

STATE BANK OF INDIA
POLICY FOR DEALING WITH INCIDENTS OF FREQUENT
DISHONOUR OF CHEQUES AND FAILED NACH (NATIONAL
AUTOMATED CLEARING HOUSE)/ECS (ELECTRONIC CLEARING
SERVICE)

Background:

RBI vide their Notification no.DBOD.NO.Leg.BC.59/09.07.005/2009-10 dated 9th November,2009 advised that frequent instances of dishonour of cheques of value less than Rs.1 crore is a matter of great concern and that banks need to take appropriate action in those accounts where such dishonour of cheques occur. RBI 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 01st July, 2015 for dishonour of cheques of Rs. 1 crore and above which has been placed as **Annexure-II**. However, the RBI has mentioned that it is not necessary to extend all steps laid down in paragraph 15.4 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 dishonour of cheques of value less than Rs.1.crore. RBI has also advised that the policy should also deal with matters relating to frequent dishonour of NACH/ECS mandates. RBI 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 dishonour 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 dishonour of cheques.

2. Accordingly, the policy has been drawn for dealing with incidents of frequent dishonour of Cheque for value Rs. 1 Crore and above as well as for value below Rs.1 crore and failed NACH/ ECS. Section 138 of the Negotiable Instruments Act, 1881(N. I .Act) deals with the dishonour of cheque for insufficiency of funds etc. in the account and prosecution in respect of dishonoured cheque(s).The above provision is applicable for cheques only. Cheque as per N.I.Act, 1881, is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a cheque and a truncated cheque. A cheque in the electronic form means a cheque which contains the exact mirror image of a paper cheque, and is generated, written and signed in a secured system ensuring the minimum safety standards with the use of a digital signatures (with or without biometric signature) and asymmetric crypto system. A truncated cheque means a cheque which is truncated during the course of the clearing cycle, either by the clearing house or by the branch/bank paying or receiving payments, immediately on generation of an electronic image for transmission, substituting further physical movement of the cheque in writing. Dishonour of cheque is governed by the provisions of N I (Negotiable Instrument) Act, 1881 whereas the matter of failed NACH/ ECS mandate (the dishonour of electronic fund transfer for insufficiency of funds in the account) is governed by the Section 25 of Payment and Settlement System Act, 2007.

3. Pursuant to recommendation of the Joint Parliamentary Committee (the JPC) into the "Stock Market Scam", RBI had advised that the extant

instructions relating to return of dishonoured cheques have to be followed by the branches in respect of dishonoured cheques returned from the transactions of "Stock Exchanges." Accordingly, the extant instructions relating to return of all dishonoured cheques have been reviewed.

4. Branches are already following the existing procedure for return of dishonoured cheques to the customer immediately after its return from the clearing cycle alongwith a cheque return slip stating therein the reason for return of cheque, one of those is "insufficient fund". But there were no specific guidelines to take corrective steps to prevent recurrence of such instances. Therefore, it was considered necessary by the RBI to streamline the procedure to be followed by the banks in addition to the existing instruction in respect of dishonoured cheques for want of funds. The RBI guidelines for dealing with frequent dishonour of cheque value of Rs.1 crore and above has been placed as Annexure-II. The procedure to be followed for dealing with frequent dishonour of cheque and failed NACH/ ECS is outlined in the following paragraphs:

A. PROCEDURE FOR DEALING WITH INCIDENTS OF FREQUENT DISHONOUR OF CHEQUES OF VALUE RS.1 CRORE AND ABOVE AS WELL AS BELOW Rs. 1 Crore.

(i) Returning time for dishonoured cheques

The dishonoured instruments are required to be returned / dispatched to the customer promptly without any delay, in any case within 24 hours of dishonour.

(ii) Procedure for return/dispatch of dishonoured cheques

- a) The collecting branch should return dishonoured cheques presented through clearing houses, strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Bankers' Clearing Houses. The collecting branch on receipt of such dishonoured cheques should dispatch it immediately to the payees / account holders within 24 hours of receipt of the instruments. The Customer, will be informed by SMS over registered mobile number about returning of cheque giving reference Number of dispatch for facilitating the tracking of delivery.
- b) In relation to cheques presented directly to the drawee branch across the counter for settlement of transaction by way of transfer between two accounts of the same branch / inter – branch, branch should return such dishonoured cheques to the payees/ holders same day/or next day, in case of dishonour due to insufficiency of fund .
- c) Cheques dishonoured for want of funds in respect of all accounts should be returned along with a memo indicating therein the reason for dishonour as "insufficient funds".

(iii) Dealing with incidents of frequent dishonour

- a) With a view to enforce financial discipline among the customers, a condition for operation of Savings Bank/ Current Account (SB/CA) account with cheque facility will be incorporated that in the event of dishonour of a cheque/NACH/ECS due to lack of funds/insufficient funds drawn on a particular account of the drawer **on 4 occasions**

during the financial year, no fresh cheque book would be issued from any of the channels. In case of unintended dishonor of cheques, the branch concerned will analyse such cases so as to ensure that it does not result into penalising the customer for such unintended dishonour of cheques. The branch may close the account after issuing 30 days notice to the customer on subsequent dishonour. PBBU & SMEBU/TBU will arrange to incorporate in their Master Circular for Savings Bank/ Current Account respectively for operating guidelines and such conditions will also be incorporated in account opening form.

- b) The branch may consider closing Savings Bank account/Current account at its discretion, after proper notice to the customer recording the reason of closure of account with reporting to Controller at monthly intervals. However, in respect of advances accounts such as cash credit account, overdraft account, the accounts may be treated as stressed accounts and dealt with accordingly. The decision for issuance of cheque book and/ or continuation of credit facilities may be taken by the sanctioning authority.
- c) For the purposes of introduction of the condition mentioned at (a) and (b) above in relation to operation of the existing accounts, branch may, at the time of issuing new cheque book, obtain a letter from the constituents regarding acceptance of the new condition for operation of account. In case, request for issue of cheque book is raised through INB/CINB, the system will be amended to make provision for accepting the conditions before final submission. The

- condition may also be incorporated in the Account Opening Forms as declaration from the constituent.
- d) If a cheque is dishonoured for a **3rd time** during a financial year in respect of cheques mentioned in para (a) above on a particular account of the drawer during the financial year, a system generated **Cautionary Advice** will be sent to the concerned constituent by SMS on his registered mobile number or email and also a system generated letter on his recorded address drawing his/her/their attention to aforesaid conditions, advising him/her/them about the consequential stoppage of cheque facility in the event of cheque being dishonoured on next occasion on the same account during the financial year.
 - e) If an account is having cheque book facility and NACH/ ECS mandate is also registered, then the incidents of dishonour will be taken into account for both dishonour of cheque and failed NACH/ECS for computing the number of dishonour of cheques and failed NACH/ ECSs.
 - f) Branch may consider for closing the account after serving 30 days notice to the customer in the event of subsequent dishonour of cheque/ NACH/ECS mandate in the account.
 - g) For follow up, the details of system generated e-mails/SMS/Letters to Customers will be placed in Branch Report Folder.
 - h) BID will develop Dash board with view rights restricted to BM/ACCTT, CM (Compliance &Risk) at RBO and also to CM (GB) at Administrative Office, to ensure compliance of all the above points (a to g).

- i) Weekly and monthly MIS reports (as a part of CBS reports) containing extract of all incidents of cheque/NACH/ECS dishonored for 3rd time and 4th time, in a financial year will be generated by CBS and sent to the Controllers as per format given in Ann. III, IV&V. Controllers will follow up with the branches and submit compliance report at quarterly intervals to DGM (B&O), for onward submission to LHO.

B. DISHONOUR OF NACH/ECS (DEBIT) MANDATE: SECTION 25 OF THE PAYMENT AND SETTLEMENT SYSTEM ACT, 2007

- i) ECS (Debit) is a scheme under which an account holder with a bank can authorize an ECS user to recover an amount at a prescribed frequency or otherwise by raising a debit in his account. The ECS user has to collect an authorization which is called ECS mandate for raising such debits. These mandates have to be endorsed by the bank branch maintaining the account.
- ii) National Automated Clearing House (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 authorise 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.
- iii) 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.

iv) **Procedure for handling failed NACH/ ECS**

- a) If a **Destination Branch** (the bank branches where the Destination **Account holders** maintain their bank account from which NACH/ ECS utility payments are debited.) is not in a position to debit a particular transaction for insufficiency of funds, it should report the same with a Return Memo to the Service Branch/Main Branch on the same day with the details of failed NACH/ ECS, in any case not later than 24 hours of the returned /undebited ECS processed in the **Clearing House**.
- b) NACH transactions are presently processed centrally at CCPC Mumbai. In case of return of NACH transaction, a return file is generated at NPCI and the Sponsor Bank will give the return memo to customer on the strength of return reason code in return file.
- c) On receipt of the undebited NACH/ ECS from all concerned branches/ banks, the Service Branch of the Destination Bank would flag off or mark off the relevant debit items in the tape or floppy as unpaid.
- d) It would be the responsibility of the **Sponsor Bank (Branch)** (refer to the bank/branch which had agreed to act as the agent of the **User** company i.e. utility-companies,

insurance/corporations/Collection Service Provider/ Govt. departments, or any institution receiving/collecting payments from a large number of branches/ credit banker etc) to advise the User regarding failed NACH/ ECS debit.

- e) If a User makes use of NACH/ ECS mechanism for receiving payment from the same set of beneficiaries every quarter/month or at more frequent intervals, and there is frequent return of debit NACH/ ECS, in such cases, after return of the NACH/ECS, the Sponsor Bank has the responsibility to intimate the User in addition to the Destination Account Holders regarding termination of NACH/ ECS mandate.
- f) In case of failed NACH/ECS due to insufficiency of funds, a communication from the Destination branch is to be sent to the customer (Destination Account Holder) intimating him that in case of failed NACH/ ECS for **4 times** in a financial year or otherwise, the branch at its sole discretion may advise the sponsor bank/branch for cancellation of all mandates given for the particular account in case of SB/CA, whereas for Cash Credit accounts, a review may be put up to appropriate authority higher than the sanctioning authority in the matter. The branch should also send the caution memo after **3rdNACH/ ECS failure in a financial year** to the concerned User of NACH/ ECS for whom the NACH/ ECS was registered.
- g) If an account is having cheque book facility in addition to NACH/ ECS mandate, then the incidents of dishonour will be taken into account for both dishonour of cheques and failed NACH/ECS for computing the number of dishonour of cheques/NACH/ ECS mandate. On reaching the threshold, no

cheque book will be issued from any channels and no NACH mandate will be allowed to be registered in the CBS.

- h) Branch may consider for closing of account after serving 30 days notice to the customer after subsequent NACH/ ECS failure, even though the account is not having any cheque book facility and only NACH/ECS has been registered.
- i) The Controller of the branch has to ensure compliance of above procedure so that no laxity is allowed in delayed reporting of such failed NACH/ECS. In case of any findings of such circumstances and non- compliance / non-adherence of instructions/ guidelines stated hereinabove, suitable disciplinary action will be initiated against the erring staff as per the service conditions governing to them.
- j) Information / documentary proof of failed NACH/ECS should be provided, if requisitioned by any court/consumer forum.

C. INFORMATION ON DISHONoured CHEQUES/FAILED NACH/ ECS

- (i) Data in respect of each dishonoured cheque for amount of Rs.1 crore and above, and below Rs.1 crore and all 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 failed NACH/ECS should be made part of Bank's MIS on constituents and concerned branch should report to their respective controllers.

- (iii) **Reporting:** The information is to be reported to the Controller on respective format as per Annexure- III, IV& V. LHO will send such consolidated report to Corporate Centre at quarterly interval.
- (iv) The System should generate the cautionary advice for dishonoured cheques/ failed NACH/ECS.
- (v) The Core Banking Department at GITC Belapur would provide report pertaining to dishonour of cheque/NACH/ECS to the branches as well as Banking Operations Department and IT-PSG for onward submission to ACB every quarter.

D. FRAMING APPROPRIATE PROCEDURE FOR DEALING WITH DISHONOURED CHEQUES

- (i) The appropriate procedure for dealing with dishonoured cheques have been devised with inherent preventive measures and checks to prevent any scope for collusion of the staff of the bank or any other person, with the drawer of the cheque for causing delay in or withholding the communication of the fact of dishonour of the cheque to the payee/ holder or the return of such dishonoured cheque to him.
- (ii) For the purpose of recording dishonour status of the cheque, every cheque received at the paying branch /clearing CPCs/Service Branch must be recorded in the system, whether balance is available in the account or not and in no case, it should be returned without referring cheques to the "Cheque referred & returned Register" where cheque is being returned for insufficient balance in the account.
- (iii) In no case, the cheques at paying branch/Clearing CPCs/Service Branch should be withheld to ensure deposit of sufficient balance in

the account by the account holder /party concerned to meet the fund requirement of the cheque.

- (iv) The Controller of the branch has to ensure compliance of above procedure so that no laxity is adopted / no internal collusion of staff in concealing the dishonour of the cheque or delayed reporting/returning of the cheque. In the event of finding of any such circumstance, the internal guidelines for dealing with staff accountability for dereliction in duty by the staff will be dealt with. Accordingly, Officers and staff should be cautious enough to adhere to such guidelines and ensure strict compliance thereof to achieve aforesaid objective of effective communication and delivery of dishonoured cheque to the payee.

E. Recovery of Service Charges on dishonour of Cheque/NACH/ECS

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.

F. 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).

G. List of Reasons for dishonor of cheque:

Code No.	Reason for Return
01	Funds insufficient
02	Exceeds arrangement
03	Effects not cleared, present again
04	Refer to drawer
05	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

Code No.	Reason for Return
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

Acronyms:

1. ACB : Audit Committee of the Board
2. CA : Current Account
3. SB : Savings Bank Account
4. CBS : Core Banking Solution
5. ECS : Electronic Clearing System
6. JPC : Joint Parliamentary Committee
7. MMS : Mandate Management System
8. NACH : National Automated Clearing House
9. NPCI : National Payment Corporation India
10. PBBU : Personal Banking Business Unit
11. SMEBU : Small Medium Enterprises Business Unit
12. TBU : Transaction Banking Unit
13. BID : Business Intelligence Division
14. BM : Branch Manager
15. CM : Chief Manager
16. GB : General Banking
17. Acctt : Accountant
18. RBO : Regional Business Office

DISHONOUR OF CHEQUES OF VALUE OF RS.1 CRORE AND ABOVE.- PROCEDURE THEREOF FOR DEALING WITH AS PER RBI GUIDELINES: SECTION 15.4 OF MASTER POLICY ON CUSTOMER SERVICE DATED 1st JULY, 2015.

Dealing with incidents of frequent dishonour of cheques of value of Rs. 1 crore and above

- i. With a view to enforce financial discipline among the customers, branch should introduce a condition for operation of account with cheque facility that in the event of dishonour of a cheque valuing rupees one 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 cheque book would be issued.
- ii. Also, the branch may consider closing Savings Bank/ Current account at its discretion, recording its reason as per Savings Bank account/ Current Account Rule. 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 should be reviewed by appropriate authority higher than the sanctioning authority.
- iii. For the purposes of introduction of the condition mentioned at (i) above in relation to operation of the existing accounts, branch may, at the time of issuing new cheque book, obtain a letter from the constituents regarding acceptance of the new condition for operation of account. In case, request for issue of cheque book is raised through INB/CINB, the system will be amended to make provision for accepting the conditions before final submission.
- iv. If a cheque is dishonoured for a third time in the above stated situation at (i) above on a particular account of the drawer during the financial year, branch 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 dishonoured on next occasion on the same account during the financial year. Similar cautionary advice may be issued if the branch intends to close the account.

INFORMATION ON DISHONOURED CHEQUES
RETURN FOR THE QUARTER ENDED

A. DISHONOUR OF CHEQUES OF Rs.1 CRORE AND ABOVE WITH
THE REASON 'INSUFFICIENT FUNDS'

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

B. DISHONOUR OF CHEQUES OF BELOW Rs.1 CRORE WITH THE
REASON 'INSUFFICIENT FUNDS'

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

INFORMATION ON DISHONoured CHEQUES
RETURN FOR THE QUARTER ENDED
DISHONOUR OF CHEQUES IN FAVOUR OF STOCK EXCHANGES WITH
THE REASON 'INSUFFICIENT FUNDS'

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

INFORMATION ON FAILED NACH/ ECS TRANSACTIONS FOR THE
QUARTER ENDED

Sl. No.	Date of Return	Customer Account No.	Amount	Drawer Name/AC.No.	Payee	Sponsor Bank/ Branch	Destination Branch	Remarks