



# POLICY RELATED TO CHEQUE COLLECTION

Scotiabank, India

Effective Date: November 1<sup>st</sup>, 2016

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**1. Purpose**

As a part of its transaction banking services BNS India provides its customers, the facility to deposit local and outstation cheques for clearing.

This policy has been prepared in compliance with RBI circulars issued with respect to collection of cheques. For the sake of clarity, these have been quoted wherever necessary, throughout this policy document

Under this policy, prepaid instruments like Pay orders, Demand Drafts, Interest/Dividend warrants shall be treated on par with cheques

The policy will be amended to address the interest of customers adequately and in compliance with the directives issued in this regard.

**2. Organisational Scope**

This policy pertains to cheque processing in BNS India and is applicable to all Business units in BNS India

**3. Ownership, Amendment and Abolishment of Policy**

This policy is owned by Director, Operations & SSU – India and any amendment or abolishment of any section or whole policy shall be proposed by Director- Operations & SSU – India and approved by the MANCOM.

**4. Definitions**

<b>MICR</b>	This is a type of cheque clearing process using clearing support machines operating on Magnetic Ink Character Recognition (MICR). However, this mode of clearing is being discontinued across India, after introduction of Cheque Truncation System (CTS).
<b>CTS</b>	CTS is the facility devised for faster processing of cheques by doing away with the requirement of physical movement of the instruments to the drawee Bank.
<b>Electronic Clearing System (ECS)</b>	ECS Clearing is the facility provided to customers which originate a large number of payments repeatedly at periodic intervals.
<b>Clearing House (NPCI)</b>	A clearing house is a financial institution that provides clearing and settlement services for financial and commodities derivatives and securities transactions. For Banking CTS clearing the same is provided by National Payment Corporation of India (NPCI)
<b>URRBCH</b>	The RBI has issued the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH) which have been adopted by all the clearing houses. These regulations and rules relate to the criteria for membership / sub-membership, withdrawal / removal / suspension from membership and the procedures for conducting of clearing as well as settlement of claims between members.

**5. Policy Content and Guidelines****Background of the Policy**

RBI had advised banks to formulate the Cheque collection policy to include instructions related to:

- Immediate Credit for local/outstation cheques
- Time frame for Collection of Local / Outstation Instruments
- Interest payment for delayed collection
- Dishonour of cheques

Accordingly, banks are obliged to develop their own individual policy / procedures relating to collection of cheques and also provide due disclosures to the customers on the bank's obligations and the customers' rights.

In light of the above, we are reframing the BNS India Cheque collection policy in order to reflect and comply with the recent instructions from RBI governing the efficiencies in collection of proceeds and providing funds to customers in time.

This policy should be read in conjunction with the Banks deposit policy and related operational guidelines issued from time to time.

**Guidelines:**

This policy covers the following:

- A. Standardization and Enhancement of Security Features in Cheque Forms: CTS-2010**
- B. Collection arrangements and payment guidelines**
- C. Immediate Credit of Local and Outstation Cheques**
- D. Time Frame for Collection of Local / Outstation Cheques / Instruments**
- E. Payment of Compensation for delayed collection**
- F. Dishonour of cheques**
- G. Purchase of local/outstation cheques**
- H. Cheques / Instruments lost in transit / in clearing process or at paying bank's branch**
- I. Force Majeure**
- J. Roles and responsibilities**
- K. Customer Grievances Redressal**

**A. Standardization and Enhancement of Security Features in Cheque Forms: CTS-2010:**

RBI has prescribed certain benchmark towards achieving standardization of cheque forms issued by various Banks across the country, which insists provision of some mandatory security features and also some desirable / additional features on the cheque forms. In conformity to these guidelines BNS India has adopted CTS-2010 standard in all cheque forms as per specification prescribed by the RBI.

The homogeneity in security features is expected to act as a deterrent against cheque frauds, while standardization of field placements on cheque forms also enables straight-through-processing by use of optical/image character recognition technology.

CTS Grid Centres are now conducting two types of clearings. One clearing is for CTS compliant instruments and the other clearing is for CTS non-compliant instruments. RBI has advised that while clearing for CTS cheques will be on all applicable working days, clearing for Non CTS cheques would be done only on every Monday w.e.f. November 01, 2014. If the day is a holiday under N.I Act the cheque shall be processed on previous working day.

**B. Collection arrangements and payment guidelines:****B.1 Collection arrangements:****i. Local Cheques**

All cheques payable locally would be presented through the clearing system prevailing at the centre. Cheques deposited at branches within the cut-off time of 2 pm below will be taken up for clearing on the same day. Cheques deposited after the cut-off time in branches will be presented in the next clearing cycle. Such cheques, if presented in the branch, shall be acknowledged with the legend "too late for today's clearing".

All the branches will display the cut-off time for receipt of cheques. As a policy, Bank would give credit to the customer account on the respective "Clearing Settlement Dates" at that centre. Withdrawal of amounts so credited would be permitted after the settlement of outward clearing returns as specified by the clearing house of the location.

**ii. Outstation Cheques**

Outstation cheques drawn on Banks on CBS will be presented in local CTS clearing.

Outstation cheques drawn on Banks which are not on CBS located in centres where BNS has branches would be sent to BNS branches only. As all branches of the Bank are connected through

CBS, the Bank will provide next day credit to the customer (after clear credit indicating realization of the proceeds) in respect of outstation cheques drawn on location where Bank has a branch.

If a cheque is drawn on a centre where the Bank does not have any branch and the Bank is not on CBS the said cheque would be sent for collection directly to the drawee Bank or to a correspondent Bank.

Non CTS compliant outstation cheque will be presented to drawee bank directly for collection.

Where proceeds are received by means of demand drafts from other collecting Bank, the same would be processed in local clearing and the depositor's account will be credited on realization of clear funds from the drawee Bank. On receipt of clear credit in the books of the Bank, the customer's account would be credited net of charges of agency Bank and BNS.

If the outstation cheques are returned unpaid by the paying branch / Bank, the original cheque and the return memo would be returned to the customer after recovering charges levied by the drawee / correspondent Bank and those due to BNS India.

### iii. Cheques payable in Foreign countries

Cheques payable at foreign centres where the bank has branch operations (or banking operations through a subsidiary, etc.) will be collected through that office. The services of correspondent banks will be utilized in country/centres where the correspondent has presence. Cheques drawn on foreign banks at centres where the bank or its correspondents do not have direct presence will be sent direct to the drawee bank with instructions to credit proceeds to the respective Nostro Account of the bank maintained with one of the correspondent banks.

## B.2 Payment Guidelines:

### Collection of Account Payee Cheque - Prohibition on Crediting Proceeds to Third Party Account:

- i. In consonance with the legal requirements and in particular the intent of the Negotiable Instrument Act, 1881 and in accordance with the Reserve Bank of India directives, Bank shall not collect cheques having account payee crossing, for any person other than the payee named therein.
- ii. Where the drawer/ payee instructs the Bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the 'account payee' cheque, Bank shall ask the drawer/ payee to have the cheque or the account payee mandate thereon withdrawn by the drawer. This instruction shall also apply with respect to the cheque drawn by a Bank payable to another Bank.
- iii. In case of cheques deposited by the co-operative credit societies towards the credit of their members, the relevant RBI directions will hold good.

### Payment of Cheques / Drafts / Pay Orders / Banker's Cheques:

Bank shall not make payment of cheques / drafts / pay orders / banker's cheques bearing any subsequent date, if they are presented beyond the period of three months from the date of such instrument.

### Delay in Re-presentation of Technical Return Cheques and Levy of Charges for such Returns:

Bank shall not levy any outward cheque return charge to the customer, if such cheque is returned for no fault of the customer. Accordingly, illustrative but not exhaustive list of objections where customers are not at fault is annexed (**Annexure 1**)

**C. Immediate Credit of Local and Outstation Cheques:**

The guidelines set out herein below shall govern the credit of local and outstation cheques:

- Branches of the bank will consider providing immediate credit for outstation cheques / instruments up to the aggregate value of Rs.15,000 tendered for collection by individual account holders subject to satisfactory conduct of such accounts for a period not less than 6 months. Immediate credit will be provided against such collection instruments as per prior arrangement.
- Branch managers may consider immediate credit upto Rs.25,000 for certain types of instruments like those issued by Govt. undertakings, prepaid (DD, PO, Bankers' Cheque), reputed companies, etc.
- The facility of immediate credit will be offered on Savings Bank / Current / Cash Credit Accounts of the customers. This facility shall be offered at the Bank's discretion basis the credit worthiness of the relationship.
- Under this policy, prepaid instruments like Demand Drafts drawn by our branches and Interest / Dividend warrants payable at par shall be afforded immediate credit.
- In the event of dishonour of cheque against which immediate credit was provided, interest shall be recoverable from the customer for the period the bank remained out of funds at the rate applicable for overdraft limits sanctioned for individual customers.
- For the purpose of this Policy, a satisfactorily conducted account shall be the one –
  - a) Opened at least six months earlier and complying with KYC norms.
  - b) Conduct of which has been satisfactory and bank has not noticed any irregular dealings.
  - c) Where no cheques / instruments for which immediate credit was afforded returned unpaid for financial reasons
  - d) Where the bank has not experienced any difficulty in recovery of any amount advanced in the past including cheques returned after giving immediate credit.
- Bank shall levy normal collection charges as below and out of pocket expenses while providing immediate credit against outstation instruments tendered for collection.

**Charging of Interest on cheques returned unpaid where Instant Credit was given:**

If a cheque sent for collection for which immediate credit was provided by the bank is returned unpaid, the value of the cheque will be immediately debited to the account. The customer will not be charged any interest from the date immediate credit was given to the date of return of the instrument unless the bank had remained out of funds on account of withdrawal of funds. Interest where applicable would be charged on the notional overdrawn balances in the account had credit not been given initially.

If the proceeds of the cheque were credited to the Savings Bank Account and were not withdrawn, the amount so credited will not qualify for payment of interest when the cheque is returned unpaid. If proceeds were credited to an overdraft/loan account, interest shall be recovered at the rate of 2% above the interest rate applicable to the overdraft/loan from the date of credit to the date of reversal of the entry if the cheque/ instrument were returned unpaid to the extent the bank was out of funds.

**D. Time Frame for Collection of Local / Outstation Cheques / Instruments:**

Bank will make use of various clearing and settlement facilities at different locations, such as MICR clearing, non – MICR clearing, High Value clearing, interbank clearing, speed clearing, CTS, etc. to ensure speedy collection of instruments entrusted to it for collection.

- i) For local cheques presented in such clearing, normally credit will be afforded as on the date of settlement of funds in clearing and the account holder will be allowed to withdraw funds as per return clearing norms in vogue (maximum second day).

Cheques / Instruments presented in high value clearing (with the minimum value of Rs.1 lac) shall be credited on the same day (applicable only in areas covered by high value / same day clearing).

- ii) For outstation cheques and other instruments sent for collection to the following centres within the country the respective time norms mentioned below shall be applied:

Drawn on –

- State capitals – 7 days
- Major cities – 10 days
- Other locations – 14 days

If there is any delay beyond this period, interest will be paid as given under point I below.

- iii) For cheques drawn on foreign countries, instruments are accepted on 'best of efforts' basis. Bank may enter into specific collection arrangement with its correspondent bank for speedy collection of such instrument. Bank would give credit to the party on credit of proceeds to the bank's Nostro Account with the correspondent bank after taking into account cooling periods as applicable to the countries concerned.

The above time norms are applicable irrespective of whether cheques/instruments are drawn on the bank's own branches or branches of other banks.

BNS takes adequate care for prompt and expeditious despatch and realization of all clean cheques. In view of different clearing rules and legal provisions prevailing in different countries with regard to the collection of clean cheques, it is difficult to ascertain the exact due date of payment towards the Foreign Currency denominated Cheques / Instruments sent for collection. However, in case of delay in applying the credit after sighting the funds in the Bank's Nostro account or after the expiry of the cooling period as the case may be, the customer will be paid interest for the delayed period at the rate applicable to the Savings Bank deposit

**E. Payment of Compensation for delayed collection:**

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments in case there is delay in giving credit beyond the time period mentioned above. Such interest shall be paid without any demand from customers in all types of accounts. There shall be no distinction between instruments drawn on the bank's own branches or on other banks for the purpose of payment of interest on delayed collection.

In case Interest for delayed collection of local cheques, compensation will be paid at Savings Bank interest rate for the corresponding period of delay. In respect of our Outstation cheques, compensation shall be paid at the following rates:



- a. Savings Bank rate for the period of delay beyond 7/10/14 days as the case may be in collection of outstation cheques.
- b. Where the delay is beyond 14 days interest will be paid at the rate applicable to for term deposit for the respective period.
- c. In case of extraordinary delay, i.e. delays exceeding 90 days interest will be paid at the rate of 2% above the corresponding Term Deposit rate.
- d. In the event the proceeds of cheque under collection were to be credited to an overdraft/loan account of the customer, interest will be paid at the rate applicable to the loan account. For extraordinary delays, interest will be paid at the rate of 2% above the rate applicable to the loan account.

It may be noted that interest payment as given above would be applicable only for instruments sent for collection within India

## **F. Dishonour of Cheques**

1. Return/ despatch of dishonoured cheques
  - The paying branch should return dishonoured Cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulation and Rules of Bankers' Clearing Houses(URRBCH).
  - Cheques dishonoured for want of funds in respect of all accounts should be returned along with the memo indicating therein the reason for dishonour as "Insufficient funds."
  - Dishonoured instruments will be returned / despatched to the customer immediately without delay, in any case within 24 hours. Each instrument dishonoured/ returned should be accompanied by a return memo/ objection slip duly signed/ initialled.
2. Information on dishonoured cheques
  - Each dishonoured cheque for amount of 1 crore and above will be recorded for consolidation and reporting to RBI.
  - Cheques drawn in favour of stock exchanges and dishonoured will be consolidated separately irrespective of the value of such cheques for reporting to RBI.
3. Dealing with incidents of frequent dishonour of cheques of value INR 1 crore and above.
  - No fresh cheque book would be issued in the event of dishonour of a cheque valuing INR 1 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.
  - The bank may also consider closing current 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 and the cheque facility relating to these accounts will be reviewed by appropriate authority higher than the sanctioning authority.
  - If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, bank will issue a cautionary advice to the concerned constituent drawing its attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year.
4. Dealing with frequent dishonour of cheques of value of less than INR 1 crore
  - Bank may decide to undertake all/selective steps for dealing with frequent dishonour of instruments less than INR 1 crore, as stated above for cheques of INR 1 crore and above.

- The dishonour of ECS mandates will also be dealt alike.

**G. Purchase of local/outstation cheques:**

Bank may, at its discretion, purchase local/outstation cheque tendered for collection at the specific request of the customer or as per prior arrangement. Besides satisfactory conduct of account, the standing of the drawer of the cheque will also be a factor considered while purchasing the cheque.

**H. Cheques / Instruments lost in transit / in clearing process or at paying bank's branch:**

In the event a cheque or an instrument accepted for collection is lost in transit or in the clearing process or at the paying bank's branch, the bank shall immediately on coming to know of the loss, bring the same to the notice of the accountholder so that the accountholder can inform the drawer to record stop payment and also take care that cheques, if any, issued by him / her are not dishonored due to non-credit of the amount of the lost cheques / instruments.

The bank would provide all assistance to the customer to obtain a duplicate instrument from the drawer of the cheque.

In line with the compensation policy of the bank, the bank will compensate the accountholder in respect of instruments lost in transit in the following way:

- a) In case intimation regarding loss of instrument is conveyed to the customer beyond the time limit stipulated for collection (7/10/14 days as the case may be) interest will be paid for the period exceeding the stipulated collection period in accordance with the compensation for delayed collection stated earlier.
- b) In addition, bank will pay interest on the amount of the cheque for a further period of 15 days at Savings Bank rate to provide for likely further delay in obtaining duplicate cheque/instrument and collection thereof.

If the cheque / instrument have been lost at the paying bank's branch, BNS shall have a right to recover the amount reimbursed to the customer for the loss of the cheque / instrument from the paying banker.

**I. Force Majeure:**

The bank shall not be liable to compensate customers for delayed credit if some unforeseen event (including but not limited to civil commotion, sabotage, lockout, or other labor disturbances, accident, fires, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent bank(s), absence of the usual means of communication, etc. beyond the control of the bank prevents it from performing its obligations within the specified service delivery parameters.

**J. Roles and responsibilities:**

Responsibility of the Bank:

- Whenever the Customer deposits the cheque at the counters of the branch, Bank shall give an acknowledgement on counterfoil by affixing appropriate stamp with legend 'Received for Clearing / Collection' indicating date of receipt and authentication by the receiving staff.
- The Bank will take all steps to send outward cheques in the immediate next clearing / collection (subject to conditions mentioned as above) through the process which enables quick realization of funds in the most cost-effective manner
- In case of outward cheque return, an advice will be prepared by the Bank wherein the reason for return of the cheque will be indicated. The advice along with the dishonoured cheque will be

sent to the customer by registered post/local delivery / across counter. The Bank shall return/dispatch the dishonored cheques to the customer at his / her last recorded address available with the branch.

- Since BNS branches are networked in CBS platform, cheques drawn on Bank's own branches at outstation centres will be collected locally as a transfer cheque. If a cheque presented to the Bank for settlement of transaction by way of transfer between two accounts within Bank is returned, the same shall be returned to the payee within one working day by observing the above process
- 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 cheque) in any proceeding relating to dishonored cheque before a court, consumer forum or any other competent authority, Bank shall extend full co-operation and shall furnish them documentary proof of the fact of dishonor of cheques.
- Cheques that need to be presented again without any reference to the payee, shall be presented again in the immediate next clearing cycle, with due notification to the customers of such action through SMS alert, email etc.

#### Responsibility of the Customer:

- Cheque tendered for collection (across the counter) should be accompanied by a Deposit Slip (Pay-in-slip) duly filled-in and signed by the customer or his/her representative. Customer / his / her representative should write the contact phone number for easy contact in case there is a need for the same.
- Customer shall ensure that cheque is not mutilated and does not give any indication of alteration / forgery.
- Any over-writing / alteration in Cheque should be avoided. In case of CTS Centres, overwriting / alteration in cheques is not allowed.
- The cheque should not bear crossing or clearing stamps of other Banks, which are not cancelled.
- The Bank may at its discretion, enquire about large value cheques tendered for collection / payment and may seek a declaration/proof regarding the transaction / source of funds, from the customer. The Customer has to provide such details to the Bank, along with proof, if any, on demand.
- Customer should use only CTS 2010 Standard cheques forms.
- Customers are not permitted to print / scan the signature of their authorized signatories on the cheques issued to them unless there is written agreement between the Bank & customer to the effect.
- Through the Electronic Clearing system, the customer gets credit (such as Dividend, Interest, Refunds etc.) based on the MICR Sort Code, Account Number, Type of Account, Bank's name and Branch. All this information is available in the cheque book. Customers are advised to ensure that proper details are given to the remitter so that the credit is received properly into his account. The Bank would not be able to process any ECS Credit or ECS-Debit requests if the information provided to it is insufficient / wrong and could not be matched with its records.
- The customer can deposit the cheque in cheque drop box. The customer in such cases should ensure that the cheque is crossed account payee.

**K. Customer Grievances Redressal:**

The Policy seeks to provide transparency in dealing with customer and to minimize their inconvenience. Any customer having grievances against the Bank on any of the above grounds or having complaints due to non-payment or inordinate delay in the payment or collection of cheques, may approach either the Branch Head or the Customer Service, ScotiaBank, Mittal Tower, 'B' Wing, Nariman Point, Mumbai – 400021.

**6. Frequency of Policy review**

This policy will be reviewed every year in October (starting from October 2017) or during any amendments issued by Global guidelines affecting the policy.

**7. Contact Person**

The following officials may be approached on any query / clarification related to this policy.

**i) Thiagarajan Iyer, Manager – Process Design, BNS India**

**Email:** [thiagarajan.iyer@scotiabank.com](mailto:thiagarajan.iyer@scotiabank.com)

**Telephone:** 91-22- 66364297

**ii) R Kasinathan- Director, Operations & SSU, BNS India**

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**8. Implementation**

This Policy comes into effect from 01-December-2016.

**Enclosures:**

- 1) *Annexure 1 - List of Objections where Customers are not at Fault*

**Illustrative but not Exhaustive List of Objections where Customers are not at Fault**

<b>Code No.</b>	<b>Reason for Return</b>
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 1st proximo
75	Pay order 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