# Frequent Dishonour of Cheque Policy

# Meghalaya Rural Bank

**DEPARTMENT:** Accounts Department

**Version Control:**

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## ACRONYMS

| Acronym | Full Form |
|---|---|
| CTS | Cheque Truncation System |
| MCC | Multi City Cheques |
| NACH | National Automated Clearing House |
| ECS | Electronic Clearing System |
| NPCI | National Payments Corporation of India |
| MMS | Mandate Management System |
| PDCs | Post Dated Cheques |

## 1. Introduction

1.1 Reserve Bank of India has laid down CTS 2010 Standards for issuance of Cheques. With the advent of Core Banking Solution, the Cheques have been made payable at all the branches of the Bank. "Accordingly, MCC payable at Par, CTS-2010 Standard Compliant Cheques are being issued by the Bank". The payee can present the cheque for the amount which is within the ceiling printed on the face of the Cheque, directly at any of our branches or in clearing. Only MCC CTS 2010 standard cheques are issued now and no other variant can be used.

1.2. Frequent Dishonour of Cheque or failure of NACH (National Automated Clearing House)/ECS (Electronic Clearing System) is another important aspect of banking transaction.

a) RBI had, vide their Notification no.DBOD.NO.Leg.BC.59/ 09.07.005/ 2009-10 dated 9th November 2009, advised that frequent instances of dishonour of cheque of value less than ₹.1 crore is a matter of great concern and that banks need to take appropriate action in those accounts where such instances of dishonour of cheques occur.

b) RBI had also advised, vide their Master Circular DBR NO.Leg.BC.21/ 09.07.006/2015-16 dated 01st July, 2015, guidelines for dealing with incidents of frequent dishonour of cheques of ₹. 1 Crore and above. RBI has provided discretion to the banks to have their own approach to deal with recalcitrant customers as per their Board approved policy for dealing with incidents of frequent dishonor of cheques and failed NACH/ECS mandate.

c) RBI has, vide notification no. DBR.No.Leg.BC.3/09.07.005/ 2016-17 dated 04th August, 2016, left it to the discretion of the banks to determine their response to dishonour of cheques of the account holders, steps to prevent misuse of the cheque drawing facility and also to avoid penalizing customers for unintended dishonour of cheques.

## 2. POLICY FOR DEALING WITH INCIDENTS OF FREQUENT DISHONOUR OF CHEQUES AND FAILED NACH:

### (i). Returning time for dishonored cheques:

The dishonored instruments are required to be returned / dispatched to the customer by registered post, speed-post, and courier promptly without any delay in any case within T+1 working days of the dishonour.

### (ii). Procedure for return/dispatch of dishonored cheques:

a) The collecting 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 Bankers' Clearing Houses. The collecting branch on receipt of such dishonoured cheques should dispatch it immediately to the payee/account holder within T+1 working days of receipt of the instruments. The Customer will be informed by automated SMS over registered mobile number about returning of cheque.

b) In relation to cheques presented directly to the drawee branch across the counter for settlement of transaction by way of transfer between two accounts of the same branch / inter–branch, branch should return such dishonoured cheques to the payees/ holders same day/or next day, in case of dishonour due to insufficiency of fund.

c) Cheques dishonoured 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) Cheques returned should be entered in "Cheques Referred and Returned Register maintained in branch.

e) In case of technical issue where the Bank cannot complete the Return of dishonoured cheques, immediate communication through emails or phone calls should be intimated to the Sponsor Bank for Cheque Clearing for return of the cheques. Failure to respond within specified time will result in our parking account being debited even in invalid cheques resulting in loss for the Bank.

### (iii) Dealing with frequent dishonour of Cheques/ Failed NACH:

a) With a view to enforce financial discipline among the customers, a condition for operation of Savings Bank/ Current Account (SB/CA) account with cheque facility will be incorporated that in the event of failed Standing Instruction for Loan Repayment/dishonour of a cheque/NACH due to lack of funds/insufficient funds drawn on a particular account of the drawer on 4 occasions during the financial year, no fresh cheque book would be issued from any of the channels. In case of unintended dishonour of cheques, the branch concerned will analyze such cases so as to ensure that it does not result into penalizing the customer for such unintended dishonour of cheques.

b) The branch may consider closing Savings Bank account/Current account at its discretion, after proper notice to the customer recording the reason of closure of account with reporting to Controller at monthly intervals. However, in respect of advances accounts such as cash credit account, overdraft account, the accounts may be treated as stressed accounts and dealt with accordingly. The decision for issuance of cheque book and/ or continuation of credit facilities may be taken by the sanctioning authority.

c) For the purposes of introduction of the condition mentioned at (a) and (b) above in relation to operation of the existing accounts, branch may, at the time of issuing new cheque book, obtain a letter from the constituents regarding acceptance of the new condition for operation of account. In case, request for issuance of cheque book is raised through INB/CINB, the system will be amended to make provision for accepting the conditions before final submission. The condition may also be incorporated in the Account Opening Forms as declaration from the constituent.

d) If a cheque is dishonoured for a 3rd time during a financial year in respect of cheques mentioned in para (a) above on a particular account of the drawer, a system generated Cautionary Advice will be sent to the concerned constituent by SMS on his registered mobile number or email and also a system generated letter on his recorded 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 dishonoured on next occasion on the same account during the financial year.

e) If an account is having cheque book facility and NACH mandate is also registered, then the incidents of dishonour will be taken into account for both dishonour of cheque and failed NACH for computing the number of dishonour of cheques and failed NACH.

f) Branch may consider closing the account after serving 30 days notice to the customer in the event of subsequent dishonour of cheque/ NACH mandate in the account.

g) Weekly and monthly MIS reports (as a part of CBS reports) containing extract of all incidents of cheque/NACH dishonored for 3rd time and 4th time, in a financial year will be generated by CBS and sent to the Controllers as per format given in Ann. III, IV&V. Controllers will follow up with the branches and submit compliance report at quarterly

## (iv) Dishonour of NACH (Debit) Mandate:

**(Section 25 of the Payment and Settlement System Act 2007)**

a) National Automated Clearing House (NACH) is a payment system operated by National Payments Corporation of India (NPCI) on the lines of ECS, where Corporations and Banks are members. The physical mandates are obtained by Corporate/ Sponsor Banks and sent to NPCI through Mandate Management System (MMS). The destination Banks receive the mandates through MMS and authorize the same in their CBS. On the strength of the mandates, the future debits are raised by Sponsor Banks. Acceptance of ECS mandates is now stopped by Banks and only NACH mandates are accepted. As ECS system is migrated to NACH by RBI.

b) As per Section 25 of the Payment and Settlement Systems Act, 2007, where an electronic funds transfer initiated by a person from an account maintained by him cannot be executed on the ground that the amount of money standing to the credit of that account is insufficient to honour the transfer instruction or that it exceeds the amount arranged to be paid from that account by an agreement made with a bank, there is provision to prosecute such person as per the above Act.

c) The above Act accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic fund transfer instructions under insufficiency of as are available under Section 138 of Negotiable Instruments Act, 1881. Considering the protection available, there is no need to obtain additional cheques, if any, from customers in addition to ACH Debit mandates.

d) NPCI has further advised that as migration of ECS to NACH has been completed at all locations across India, banks should not accept PDC or Security PDC from its customer and all existing PDCs/Security PDCs may be converted into NACH (Debit) Mandates.

e) **Procedure for handling failed NACH**: If a Destination Branch (the bank branches where the Destination Account holders maintain their bank account from which NACH utility payments are debited.) is not in a position to debit a particular transaction for insufficiency of funds, it should report the same with a Return Reason to the Service Branch/Main Branch on the same day with the details of failed NACH, in any case not later than T+1 working days of the returned /undebited processed in the Clearing House.

f) It would be the responsibility of the Sponsor Bank (Branch) (refer to the bank/branch which had agreed to act as the agent of the User company i.e. utilitycompanies, insurance/corporations/Collection Service Provider/ Govt. departments, or any institution receiving/collecting payments from a large number of branches/ credit banker etc) to advise the User regarding failed NACH.

g) If a User makes use of NACH mechanism for receiving payment from the same set of beneficiaries every quarter/month or at more frequent intervals, and there is frequent return of debit NACH, in such cases, after return of the NACH, the Sponsor Bank has the responsibility to intimate the User in addition to the Destination Account Holders regarding termination of NACH mandate.

h) In case of failed NACH due to insufficiency of funds, a communication from the Destination branch is to be sent to the customer (Destination Account Holder) intimating him that in case of failed NACH for 4 times in a financial year or otherwise, the branch at its sole discretion may advise the sponsor bank/branch for cancellation of all mandates given for the particular account in case of SB/CA, whereas for Cash Credit accounts, a review may be put up to appropriate authority higher than the sanctioning authority in the matter. The branch should also send the caution memo after 3rd NACH failure in a financial year to the concerned User of NACH for whom the NACH was registered.

i) Branch may consider for closing of account after serving 30 days' notice to the customer after subsequent NACH failure, even though the account is not having any cheque book facility and only NACH has been registered.

j) Branch has to ensure compliance of above procedure so that no laxity is allowed in delayed reporting of such failed NACH. In case of any findings of such circumstances and non- compliance / non-adherence of instructions/ guidelines stated hereinabove, suitable disciplinary action will be initiated against the erring staff as per the service conditions governing them.

k) Information / documentary proof of failed NACH should be provided, if requisitioned by any court/consumer forum.

## (v).Information on Dishonoured Cheques/ Failed NACH:

a) Data in respect of each dishonoured cheque for amount of ₹1 crore and above, and below ₹1 crore and all cheques drawn in favour of stock exchanges should be made part of bank's MIS on constituents and concerned branches should report such data cheque wise & account wise to their respective controller separately.

b) Data in respect of all failed NACH should be made part of Bank's MIS on constituents and concerned branch should report to their respective controllers.

c) Reporting: The information is to be reported to the Controller on respective format as per Annexure- III, IV & V. Branches will send such consolidated report to HO at quarterly intervals.

## 3. Framing Appropriate Procedure for Dealing with Dishonoured Cheques:

a) The appropriate procedure for dealing with dishonoured cheques have been devised 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

b) For the purpose of recording dishonour status of the cheque, every cheque received at the paying branch /Service Branch must be recorded in the system, whether balance is available in the account or not and in no case, it should be returned without referring cheques to the "Cheque referred & returned Register" where cheque is being returned for insufficient balance in the account.

c) Branches will clear the cheques on the basis of clear balance available at the time of presentation. In no case, return of cheques at paying branch/Service Branch should be withheld till deposit of suitable balance by account holder /party concerned to meet the fund requirement of the cheque.

d) Branches/ Controllers has to ensure compliance of above procedure so that no laxity is adopted / no internal collusion of staff in concealing the dishonour of the cheque or delayed reporting/returning of the cheque. In the event of finding of any such circumstance, the internal guidelines for dealing with staff accountability for dereliction in duty by the staff will be dealt with. Accordingly, Officers and staff should be cautious enough to adhere to such guidelines and ensure strict compliance thereof to achieve aforesaid objective of effective communication and delivery of dishonoured cheque to the payee.

### Recovery of Service Charges on dishonour of Cheque/NACH

Recovery of such charges will be ensured as per extant instructions on Service Charges in force. Returning of Cheque over the counter will also be recorded in the system as rejected transaction and applicable service charges will be levied.

**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, branch should extend full co-operation, and should furnish him/her documentary proof of the fact of dishonour of cheque(s).

## 4. Amendment/Modification of the Policy:

The Bank reserves the right to amend/modify this Policy, as and when deemed fit and proper, at its sole discretion. The Policy will be reviewed once in two years or as and when required. Any changes in between two reviews will be approved by bank's board. Such changes will be incorporated in next review of policy.

## 5.Force Majeure:

The Bank shall not be liable to pay to the customers under this Policy if some unforeseen event, including but not limited to civil commotion, sabotage, lockout, strike or other labour disturbances, accident, fire, natural disasters or other "Acts of God", war, damage to the MRB's or its correspondent bank(s) systems, communication channels etc. beyond the control of the MRB, prevents it from performing its obligations within the specified service delivery parameters. Claims, if any in this regard will be dealt with as per Bank's Compensation Policy.

## 6. All Annexures :

**ANNEXURE -I**

**List of Reasons for dishonour of cheque:**

(Applicable for instrument and image -based Cheque Clearing as detailed in Annexure D to Uniform Regulations and Rules for Bankers' Clearing Houses)

| Code | Reason for Return |
|---|---|
| 01 | Funds insufficient |
| 02 | Exceeds arrangement |
| 03 | Effects not cleared, present again |
| 04 | Refer to drawer |
| 05 | Kindly contact Drawer/Drawee Bank and please present again |
| 10 | Drawer's signature incomplete |
| 11 | Drawer's signature illegible |
| 12 | Drawer's signature differs |
| 13 | Drawer's signature required |
| 14 | Drawer's signature not as per mandate |
| 15 | Drawer's signature to operate account not received |
| 16 | Drawer's authority to operate account not received |
| 17 | Alteration requires drawer's authentication |
| 20 | Payment stopped by drawer |
| 21 | Payment stopped by attachment order |
| 22 | Payment stopped by court order |
| 23 | Withdrawal stopped owing to death of account holder |
| 24 | Withdrawal stopped owing to lunacy of account holder |
| 25 | Withdrawal stopped owing to insolvency of account holder |

| | |
|---|---|
| 30 | Instrument post dated |
| 31 | Instrument out dated/stale |
| 32 | Instrument undated/ without proper date |
| 33 | Instrument mutilated; requires Bank's guarantee |
| 34 | Cheque irregularly drawn/ amount in words and figures differs |
| 35 | Clearing House stamp/ date required |
| 36 | Wrongly delivered/ Not drawn on us |
| 37 | Present in proper zone |
| 38 | Instrument contains extraneous matter |
| 39 | Image not clear, present again with paper |
| 40 | Present with document |
| 41 | Item listed twice |
| 42 | Paper not received |

| Code | Reason for Return |
|---|---|
| 50 | Account closed |
| 51 | Account transferred to another branch |
| 52 | No such account |
| 53 | Title of account required |
| 54 | Title of account wrong/ incomplete |
| 55 | Account blocked (situation covered in 21-25) |
| 60 | Crossed to two banks |
| 61 | Crossing stamp not cancelled |
| 62 | Clearing stamp not cancelled |
| 63 | Instrument specially crossed to another bank |
| 64 | Amount in protective crossing incorrect |
| 65 | Amount in protective crossing required/illegible |
| 66 | Payee's endorsement required |
| 67 | Payee's endorsement irregular / requires collecting bank's confirmation |
| 68 | Endorsement by mark/ thumb impression requires attestation by Magistrate with seal |
| 70 | Advice not received |
| 71 | Amount /Name differs on advice |
| 72 | Drawee bank's fund with sponsor bank insufficient |
| 73 | Payee's separate discharge to bank required |
| 74 | Not payable till 1st proximo |
| 75 | Pay order/ cheque requires counter signature |
| 76 | Required information not legible/ correct |

**ANNEXURE -II**

**Illustrative but not exhaustive list of objections where customers are not at default**

| Code No. | Reason for Return |
|---|---|
| 33 | Instrument mutilated; requires bank's guarantee |
| 35 | Clearing House stamp/date required |
| 36 | Wrongly delivered/not drawn on us |
| 37 | Present in proper zone |
| 38 | Instrument contains extraneous matter |
| 39 | Image not clear; present again with paper |
| 40 | Present with document |
| 41 | Item listed twice |
| 42 | Paper not received |
| 60 | Crossed to two banks |
| 61 | Crossing stamp not cancelled |
| 62 | Clearing stamp not cancelled |
| 63 | Instrument specially crossed to another bank |
| 67 | Payee's endorsement irregular/ requires collecting bank's confirmation |
| 68 | Endorsement by mark/ thumb impression requires attestation by Magistrate with seal. |
| 70 | Advice not received |
| 71 | Amount/ Name differs on advice |
| 72 | Drawee bank's fund with sponsor bank insufficient (applicable to sub-Members) |
| 73 | Payee's separate discharge to bank required |
| 74 | Not payable till 1$^{st}$ proximo |
| 75 | Pay order/cheque requires counter signature |
| 76 | Required information not legible/correct |
| 80 | Bank's certificate ambiguous/incomplete/required |
| 81 | Draft lost by issuing office; confirmation required from issuing office |
| 82 | Bank/Branch blocked |
| 83 | Digital Certificate validation failure |
| 84 | Other reasons-connectivity failure |
| 87 | 'Payee's a/c Credited'-Stamp required |
| 92 | Bank excluded |

**Annexure-III**

**INFORMATION ON DISHONOURED CHEQUES RETURN FOR THE QUARTER ENDED**

**A. DISHONOUR OF CHEQUES OF ₹1 CRORE AND ABOVE WITH THE REASON 'INSUFFICIENT FUNDS'.**

| Sl. No. | Date of Return | Cheque No. | Amount | Drawer Name/AC.No. | Payee | Collecting Bank/Branch | Paying Bank/Branch | Remarks |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

**B. DISHONOUR OF CHEQUES OF BELOW ₹.1 CRORE WITH THE REASON 'INSUFFICIENT FUNDS'**

| Sl. No. | Date of Return | Cheque No. | Amount | Drawer Name/AC.No. | Payee | Collecting Bank/Branch | Paying Bank/Branch | Remarks |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

**Annexure -IV**

INFORMATION ON DISHONOURED CHEQUES
RETURN FOR THE QUARTER ENDED

DISHONOUR OF CHEQUES IN FAVOUR OF STOCK EXCHANGES WITH THE REASON 'INSUFFICIENT FUNDS'

| Sl. No. | Date of Return | Cheque No. | Amount | Drawer Name/AC. No. | Payee | Collecting Bank/Branch | Paying Bank/Branch | Remarks |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
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**Annexure-V**

INFORMATION ON FAILED NACH / ECS TRANSACTIONS FOR THE QUARTER ENDED

| Sl. No. | Date of Return | Customer Account No. | Amount | Drawer Name/AC. No. | Payee | Sponsor Bank/ Branch | Destination Branch | Remarks |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |