

Policy on Dishonor of Cheques/NACH Transactions

1. Introduction:

Reserve Bank of India vide Notification no. DBOD.NO.Leg.BC.59/09.07.005/2009-10 dated November 9, 2009 advised that frequent instances of dishonor of cheques of value less than INR 1 Crore is a matter of great concern and that banks need to take appropriate action in those accounts where such dishonor of cheques occur.

Reserve Bank of India has advised the steps laid down in paragraph 15.4 vide their Master Circular DBR No.Leg.BC.21/ 09.07.006/2015-16 dated July 1, 2015 for dishonor of cheques of INR 1 Crore and above. However, the Reserve Bank of India has mentioned that it is not necessary to extend all steps laid down in paragraph 15.5 of their circular for smaller cheques and banks can have their own approach to deal with recalcitrant customers and can have their Board approved policy for dealing with incidents of frequent dishonor of cheques of value less than INR 1 Crore. Reserve Bank of India has also advised that the policy should also deal with matters relating to frequent dishonor of NACH/ECS mandates.

Reserve Bank of India has further advised modification in procedure vide notification no. RBI/2016-17/33 DBR.No.Leg.BC.3/09.07.005/2016-17 dated 04th August, 2016 that it has been decided to leave it to the discretion of the banks to determine their response to dishonor of cheques of the account holders. Banks should put in place an appropriate policy approved by the Board or its Committee taking into consideration the need to prevent misuse of the cheque drawing facility and also to avoid penalizing customers for unintended dishonor of cheques.

2. Scope:

The existing Cheque Collection policy provides guidelines for the process to be followed for return/ dispatch of dishonoured cheque/ declined NACH transactions and the process for dealing with incidents of outward clearing cheque return. The policy on frequent dishonour of cheque/ NACH transactions includes guidelines for handling the frequent return of inward clearing cheque in a customer account for amounts both above and below INR 1 Crore respectively.

The policy is based on the guidelines advised by Reserve Bank of India vide their circular numbers:

- Master Circular on Customer Service dated July 1, 2015 # RBI/2015-16/59 DBR No.Leg.BC.21/09.07.006/2015-16 containing guidelines for dealing with incidents of frequent dishonour of cheques of value INR 1 Crore and above and less than INR 1 Crore and frequent dishonour of ECS Mandates.
- The Cheque Return Policy also forms a part of the Account Closure Policy as per the criteria for defining returns.

3. Ownership:

Centralised Clearing and Product-Retail Liabilities shall be the primary owners of this policy.

4. Stakeholders:

- a. Product-Retail Liabilities
- b. Central Clearing
- c. Chennai NPC – Amendment
- d. Chennai NPC – Deliverable

5. Key responsibilities of Central Clearing:

Unit needs to maintain MIS on the dishonoured cheques, NACH transactions, and dishonoured cheques drawn in favour of stock exchanges and should report such data to controlling office / head office.

- a. Dishonoured cheques and NACH transactions value INR 1 Crore and above.
- b. Dishonoured cheques value less than INR 1 Crore including the data of cheques drawn in favour of stock exchanges.

6. Key responsibilities of Product-Retail Liabilities:

Product-Retail Liabilities team need to review the data shared by clearing unit for necessary action as per Account closure Policy / RBI, Master Circular on Customer Service in Banks- para 15.4 and 15.5. for dealing with incidents of frequent dishonour of cheques/NACH transactions of value INR 1 Crore and above and less than INR 1 Crore.

- Criteria for rejecting cheques (Inward Clearing) and NACH transactions exceeding INR 1 Crore after four instances of insufficient funds within a financial year in particular account.
Criteria for rejecting cheques (Inward Clearing) and NACH transactions below INR 1 Crore after ten instances of insufficient funds within a quarter (three months) in a particular account.
 - a. The clearing team will share account lists quarterly with the product retail - liabilities team. The product retail – liabilities team will then distribute the segmented data to relevant business heads.
 - b. Business heads will review the lists within 15 days and recommendation to the product team, any customer whose banking relationship is to be retained and with clear reasons thereto.
 - c. The product-Retail liabilities team will present the final closure and retention list of customer accounts, along with reasons for retention, to the NPC Amendment after another 15 days.
 - d. Following this, a one-month notice (**Annexure-VI and V**) will be issued to customers before account closure, and NPC Amendment team will proceed with closure after the notice period.

- e. This review period lasts one month for the product-retail liabilities team and business heads, followed by a one month notice to customers, and closure by the NPC Amendment team, once the notice period is over. The same process will be repeated in subsequent quarters for both i.e., frequent dishonour of cheques/ NACH transactions of value INR 1 Crore and above and less than INR 1 Crore.

7. Key responsibilities of Chennai NPC - Amendment:

Unit need to act as per mentioned in Account closure policy / data received from Product-Retail Liabilities.

- a. Stoppage of issuing new cheque book facility (change of cheque book flag 'Y' to 'N'). post confirmation of product team.
- b. Closure of Account post confirmation from product team.

8. Key responsibilities of Chennai NPC - Deliverable:

Unit need to act as per mentioned in Account closure policy / data received from Product-Retail Liabilities.

- a. Issue cautionary advice (**Annexure-V and VII**) to customer accounts for cheque/ NACH dishonour value INR 1 Crore and above in a particular account on three/ four occasions due to "insufficient funds" in a financial year.
- b. Issue cautionary advice (**Annexure-IV and VII**) to customer accounts for cheque / NACH dishonour value less than INR 1 Crore in a particular account on ten occasions due to "insufficient funds" over three consecutive months.

9. Guidelines for dealing with incidents of frequent dishonour of cheques/ NACH transactions of value INR 1 Crore and above.

- I. With a view to enforcing financial discipline among the customers, should there be any instances of dishonour of a cheque/ NACH transaction for an amount equal to INR 1 Crore and above on four occasions during the financial year for insufficient funds in the account, no fresh cheque book would be issued. For NACH, account would be marked 'freeze'. The Bank may consider closing the account after serving due notice to the customer and after complying with all regulatory requirements. However, for accounts with statutory and regulatory notices, such as cash credit accounts, overdraft accounts, and advances, the necessity of continuing or discontinuing these credit facilities and cheque facilities should be reviewed by the appropriate authority rather than the sanctioning authority.

- II. For the purpose of introduction of the condition mentioned in paragraph (I) for operation of the existing accounts, the Banks may, at the time of issuing new cheque book, issue a letter advising the customer of the new condition.
- III. For cheque dishonoured thrice in a particular account of the drawer during the financial year, the Bank should issue a cautionary advice to the account holder's drawing their attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion in the same account during the financial year. Similar cautionary advice may be issued if the Bank intends to close the account.
- IV. The monitoring of frequent dishonour of cheques with value INR 1 Crore and above shall be applicable for the NACH returns too wherein NACH was issued to other banks and financial institutions by DCB Bank customer.
- V. The Clearing Team maintains an MIS for dishonoured cheques and NACH transactions with a value of 1 Crore and above. The MIS includes data on cheques drawn in favour of stock exchanges and those dishonoured regardless of their value.

10. Guidelines for dealing with frequent dishonour of cheque/ NACH transactions of value of less than INR 1 Crore.

As frequent dishonor of cheques of value of less than INR 1 Crore is also a matter of concern, the bank will implement the following process.

- I. Reserve Bank of India has advised bank to have their own approach to deal with frequent dishonor of cheque/ NACH transactions of value of less than INR 1 Crore. For the purpose of this policy, in any account, if there are incidents of dishonor of cheque/ NACH transactions of value less than INR 1 Crore on ten occasions in three months for reason insufficient funds, then it would be considered as frequent dishonor of cheque/ NACH return.
- II. The Cheque Return Policy also forms a part of the Account Closure Policy wherein the criteria for defining returns are (a) Cheque Returns Inward – Ten inward cheque returns in 3 months (asset accounts to be excluded).
- III. Hence with a view to enforce financial discipline among the customers, on the event of dishonor of a cheque/NACH transaction for amount less than INR 1 Crore, on ten occasions in three months for insufficient funds in the account, no fresh cheque book would be issued and for NACH, account would be marked freeze. Also, closing the account after serving due notice to the customer after complying with all regulatory requirements.
- IV. However, in respect of account lien due to statutory and regulatory notice, advances/asset accounts such as cash credit account, overdraft account, the necessity of continuing or discontinuing these credit facilities and cheque facilities – where cheque is valuing below INR 1 Crore and drawn on a particular account of a drawer is returned on ten occasions in three months for insufficient funds in the account – is to be reviewed by respective Business Unit Head (BUH).

- V. The monitoring of frequent dishonor of cheques with value less than INR 1 Crore shall be applicable for the NACH returns too where in NACH issued to other Banks and Financial institutions by our customers.
- VI. Central Clearing maintains MIS on the dishonored cheques/ NACH transactions for value less than INR 1 Crore including the data of cheques drawn in favor of stock exchanges and dishonored.

11. Information on dishonoured cheques / NACH transactions.

- I. Data in respect of each dishonored cheque for amount of above, and below INR 1 Crore and all dishonored 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.
- II. Data in respect of all dishonor NACH transactions should be made part of Bank's MIS on constituents and concerned branch should report to their respective controllers.

12. Recovery of service charges on dishonor of cheques / NACH transactions.

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

13. General

- I. 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).
- II. As per the complainant or queries received from various units, the clearing unit should furnish the information as defined by TAT.
- III. Banks should place before their Audit/ Management Committee, every quarter, consolidated data in respect of the matters referred to above.

14. List of reasons for dishonour of cheque:

Code No.	Reason for Return
1	Funds insufficient
2	Exceeds arrangement
3	Effects not cleared, present again
4	Refer to drawer
5	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
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
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
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
85	Alterations on instrument-Other than "Date" filed (Alteration/correction on instruments are prohibited under Cheque Truncation System. Return reason code applicable to instruments presented in CTS)
86	Fake / Forged / Stolen- draft / cheque / cash order / interest warrant / dividend warrant
87	'Payee's a/c Credited' – Stamp required
88	Other reasons
92	Bank excluded

Annexure-I

Information on dishonoured cheques return for the quarter ended.

- Dishonour of cheques of INR1 Crore and above with the reason 'Insufficient Funds'

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

- Dishonour of cheques of below INR 1 Crore with the reason 'Insufficient Funds'

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

Annexure-II

Information on dishonoured cheques return for the quarter ended.

- Dishonour of cheques in favour of Stock Exchange with the reason 'Insufficient Funds'

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

Annexure-III

- Information on dishonour NACH transactions for the quarter ended.

Sl. No.	Date of Return	UMRN No.	Amount	Drawer Name	Account No.	User Name	Sponsor Bank	Destination Bank	Remarks

15. Process

Dishonour of cheques and NACH transactions process will be governed by a separate MCAP approved process note.

16. Policy review frequency

The Policy will be reviewed once in three years or in case of any modifications arising due to legislative / regulatory changes, to the Policy from time to time till the next review.

17. Exception

Any exception to this Policy document to be approved by MANCO.
