of dishonour, review of the accounts flagged off and the final action to be taken.
- iii. For the purpose of adducing evidence to prove the fact of dishonour of cheque on behalf of a complainant (i.e. payee / holder of a dishonoured cheque) in any proceeding relating to dishonoured cheque before a court, consumer forum or any other competent authority, bank shall extend full co-operation and shall furnish him/her documentary proof of the fact of dishonour of cheque(s).
- iv. The data and the action taken report shall be tabled before the Audit/Management Committee of the Bank at quarterly frequency.

4. Policy Review

Policy shall be reviewed basis analysis of the data, directives of the Management Committee etc. at an interval of once in 3 years OR as & when required. Any change in procedures, change in reviewing and monitoring authorities shall be approved internally through formal process.