



Policy on Dishonour of Cheques

THE NAINITAL BANK LIMITED
Regd. Office: G.B. Pant Road, Nainital. Uttarakhand

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1. Scope

The policy is 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. Policy

Guidelines on Dishonour of Cheque

i) Return / dispatch of dishonoured cheques

1. 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.
2. 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.
3. 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”

ii) 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 court, consumer forum or any other competent authority.

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iii) 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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CTS Clearing

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

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

Electronic Clearing Services Mandates (ECS)

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.

National Automated Clearing House (NACH)

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.

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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 his account with the respective organization.

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)

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.

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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.

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.

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

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

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5. Applicability

The policy is effective from April 30, 2024.

6. Periodicity of Review of Policy

The policy will be valid upto April 30, 2025. Any directive/ guidelines issued by RBI in this regard shall automatically be part of this policy, during the currency of this policy.

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