# POLICY

# ON

# DEALINGS WITH DISHONOUR OF CHEQUES/INSTRUMENTS

**Planning & Development Department**

The South Indian Bank Ltd.

Head Office, Thrissur

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CONFIDENTIAL

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## 1. Preamble

Reserve Bank of India, vide Master Circular on Customer Service, has provided the guidelines for dealing with frequent dishonour of Cheques as well as advised to frame appropriate procedure for dealing with dishonoured cheques. Wherein,

- ✓ Para 15.4 aforesaid Master Circular stipulates the procedure to be adopted for dealing with frequent dishonour of cheques of value of 1 crore and above

- ✓ Para 15.5 stipulates enacting a Board approved policy for dealing with frequent dishonour of cheques of value of less than 1 crore and also with matters relating to frequent dishonour of ECS mandates.

- ✓ Para 15.7 advises Bank to adopt, with the approval of their respective Boards, appropriate procedure for dealing with dishonoured cheques with inherent preventive measures and checks to prevent any scope for collusion of the staff of the bank or any other person, 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

## 2. Objective of the Policy

This policy aims to enforce financial discipline among the customers, for operation of accounts with cheque/ECS mandate facility, in the event of dishonor of a cheque or ECS drawn on a particular account of the drawer for want of sufficient funds in the account.

## 3. Intimation to the customers

Customers will be informed of the dishonour of instruments by telephone or directly on their visit to the branch. After recovering charges, the instruments will be handed over to the customer or will be sent by registered post / courier immediately, but not later than seven days after return. The dishonoured instruments are required to be returned / dispatched to the customer promptly without delay, in any case within 24 hours of dishonour.

## 4. Reasons for return of the instrument or mandate

- ✓ A cheque may be returned for various reasons viz. the cheque is undated, Post- dated or stale or it may contain unauthorized alterations, extraneous matter, etc. Incorrect signature of drawers, mutilation, drawals against uncleared effects, countermand issued by the drawer, receipt of notice of customer's death, lunacy, insolvency, service of Garnishee/Prohibitory/Attachment orders, irregular endorsements, absence of clearing stamp etc.
- ✓ The cheques/ECS debit mandates would be returned for want of funds also. The dishonouring of a cheque/ECS debit mandate for want of funds will affect the customer's credibility and if subsequently proved to be unwarranted may render the bank liable for damages.

- ✓ Bank would take sufficient care to verify the balance in the accounts through funds book before returning the cheques for funds reason, where, the location is covered under Service Branch. Bank has also put in place the mechanism of verifying the balance available in the account at the time of honouring the cheques sent for clearing under Speed/CTS clearing.

**In view of the following it would be the endeavour of the branches to phase out the undesirable and unremunerative accounts.**

- ✓ The introduction of automated cheque processing envisages usage of special stationery for cheques which will cost substantially more and therefore, no misuse of cheque facility is allowed.
- ✓ It is very unsatisfactory for a banker to return cheques for financial reasons.
- ✓ Apart from reflection on the status of the account holder, it also affects the image of the bank.
- ✓ The practice of acceptance of cheques as a means of payment, without reservation is retarded by return of cheques due to insufficiency of funds and;
- ✓ Other reasons, if any, found necessary.

## 5. Return of dishonoured cheques

In case of want of funds, the cheque would be returned with reasons according to circumstances viz.

a) Insufficient Funds,
b) Amount in words and figures differs,
c) Exceeds arrangement,
d) Wrongly delivered/not drawn on us, etc.

- ✓ When a cheque is returned, full details of the cheque, the objection under which a cheque is returned and the date of such return will be noted in the cheque return register. Cheques dishonoured in respect of all accounts would be returned along with a Cheque return memo indicating therein the reason for dishonour along with the signature/initial of the bank officials as prescribed in Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH).

- ✓ In case the cheques are returned in clearing like Cheque Truncation System (CTS)/ MICR/Non-MICR etc., the cheque return memo will be generated in the system. In case of manual presentation across the counter is returned, return memo will be prepared manually.

- ✓ The particulars of the returned cheque and the reason for the return would be entered in the Cheques Returned Register for verification by the authorized officials.

- ✓ If the cheque is returned to the person who presented it for payment across the counter, his/her signature is being obtained in the register acknowledging receipt of the unpaid cheque.

## 6. Procedure for return/despatch of dishonoured cheques

- ✓ As a paying bank, branches will return the dishonoured cheques presented through clearing houses, strictly as per the return discipline prescribed for the respective clearing house, in terms of Uniform Regulations and Rules for Banker's Clearing Houses.

- ✓ As a collecting bank, branches on receipt of such dishonoured cheques will despatch it immediately to the payees/holders. Bank will despatch the returned instruments immediately to the current of the customer available in the system.

- ✓ In relation to cheques presented directly at the paying branch for settlement of transaction by way of transfer between two accounts have to be returned and the same will be delivered to the payees/ holders immediately against their acknowledgement.

- ✓ Cheques dishonoured will be returned along with a memo indicating therein the reason for dishonour as **"insufficient funds",** etc.

- ✓ Bank would not detain any return cheque, even for a day regardless of our business connection with the drawers of these cheques.

## 7. Procedure for Dealing with incidence of frequent dishonour

### 7.1. Dishonour of cheques valuing 1 crore and above

- ✓ In the event of dishonour of cheque / ECS mandate valuing One crore and above drawn on a particular account of the drawer on **four occasions** during the financial year for want of sufficient funds in the account, no fresh cheque book will be issued.

- ✓ The Bank may also consider closing such accounts at its discretion. 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 these accounts will be reviewed by appropriate authority higher than the sanctioning authority.
- ✓ For the purposes of introduction of the condition mentioned above in relation to operation of the existing accounts, Bank has indicated the new condition in the cheque books issued to the customer.

- ✓ If a cheque / ECS mandate of value Rs.1 crore and above is dishonoured for a third time in case on a particular account of the drawer during a financial year, branch will issue cautionary advice to the concerned constituent drawing his attention to aforesaid condition

and consequential stoppage of cheque facility in the event of such cheque being dishonoured on a fourth occasion.

- ✓ If considered appropriate, Bank can give adequate notice of 15 days and close the account by recovering charges / dues if any and remitting the remaining balance by pay order / draft to the address on record of the Bank by Registered Post.

### 7.2. Dishonour of cheques/ECS valuing less than 1 crore

- ✓ In the event of dishonour of cheque / ECS mandate valuing of less than Rs.1 crore, drawn on a particular account of the drawer on 3 occasions during a quarter for want of sufficient funds in the account, no fresh cheque book would be issued.

- ✓ Bank may also consider closing the account at its discretion. However, in respect of advance accounts, such as Cash Credit account, Overdraft account, the need for continuance or otherwise of these credit facilities and the cheque facility related to these accounts will be reviewed by appropriate authority higher than the sanctioning authority.

- ✓ For the purposes of introduction of the condition mentioned at (i) above in relation to operation of the existing accounts, Bank will indicate the new condition in the cheque books issued to the customer.

- ✓ On reaching the number of incidents of dishonour of cheques / ECS mandate during the quarter, cautionary advice would be issued stating that any more instances would disentitle the customer from availing facility of cheque-book / ECS mandate.

- ✓ If considered appropriate, Bank can give adequate notice of 15 days and close the account by recovering charges/dues if any and remitting the remaining balance by pay order/draft to the address on record of the Bank by Registered Post.

## 8. Procedure for closing unremunerative /undesirable account

- ✓ Holders of accounts in which the balance quite often falls below the stipulated minimum will be contacted and the need for maintaining the minimum balances in the accounts will be impressed upon them. If there is persistent default in respect of any account, a letter will be sent, expressing our intention to close the account without further notice, if the stipulated minimum balance is not maintained within a fortnight. Further, if the account is not brought in order within a reasonable period of 30 days, the account will be closed and the balance, if any will be remitted to the party by means of a Demand Draft by registered post with acknowledgement due along with a covering letter.

- ✓ However, in case of constituents, who give other remunerative business or whose connections are for any other reasons worth retaining, action will be taken for closure of the account after such account holders are impressed upon the need for maintaining minimum balance. Bank will periodically review to assess the continuous availability of other benefits/connections.

- ✓ Bank will monitor the account in which cheques/ECS mandate are returned for want of funds. Service charges are being stipulated and levied, to check such tendency of habitually drawing cheques/ECS mandate without providing sufficient funds.

- ✓ Bank will contact the customers in such cases and impress upon them, the necessity of drawing cheques/ECS mandate only against sufficient balance. If the efforts are in vain, the accounts will be closed by observing the due procedure. Bank will not take unilateral decision to close the deposit accounts without giving proper notice or reason to the customer.

## 9. Information on dishonoured cheques / ECS to controlling offices

- ✓ Data in respect of each dishonored cheque/ECS for amount of Rs.1 crore and above will be extracted from CBS & made part of bank's MIS on constituents.

- ✓ Data in respect of dishonored cheques drawn in favour of stock exchanges will be consolidated separately by branches irrespective of the value of such cheques as a part of their MIS relating to broker entities, and be reported to their respective Regional Office on a

monthly basis. Regional Office in turn will consolidate and submit this information to Head Office Planning and Development Department on a quarterly basis.

## 10. 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 a dishonoured cheque) in any proceeding relating to dishonoured cheque before a court, consumer forum or any other competent authority, bank will extend full co-operation and furnish documentary proof of fact of dishonour of cheques.

- ✓ A report on quarterly basis in respect of dishonour of cheques / ECS will be placed before the Standing Committee of Customer Service of Executives for review.

- ✓ Bank retains the right to amend / modify the policy from time to time. Display of the same on notice board of branches / on the web site would be deemed to be adequate notice to customers of the said changes.

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