

North East Small Finance Bank (NESFB)

Policy on Issuance, Collection and Realisation of Cheques

Version History

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1. Introduction

North East Small Finance Bank (hereinafter referred to as “the Bank”) aims to be the most trusted and accessible financial service institution for the North East India; promoting financial inclusion and creating value for all its stakeholders. Customer Service is a key focus area of the Bank. The Bank focuses on consistent improvement in customer experience and quality of operations.

Keeping in view the regulatory guidelines, the Bank has formulated a comprehensive and transparent policy on issuance, collection and realisation of cheques.

2. Objective

This cheque collection policy of the Bank reflects its on-going efforts to provide better service to its customers and set higher standards for performance. The policy is based on principles of transparency and fairness in the treatment of customers. The Bank is committed to the increased use of technology to provide quick collection services to its customers.

The key objectives of the policy are as under:

- Lay down norms for collection of Local/ Outstation cheques and other instruments
- Institutionalize a mechanism for monitoring the dishonour of high value cheques.
- Lay down procedures to be adopted in case of loss of cheques or delay in collection of cheques and other instruments payable locally at centres within India
- Devise the mechanism for cheque return or re-presentation of cheques
- Put in place a mechanism to monitor the account-wise dishonour of cheques and take appropriate action with respect to account holders having frequent dishonours of cheques.

3. Applicability

The policy will apply to all customers of the Bank and it covers all the cheque collection instruments offered/ distributed by the Bank. It also captures the roles and responsibilities of bank employees, scope of activities, scope of operations and the monitoring mechanism of the activities of cheque collection. It also lays down guidance on the action to be taken in respect of accounts with frequent dishonours of cheques.

4. Governance Structure

The Bank shall have the following governance structure for the approval and implementation of this policy.

Supervisory Committee

The Supervisory Committee is a Committee of the Board consisting of members of the Board of Directors of the Bank and the Head of Business Administration Department. This Committee shall, inter alia, perform the following functions:

- Review this policy and make recommendations to the Board
- Review the implementation of this policy and periodically align it to the leading market practices and regulatory requirements
- Review business initiatives and strategy and business performance.
- Review the key regulatory and risk concerns as well as the adequacy of the risk management process and the upgrading thereof

- Review the broad concerns in customer servicing and complaints.

New Product Approval Committee

The Committee shall approve any new processes associated with cheque clearing or dishonour in alignment with this policy and other regulatory requirements. The Committee shall approve such processes keeping into view the suitability and appropriateness of the customers for such product.

Lead- Liabilities

The Lead- Liabilities shall prepare the Cheque Collection policy in consultation with Risk & Compliance, Operations and IT Departments, which shall be put forward to the Supervisory Committee of the Board for approval. This policy shall seek to cover the broad types of cheques, collection and dishonour procedures. The Lead- Liability shall ensure the review of the policy on an annual basis. Any supplementary processes to the procedures/ mechanism as laid down in the policy shall be approved by the New Product Approval Committee.

5. General Guidelines on Issue and Acceptance of Cheques/Cheque Book

The branch staff shall issue CTS – 2010 standard cheque books of 10 leaves along with the welcome kits at the time of account opening. The branch staff may also issue such standard cheque books over the counters at the request of selective customers or to his/ her authorised representatives after taking appropriate cautionary measures to avoid frauds. The branch staff shall exercise appropriate care even while issuing large number of cheque books. The Bank may offer the customer an option of a personalised cheque book which he will receive at his communication address.

The Bank may accept the customers' request for personalized cheque books through any of the channels such as internet banking, mobile banking, call centre or through branches. The branch staff may issue cheque books as per the requirements of the customers including cheques with larger number of leaves if a customer demands the same and also ensure that adequate stocks of such cheque books leaves are maintained with all the branches to meet the requirements of the customers. All cheques shall be bilingual (English and Hindi) the Bank shall honour the cheques written by the customer in Hindi, English or in the concerned regional language. The Bank shall provide the withdrawal forms in English, Hindi and the regional language. The number of cheque leaves to be given to the customer is specified in the operating manual of Bank.

The Bank shall accept cheques for payment even if the date mentioned on the cheque is a date in Hindi or the date is as per the National Calendar (Saka Samvat), if the cheque is otherwise in order. The Bank shall ascertain the Gregorian calendar date corresponding to the National Saka calendar in order to avoid payment of stale cheques.

A customer shall have the option of depositing the cheques at regular collection counters or in cheque drop boxes. The Bank shall offer the facility for acknowledgement of cheques deposited at regular collection counters by the concerned staff by acknowledging the counterfoil of the pay-in-slips by putting in their signature along with the date and time of receipt of the cheque; The Bank shall however not force the customers to drop the cheques at the drop box. The Bank shall also display a notice in English, Hindi and the regional language at the drop box that customers shall have the option to tender the cheques at the counter and obtain acknowledgement on the pay-in-slips.

The Bank shall not decline to accept outstation cheques deposited by its customers for collection. However, the Bank shall not collect any account payee cheques for any person other than the person whose name appears in the cheque.

6. Arrangements for collection of Instruments

6.1 Collection of Cheques

A) Local Cheques

All cheques and other negotiable instruments payable locally would be presented through the clearing system prevailing at the centre.

The Bank shall accept cheques during the working hours of the Bank. The Bank shall install cheque drop boxes where the cheques can be deposited round the clock. However, these cheques shall be sent for collection as per the cut-off timings as mentioned on the cheque drop-boxes.

For the cheques drawn on own branches of the Bank, the collection timings will be as follows:

- **Cheques deposited across counter:** Working hours of the branch. The amount to be credited to the customer's account on the same working day
- **Cheques deposited in drop boxes:** Cut off timings for the respective drop box. The amount of the same shall be credited to the customer's account within the working hours of the next working day.

The Bank would give credit to the customer account on the same day on which the final clearing settlement takes place or at the most the next working day of their presentation in clearing. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearing house.

Branches situated at centres where no clearing house exists, would present local cheques on drawee Banks across the counter and it would be the Bank's responsibility to credit the proceeds at the earliest.

B) Outstation Cheques

The Bank shall put in place speed clearing arrangements for collection of outstation cheques drawn on outstation core-banking-enabled branches of the Bank. Banks have networked their branches by implementing Core Banking Solutions (CBS). The Bank shall pay outstation cheques in CBS environment at any location obviating the need for their physical movement to the drawee branch.

The Bank shall process cheques drawn on outstation CBS branches of a drawee bank in the Local Clearing under the Speed Clearing arrangement if the Drawee bank has a branch presence at the local centre within T+1 working day like local cheques.

6.2 Payment/Treatment of stale Cheques/Drafts/Pay Orders/Banker's Cheques

The Bank shall not make payment of cheques bearing that date or any subsequent date, if they are presented beyond the period of 3 months from the date of such instrument. The Bank shall notify the holders of such instruments of the change in practice by printing or stamping on the cheque leaves and by issuing suitable instruction for presentment within the period of 3 months from the date of the instrument.

6.3 Cheques/ Instruments lost in transit / in clearing process or at paying Bank's branch:

In respect of cheques lost in transit or in the clearing process or at the branch, the Bank shall immediately bring the same to the notice of the accountholder through any of the channels such as in writing, call, SMS or email so that accountholder can inform the drawer to record stop payment and can also take care that other cheques issued are not dishonoured due to non-credit of the amount of the lost cheques / instruments. The Bank shall compensate the customer with respect to the cheque lost in transit or delayed clearing of cheques as per the Customer Compensation Policy of the Bank.

The Bank shall reimburse the accountholder related expenses for obtaining duplicate instruments based on appropriate documentation produced by the customer and also interest for reasonable delays occurred in obtaining the same. If the cheque/ instrument have been lost at the paying Bank's branch, the Bank shall have a right to recover the amount reimbursed to the customer for the loss of the cheque/ instrument.

7. Time Frame for Collection of Local /Outstation Instruments:

A) Local Cheques

For local cheques, credit and debit shall be given on the same day or at the most the next day of their presentation in clearing. In respect of local clearing, the Bank shall permit usage of the shadow credit afforded to the customer accounts immediately after closure of relative return clearing and in any case withdrawal shall be allowed on the same day or maximum within an hour of commencement of business on the next working day, subject to usual safeguards.

B) Outstation cheques

Proceeds of outstation cheques will be credited to customer account as per the norms outlined below:

Cheques drawn on other banks at outstation centres will normally be collected through the Bank's branches at those centres. Where the Bank does not have a branch of its own, the instrument would be directly sent for collection to the drawee bank or collected through a correspondent bank. The Bank shall also use the National Clearing Services offered by RBI at centres where such collection services exist. Cheques drawn on bank branches at outstation centres will be collected using inter-branch arrangements in vogue.

1. Cheques drawn on Metro/Non-metro cities where the Bank has a branch, credit will be given on receipt of clear funds. Funds will be credited to the client account once in a day as part of the beginning of day credit release:

- a) Collection of other Bank cheques between metros and state capitals (other than those of North Eastern states and Sikkim): 7 working days for collection.
- b) Major cities: Maximum period of 10 working days.
- c) In all other centres where we have branches: maximum period of 14 working days.

2. Cheques drawn on non-branch locations where we have a tie-up with correspondent bank, and where we do not have tie up with correspondent bank: maximum 14 working days.

The Bank shall pay interest at the fixed deposit interest rate for the corresponding maturity if there is any delay in collection beyond this period.

8. Dishonour of Cheques

The Bank may reject cheques on account of technical reasons such as stale cheques, incorrect date, signature not matching with the account holder's signature and such other reasons or on account of insufficient funds. 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, the Bank should extend full co-operation, and should furnish him/her documentary proof of fact of dishonour of cheques.

The Bank shall ensure that cheques/ drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them. The Bank shall ensure that appropriate action is taken against their staff that has refused to accept cheques/ drafts containing fractions of a rupee.

8.1 Procedure for return/despatch of dishonoured cheques

The Bank shall ensure that dishonoured instruments are returned/ despatched to the customer promptly without delay, within 24 hours in any case. The Bank should return dishonoured cheques presented through the clearing house strictly as per the return discipline prescribed for the respective clearing house in terms of **Uniform Regulations and Rules for Bankers' Clearing Houses**. If the Bank is the collecting Bank, on receipt of such dishonoured cheques, it shall immediately inform the account holders of the dishonour and also despatch the same immediately.

The Bank should clearly indicate the return reason code on the advice/return memo / objection slip which should 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)**.

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 dishonoured cheques to the customer at his / her last recorded address available with the branch. In case the cheque is drawn on any other branch of the Bank and is dishonoured, then the Bank shall send the dishonoured cheque with the memo within 1 working day from the date of dishonour.

8.2 Dealing with incidents of frequent dishonour of cheques/ payment instructions

A) Dishonour of cheques of value of Rs 1 crore and above

The Bank shall introduce a condition for operation of accounts with cheque facility that in the event of dishonour of a cheque/ payment instruction drawn on a particular account of the drawer on two occasions during the financial year for want of sufficient funds in the account, the branch manager shall send a letter admonishing the customer. If there is a further dishonour of cheque after the letter has been issued, no fresh cheque book shall be issued to the customer. If there are a total five occasions of dishonour of cheques against a particular account, then a cautionary advice shall be issued to the customer post which the account shall be forced closed and an intimation letter shall be sent to the customer informing him about the same, The customer is to then visit the branch and collect the proceeds against his closed account, if any.

B) Dishonour of cheques of value of Rs. 1 crore and below

In case of frequent dishonours of cheques/payment instructions (RTGS/NEFT/ECS) of Rs. 1 crore and below i.e. more than 3 dishonours on account of insufficient funds in a financial year, the Bank may send a warning notice to customer informing of stopping of the cheque book or closure of account.

If the cheque gets dishonoured for the fifth time in a financial year despite the warning letter mentioned above, the Bank may stop the cheque book facility in the account. If the cheque gets dishonoured for the seventh time in a financial year despite stoppage of the cheque book facility, the Bank may close the account after due notice to the customer.

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

The Bank shall levy cheque return charges only in cases where the customer is at fault and is responsible for such returns. In cases where the cheques need to be re-presented without any recourse to the payee, such re-presentation should be made in the immediate next presentation clearing not later than 24 hours(excluding holidays) with due notification to the customers of such representation through SMS alert, email, letter etc.

In case the cheque is returned due to no fault of the customer, the Bank shall not levy any cheque return charge.

9. Purchase of local cheques:

The Bank, at its discretion, may purchase local cheque tendered for collection as per the customer's request or as per any prior arrangement. The Bank shall in addition to the satisfactory conduct of account consider the standing of the drawer of the cheque as a factor while purchasing a cheque. All branches will follow the internal guidelines as per the extant delegation of authority given on purchase of cheques.

10. Force Majeure

The Bank shall not be liable if any transaction does not fructify or may not be completed or for any failure on part of the Bank to perform any of its obligations contemplated hereunder if performance is prevented, hindered or delayed by a Force Majeure event (defined below) and in such case its obligations shall be suspended for so long as the Force Majeure. "Force Majeure Event" means any event due to any cause beyond the reasonable control of the Bank, including without limitations, unavailability of any communication systems, breach, or virus in the processes or payment or delivery mechanism, sabotage, fire, flood, explosion, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent bank(s), civil commotion, strikes or industrial action of any kind, riots, insurrection, war, acts of government, computer hacking, unauthorized access to computer data and storage devices, computer crashes, malfunctioning in the computer terminal or the systems getting affected by any malicious, destructive or corrupting code or program, mechanical or technical errors/failures or power shut down, faults or failures in telecommunication etc. which prevents it from performing its obligations within the specified service delivery parameters.

11. Reporting Requirements

The Operations Team shall collate on quarterly basis the centralized MIS for in respect of dishonoured cheques for tranches of amount of Rs.1 crore and above and Rs 1 crore and below.

The Bank employee shall report to his senior official in case the employee finds any discrepancy in the cheque, with a view to reduce the risk of fraud. The Bank shall report to the Board and RBI on immediate basis information regarding the case, action and resolution taken.

The Bank shall place before their Audit/ Supervisory Committee, every quarter, consolidated data in respect of incidents of frequent dishonour of cheques of value of Rs. 1 crore and above and cheques of value less than Rs. 1 crore. The action taken in respect of accounts where frequent dishonours of cheques of both Rs. 1 crore and above and Rs. 1 crore and below shall also be reported to the Audit/ Supervisory Committee.

12. Record Keeping

The Bank will preserve the physical instruments in their custody and the images of cheques received under CTS securely for a period of 10 years as required under Procedural Guidelines for CTS. Further, the Bank shall retain such documents as may be required for 5 years from the date of cessation of relationship with customer, so as to permit reconstruction of the customer transactions.

13. Policy Review & Updates

This Board approved policy will be reviewed as and when required or at least on an annual basis for incorporating changes in handling Cheques and regulatory updates, if any.

14. Regulatory References

- Master Circular on Customer Service in Banks dated July 1, 2015
- RBI Notification on Discontinuation of the requirement for Paper to Follow (P2F) for Central Government cheques under Cheque Truncation System dated December 31, 2015
- RBI notification on Procedure for Dishonour of cheques dated June 26, 2003
- IBA Model Cheque Collection Policy
- BCSBI Code of Commitment to Bank's Customers