

Document Name	Policy Document On Collection And Dishonour Of Cheques And Instruments	Document Number	OPRCD/1.4
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POLICY DOCUMENT ON COLLECTION AND DISHONOUR OF CHEQUES AND INSTRUMENTS

THE NAINITAL BANK LIMITED

Regd. Office: G.B. Pant Road, Nainital. Uttrakhand

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1.PREAMBLE

This collection policy of the bank is a reflection of our on-going efforts to provide better service to our customers and set higher standards for performance. The policy is also based on the guidelines advised by RBI vide their circular letter no. Dbod.bc. Leg.113/09/09.12.001/2002-03 dated 26th june, 2003, for dealing with the procedure for dishonoured cheques for Rs. 1 crore and above and vide circular no. Rbi/2009-10/213, dbod. No. Leg.bc.59/09.07.005/2009-10 dated november 9, 2009 containing guidelines for dealing with incidents of frequent dishonor of cheques of value less than Rs.1 crore and frequent dishonor of ECS mandates and master circular on customer service in banks dated 1st July 2014. Further, RBI, vide its circular dbr.no.bc.3/09.07.005/2016-17 on “dishonour of cheques – modification in procedure” dated August 04, 2016, had reviewed the above instructions and left it to the discretion of the banks to determine their response to dishonour of cheques of the account holders and has also advised the banks to put in place an appropriate and transparent policy, approved by the board or its committee, taking into consideration the need to prevent misuse of the cheque drawing facility and avoid penalising customers for unintended dishonour of cheques.

2.Objective

The policy is based on principles of transparency and fairness in the treatment of customers. The Bank is committed to increased use of technology to provide quick collection services to its customers and set higher standard of performance.

3.Scope

Keeping in view the technological progress in payment and settlement systems and the qualitative changes in operational systems and processes that have been undertaken by a number of banks, the Reserve Bank of India had, with effect from 1st November 2004, withdrawn its earlier instructions to commercial banks on (i) Immediate Credit of local/outstation Cheques, (ii) Time Frame for Collection of Local/Outstation Instruments and (iii) Interest Payment for Delayed Collection. The withdrawal of these mandatory guidelines was expected to enable market forces of competition to come into play to improve efficiencies in collection of cheques and other instruments.

4.Policy

This policy document covers the following aspects:

- Collection of Cheques and other instruments payable locally, at centres within India and abroad.
- Our commitment regarding time norms for collection of instruments.
- Policy on payment of interest in cases where the bank fails to meet time norms for realization of proceeds of outstation instruments.

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- Our policy on dealing with collection instruments lost in transit.
- Guidelines on dishonor of cheques/other instruments

1. Arrangement for Collection of Cheques and other instruments:

1.1 Local Cheques

All CTS Compliant cheques and other Negotiable Instruments payable locally would be presented through the clearing system prevailing at the centre. Cheques deposited at branch counters and in collection boxes within the branch premises before the specified cutoff time will be presented for clearing on the same day. Cheques deposited after the cut-off and in collection boxes at the branch premises will be lodged in the next clearing cycle.

As a policy, bank would credit to the customer account on the same day clearing settlement takes place. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearing house.

Bank 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 endeavour to credit the proceeds at the earliest.

1.2 Outstation Cheques

Cheques drawn on other banks at outstation centres will normally be collected through bank's branch 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. Bank will use the National Clearing Services

Cheques drawn on bank's own branches at outstation centres will be collected using the inter-branch arrangements in vogue. Branches which are connected through a centralized processing arrangement and are offering anywhere banking services to its customers will provide same day credit to its customers in respect of outstation instruments drawn on any of its branches in the CBS network.

1.3 Cheques payable in Foreign Countries

Cheques payable at foreign centres where the bank has branch operations (or banking operation 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.

1.4 Immediate Credit of Local/Outstation Cheques/ Instruments:

Branches/extension counters of the bank will consider providing immediate credit for outstation cheques/ instruments up to the aggregate value of Rs. 15000/- tendered for collection by

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individual account holders subject to *satisfactory conduct* of such accounts for a period of 6-12 months. Immediate credit will be provided against such collection instruments at the specific request of the customers or as per prior arrangement. The facility of immediate credit would also be made available in respect of local cheques at centres where no formal clearing house exists. The facility of immediate credit will be offered on Saving Bank/ Current /Cash Credit Accounts of the customers. For extending this facility there will not be any separate stipulation of minimum balance in the account. Under this policy, prepaid instruments like Demand Drafts, Interest/Dividend Warrants shall be treated on par with cheques. In the event of dishonor 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 clean 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 and out of pocket expenses while providing immediate credit against outstation instruments tendered for collection. Exchange charges applicable for cheques purchase will not, however be charged.

1.5 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.

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

For local cheques presented in clearing credit will be afforded as on date of settlement of funds in clearing and the account holder will be allowed to withdraw funds as per return clearing norms in vogue at the centre

For cheques and other instruments sent for collection to centres within the country the following time norms shall be applied:

- a) Cheques presented at any of the four major Metro Centres (New Delhi, Mumbai, Kolkata and Chennai) and payable at any of the other three centres: Maximum period of 7 days.
- b) Metro Centres and State Capitals (other than those of North Eastern States and Sikkim) : Maximum period of 10 days.
- c) In all other Centres : Maximum period of 14 days.
- d) Cheques drawn on foreign countries: The bank is committed to ensuring that instruments drawn in foreign currencies and payable outside India are collected in the quickest and efficient manner. Towards this the bank may enter into specific collection arrangements with its correspondent bank in those countries for speedy collection of such instruments(s). Bank would give credit to the party upon realization of proceeds in the Bank's Nostro account with the correspondent bank after taking into account

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cooling periods as applicable to the countries concerned Countries/location specific norms wherever stipulated will be specified for foreign currency instruments and made known to the customers at the point in time of accepting instruments for collection. The above time norms are applicable irrespective of whether cheques/instruments are drawn on the bank's own branches or branches of other banks.

3. Payment of Interest for delayed Collection of Outstation Cheques and Cheques Payable outside India

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments under 3.a,b and c given below 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 collections.

Interest for delayed collection shall be paid at the following rates:

- Saving Bank rate for the period beyond 7/10/14 days as the case may be in collection of outstation cheques.
- Where the delay is beyond 14 days interest will be paid at the rate applicable to for term deposit for the respective period.
- 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.
- In the event the proceeds of cheque under collection was 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.

4. 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 dishonoured 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:
- In case intimation regarding loss of instruments 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 at the rates specified above.
- In addition, bank will pay interest on the amount of the cheque for a further period of 15 days at Saving Bank rate to provide for likely further delay in obtaining duplicate cheque/instrument and collection thereof.
- The bank would also compensate the customer for any reasonable charges he/she incurs in getting duplicate cheque/instrument upon production of receipt, in the

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event the instrument is to be obtained from a bank/institution who would charge a fee for issue of duplicate instrument.

5. 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. 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 Saving 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 clean overdraft/loan from the date of credit to the date of reversal of the entry if the cheque/instrument was returned unpaid to the extent the bank was out of funds

6. Service Charges:

For all collection services, the bank will recover appropriate service charges as decided by the bank from time to time and communicated to customers as indicated in the code of bank commitment to customer.

5. Guidelines on Dishonour of Cheque

5.1 Return / dispatch of dishonoured cheques

- The paying 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 Banker's Clearing Houses. The collecting bank on receipt of such dishonored cheques should dispatch it immediately to the payees /holders.
- In relation to cheques presented direct to the paying bank for settlement of transaction by way of transfer between two accounts within the bank, it should return such dishonored cheques to the payees /holders immediately.
- Cheques dishonored 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"

5.2 Evidence in respect of dishonoured cheques

Cheque return memo should be issued in case of dishonoured cheques 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 cheques) in any proceeding relating to dishonored cheque before a

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court, consumer forum or any other competent authority.

5.3 Return of Dishonour of Cheques

Recommendation of the Goiporia Committee on return/dispatch of the dishonoured cheque to the customer promptly, without any delay, in any case within 24 hours have been adopted and accordingly cheques will be returned as under:

1. Return cheques must be properly entered in the “Cheques Return Register” for dishonor of cheques or maintained in system.
2. The paying 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 Banker’s Clearing Houses.
3. The collecting branch on receipt of such dishonored cheques should dispatch it immediately to the payees / holders in any case within a maximum period of 24 hours. If there is holiday on the next day, then on the first day when bank branch reopens after holiday.
4. In relation to cheques presented direct to the paying branch for settlement of transaction by way of transfer between two accounts within the Bank, it should return such dishonored cheques to payees/holders immediately, in any case within 24 hours.
5. Dishonoured cheques should be returned along with a memo signed by bank official indicating the reason for dishonor.
6. Cheques received in Inward Clearing (drawn by our customers and presented by other banks in collection at MICR/NON-MICR/CTS centres will be honoured on the basis of clear opening balance available in the account. Cheques dishonoured for want of funds in respect of all accounts should be returned along with a memo signed by bank official indicating the reason for dishonour as “Opening Balance insufficient” and Date of Return.
7. Data in respect of cheques drawn in favor of stock exchanges and dishonored should be consolidated separately irrespective of the value of such cheques as a part of MIS relating to broker entities and be reported to their respective Regional office. The Regional Offices report the data received to Head Office for apprising the Audit Committee of the Board as per format given in the Annexure to the policy.
8. Branches to ensure to maintain complete and proper record of the dishonored instruments and preserve the relevant records, as per extant guidelines applicable for record maintenance – for production of the same on demand by Court, Consumer Forum or any other competent Authority including the dispatch and proof of delivery to the payee in cases where ever possible. Branches should extend full co- operation to Court / Consumer Forum / any other Competent Authority.

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5.4 CTS Clearing

Guidelines for returning of Dishonoured Cheques are mutatis mutandis applicable to Branches / Service Branch, Delhi / Hubs under CTS Clearing.

6. Dishonour of NACH/ECS (Debit) Mandate: Section 25 of the Payment and Settlement System Act ,2007

Electronic Clearing Service (ECS) was introduced by Reserve Bank of India (RBI) in early nineties as a new method of effecting bulk and repetitive transactions electronically.

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 Corporates/ 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. ECS system is now being migrated to NACH by RBI.

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.

Procedure for return of NACH/ ECS (Debit)

NACH/ECS debits are returned when there is no sufficient balance in the account, closure of accounts, or there is discrepancy in account particulars.

In case where NACH/ECS debits are returned for want of funds 6 times in a particular financial year, the branch should issue notice and the NACH/ECS mandate should be treated as revoked under advice to the user institution/ service provider. Also the branch may consider closing the account at its discretion by giving suitable notice to the customer.

In the event of accounts already closed, branch should inform their customer by sending Registered letter on the last recorded address about return of NACH/ECS (debit) on account of closure of his/her account.

In the event of discrepancies in the particulars due to which NACH/ECS debits are returned, branch should invariably contact the customer and inform him/her to update the particulars of

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his account with the respective organization.

7. Procedural guidelines for action to be taken in respect of Dishonour of Cheques for Rs.1 crore and above (drawn by our customer)

1. With a view to enforce financial discipline among the customers, branches should stipulate a condition for operation of accounts with cheque book facility that in the event of dishonor of a cheque valuing Rs.1.00 crore and above drawn on a particular account of the drawer on 4 occasions during the financial year for want of sufficient funds in the account, no fresh cheques book would be issued. Also the branch may consider closing of the account at its discretion.
2. 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 those accounts – where cheques valuing Rs.1 crore and above drawn on a particular account of a drawer are returned on 4 occasions during the financial year for want of sufficient funds in the account –is to be reviewed by appropriate authority higher than the sanctioning authority. Accordingly, branches should incorporate such information in the credit / review proposal giving details of cheques returned, reasons, action taken etc. along with this provision of policy and RBI guidelines for suitable action by sanctioning Authority.
3. In relation to operation of existing accounts, branches should at the time of issuing new cheque book, advise the constituents of the condition.
4. When cheques are dishonored for 3rd time on a particular account of the drawer during the financial year, branches should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonored on 4th occasion in the same account during the financial year. The branch may issue similar cautionary advice if the branch intends to close the account
5. In the event of the bank considering closure of the account, the Bank will close the account after serving a notice of 30 days to the customer (RBI Circular DBOD.BC.Leg. No.113 / 09.12.001/ 2002-03, dated 26th June 2003)

8. Procedural guidelines for action to be taken in respect of Dishonour of Cheques for below Rs.1 crore (drawn by our customer)

1. RBI has not advised any definition of frequent dishonour of cheques of value of less than Rs.1 crore. For the purpose of this policy, in any account, if there is an incidence of dishonor of cheques of less than Rs.1 crore on -6- occasions in a financial year for want of sufficient funds, this will be considered as frequent dishonor of cheques.

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2. Data in respect of cheques drawn in favor of stock exchanges and dishonored are to be reported separately irrespective of the value of such cheques.
3. With a view to enforce financial discipline among the customers, branches should stipulate a condition for operation of accounts with cheque book facility that in the event of dishonor of a cheque valuing less than Rs.1.00 crore drawn on a particular account of the drawer on 6 occasions during the financial year for want of sufficient funds in the account, no fresh cheques book would be issued. Also the branch may consider closing of the account at its discretion.
4. 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 those accounts – where cheques valuing below Rs.1 crore and drawn on a particular account of a drawer are returned on 6 occasions during the financial year for want of sufficient funds in the account – is to be reviewed by appropriate authority higher than the sanctioning authority. Accordingly, branches should incorporate such information in the credit / review proposal giving details of cheques returned, reasons, action taken etc. along with this provision of policy and RBI guidelines for suitable action by sanctioning Authority.
5. When cheques are dishonored on 5th occasion in a particular account of the drawer during the financial year, branches should issue a cautionary advice to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheques facility in the event of cheques being dishonored on 6th occasion on the same account during the financial year. Similar cautionary advice may be issued if a bank intends to close the account.
5. In the event of the bank considering closure of the account, the Bank will close the account after serving a notice of 30 days to the customer (RBI Circular DBOD.BC.Leg. No.113 / 09.12.001/ 2002-03, dated 26th June 2003)

Head Office will monitor the incidence of dishonoring of cheques for Rs.1.0 crores and above through the Statements annexed as per Annexure - 1 (Part A-1 & A-2) and Annexure - 2 (Part B-1 & B-2) on Quarterly basis. The position of Dishonouring of Cheques for Rs.1.0 cr and above will also be submitted to the Audit Committee of the Board on Quarterly basis.

9. Recovery of Service Charges on Dishonour of Cheque/NACH/ECS

Recovery of such charges will be ensured as per extant instructions on Service Charges.

10. 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, strike or other labour disturbances, accident, fires, natural disaster or other "Acts of God", war, damage to the bank's

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facilities or of its correspondent bank(s), absence of the usual means of communication or all types of transportation, etc beyond the control of the bank prevents it from performing its obligations within the specified service delivery parameters.

11. Applicability

The policy is effective from May 01, 2025

12. Periodicity of Review of Policy

The policy will be valid up to March 31, 2026. Any directive/ guidelines issued by RBI in this regard shall automatically be part of this policy, during the period of this policy.