

AU Small Finance Bank Limited

Cheque Collection Policy

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## **1. Introduction**

- 1.1 With effect from November 1, 2004, Reserve Bank of India withdrew its earlier instructions with respect to 1) Immediate credit of local/ outstation cheques, 2) Time frame for local/ outstation cheque/instrument collection & 3) Interest payment on delayed collection. Instead, RBI advised all banks to formulate a comprehensive and transparent policy for cheque collection and instruments lost in transit, covering all above mentioned aspects.
- 1.2 The Cheque Collection policy provides the liability of the Bank by way of interest payments due to delays in non-adherence to standards set by the Bank itself. Compensation by way of interest payment, where necessary, shall be made without any claim from the customer.

## **2. Guiding Principles**

The Cheque Collection policy of the Bank is a reflection of its effort to provide better service to 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 provide quick collection services & convenience to customers with the increased use of technology in the payment & settlement process.

## **3. Arrangements for Different Types of Cheques/Instruments**

### **3.1 Local Cheques**

- 3.1.1 All cheques payable locally would be presented through the prevailing clearing system.

Cheques deposited at branch counters and in collection boxes within the branch premises before the specified cut-off time will be presented for clearing on the same day. The applicable cut off timings will be displayed on the cheque drop box and in branches for the benefit of customers. Cheques deposited after the cut-off time and in collection boxes outside the branch premises will be presented in the next day clearing cycle.

- 3.1.2 The Bank will credit the customer account on the same day the clearing settlement takes place. The cheque return schedule of the clearing house will determine when the amount so credited can be withdrawn.

- 3.1.3 Bank branches situated at center's where no clearing house exists, will present local cheques on drawee banks across the counter and the Bank will attempt to credit the proceeds at the earliest but not later than 3rd working day from the date of deposit by customer.

3.1.4 Non-CTS cheques will be presented in the clearing house at the prescribed intervals which is presently once in week on each Monday or as decided by RBI, from time to time. In certain categories of cheques, (subject to amendments in guidelines) or instruments demanded by the correspondent Bank or Image Quality Assessment (IQA) failure will be presented in physical form to the drawee Bank.

### 3.2 Speed Clearing

- In order to facilitate faster collection of outstation cheques, the Reserve Bank of India started a special clearing process called Speed Clearing by leveraging the core-banking-solutions (CBS) implemented in banks. Outstation cheque collection through collection basis takes around one to three weeks' time depending on the drawee center, however under Speed Clearing, the proceeds from the cheques are realized as per the clearing cycle of the location.
- The Speed Clearing mechanism facilitates clearance of outstation cheques at the source /deposit location itself and there will be no physical movement of cheques to the drawee location. The complete process of payment including debits to client accounts and verification of signatures etc. is handled by the branch at deposit location.

### 1.2 Outstation Cheques

- Banks undertake collection of cheques deposited by customers, some of which also could be drawn on non-local bank branches, known as Outstation Cheques. Cheques drawn on other banks at outstation centers will normally be collected through Bank's branches at those centers.

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 correspondent bank

- Cheques drawn on Bank's own branches at outstation centers shall be credited to customer same day by using the Core banking Solution network

## 4. Immediate Credit of Local/ Outstation Cheques

4.1 Immediate Credit will be provided for outstation/ local cheques to individual savings bank/ current/ cash credit account holders at the specific request of the customer subject to the below mentioned criteria.

### 4.2 Eligibility Criteria

- Value of cheque should not exceed Rs.5000/-.
- The beneficiary account should be at least one year old.
- NIL cheque returns in the account issued by customer in the last 6 months.

- Average Monthly/Quarterly Balance as per product offering maintained for the last 6 Months/2 quarters.
  - Immediate credit facility will not be given to overdraft/loan account.
  - No cheque purchased under immediate credit earlier should be outstanding/pending for collection or returned unpaid.
- 4.3 The facility will be provided only for those cheques that are drawn on the Bank's branch locations.
- 4.4 Normal cheque collection charges will be applicable.
- 4.5 Cheque returns and charging of interest on cheques returned unpaid where immediate credit was given:
- 4.5.1 If the cheque is returned unpaid, the value of the cheque will be immediately debited to the account along with savings bank interest rate plus 2% for the period i.e. from the date of immediate credit to the date of debit to the account.
  - 4.5.2 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 has remained out of funds.
  - 4.5.3 Cheque return charges applicable for outstation cheques will be levied.
  - 4.5.4 If the proceeds of the cheque were credited to the Savings Bank Account and was not withdrawn, the amount so credited will not qualify for payment of interest when the cheque is returned unpaid.

## **5. Purchase of Local/ Outstation Cheques**

The Bank may, at its discretion, purchase local/outstation cheque tendered for collection at the specific request of the customer or as per prior arrangement. The standing of the drawer of the cheque will be considered, along with the satisfactory conduct of the account before the Bank purchases the cheque

## **6. Payable at PAR**

Payable at Par standard cheques are issued to all customers. The Bank does not cap the value of Payable at Par cheque issuance and nor will it levy any charges for payment of Payable at Par cheques.

## 7. Time Frame for Collection of Local/ Outstation Cheques

- 7.1 For local cheques presented in clearing, customer account will be credited on the date of settlement of funds and they will be allowed to withdraw the funds as per return clearing norms
- 7.2 Cheques sent for collection to centers within India will need to comply with the following timelines:
- (a) Cheques payable at CTS centers : Maximum period of 7 days.
  - (b) Non CTS centers: Maximum period of 10 days.
- 7.3 Cheques sent for collection in NON-CTS clearing will need to comply with the following timelines:
- 4 Whenever the NON-CTS clearing session falls on a day covered under Uniform Holiday, the session shall be held on the previous working day.
  - 5 Whenever the NON-CTS clearing return session falls on a day covered under Uniform Holiday, the session shall be held on the next working day.

The actual realization of credit may vary based on cut off time for the returns applicable to the respective grid.

## 8. Compensation Policy

### 8.1 Payment of Interest for Delayed Collection of Local Cheques

8.1.1 The Bank shall pay interest, at the applicable savings account rate, to the customer on the cheque amount in case there is a delay in giving credit beyond the specified time period. 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

### 8.2 Payment of Interest for Delayed Collection of Outstation Cheques/Cheques Payable outside India

8.2.1 As part of the compensation policy, interest will be paid to the customer on the amount of the cheque in case there is delay in giving credit beyond the specified time period. The interest shall be paid without any demand from customers.

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

- (i) Savings account bank rate for the period of delay beyond 7 / 10 / 14 days as the case may be in collection of outstation cheques
- (ii) Where the delay is beyond 14 days interest will be paid at the applicable rate for Term Deposit for the duration of the delay
- (iii) 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 for the duration of the delay

- (iv) 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.

8.2.3 At certain locations where the Bank has no branches, the instrument would be directly sent for collection to the drawee bank or collected through a correspondent bank. On account of any unjustified delays on part of the drawee bank in sending the proceeds, the Bank would not be liable to pay any compensation to the customer, beyond 14 working days.

The Bank would share/notify customers of the cheques that are delayed by the drawee banks.

## 9. Cheques/ Instruments Lost in Transit/ In Clearing Process or at Paying Bank's Branch

9.1 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 notify the account holder on coming to know of the loss, so that the account holder can inform the drawer to stop payment. Moreover, he/ she should take necessary steps to prevent cheques issued by them from being dishonored due to lack of 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 like giving Non Payment Certificate.

9.2 In case of cheques/instruments lost in transit, the Bank will compensate the account holder in the following way, in line with its Compensation Policy:

- In case the Bank notifies the customer regarding loss of instrument 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 said collection period at the rates specified above in the Compensation Policy (section 8.2.2)
- In addition, the Bank will pay interest on the amount of the cheque for a further period of 15 days at savings account bank rate to provide for likely further delay in obtaining duplicate cheque/instrument and collection thereof
- The Bank will compensate the customer for charges at actuals up to Rs. 500/- that they incur in getting duplicate cheque/instrument upon production of receipt, in the event the instrument is to be obtained from a bank/ institution who would charge a fee for issue of duplicate instrument

### 9.3 Miscellaneous

- Cheques which are deposited with wrong account number mentioned on the Pay-in slip, Bank will return such cheques to the customers on the address mentioned within 48 working hours. However, in cases with incomplete address, incomplete phone no., no phone number mentioned on the Pay-in slip, the bank will be responsible to keep these instruments for a maximum period of 3 months.
- Cheques received back unpaid will be returned by post/ courier etc. to the customer within 48 working hours on the address recorded in Bank's database. However, these will be kept in the Bank for returning to the customer over the counter if he/she makes a request for the same. If not collected by the customer within 15 days bank will send them back at the recorded address by post or courier.

## 10. Force Majeure

The Bank shall not be liable to compensate the 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 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 or all types of transportation, etc. beyond the control of the Bank which prevents it from performing its obligations within the specified service delivery parameters.

## 11. Dishonour of Instruments

### 11.1 Procedure for return/ dispatch of dishonored cheques

- 11.1.1 The paying bank should return dishonoured cheques presented through clearing houses strictly as per terms prescribed in Uniform Regulations and Rules for Bankers' Clearing Houses. The collecting bank on receipt of such dishonoured cheques should dispatch it immediately to the payees.
- 11.1.2 If the cheques are presented directly to the paying bank for settlement by way of transfer between two accounts with that bank, it should return such dishonoured cheques to payees immediately
- 11.1.3 Cheques dishonoured due to lack of funds, should be returned along with a memo indicating the reason for dishonour as "insufficient funds."

### 11.2 Information on dishonoured cheques

- 11.2.1 All information in respect of each dishonoured cheque for amount of Rs.1 crore and above shall be reported to the Controlling Office/ Head Office in line with current Reserve Bank of India guidelines.

11.2.2 The Bank shall consolidate information of all dishonoured cheques drawn in favour of stock exchanges (irrespective of the value of such cheques) and shall report them to the Head Offices / Central Office in line with current Reserve Bank of India guidelines.

### 11.3 Dealing with incidence of frequent dishonour

#### 11.3.1 If Cheque valuing Rs. 1 crore and above have been dishonoured

To enforce financial discipline among customers, the Bank shall not issue a fresh cheque book for customer accounts where cheque valuing Rs. 1 crore & above have been dishonoured on account of lack of funds, for 4 occasions in a particular financial year. Also, the bank may consider closing current account at its discretion

If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, the Bank shall issue cautionary advice to the concerned customer bringing the above mentioned condition to his attention and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year. Similar cautionary advice may be issued if the Bank intends to close the account.

#### 11.3.2 If Cheque valuing less than Rs. 1 crore have been dishonoured

To enforce financial discipline among customers, the Bank shall follow the below mentioned matrix for handling cases of Cheque Dishonor valuing less than INR 1 crore:

| <b>Inward Cheque Return</b> |  |                  |  |
|-----------------------------|--|------------------|--|
| <b>S. No</b>                | <b>Category</b>  | <b>Frequency</b> | <b>Action</b>  |
| 1                           | 5 or more cheque return greater than 5 lakhs in a month                    | Monthly          | Cautionary advice shall be sent to the customers.                  |
| 2                           | 10 or more cheque return (any amount) per month for two consecutive month  | Monthly          | Cautionary advice shall be sent to the customers.                  |
| 3                           | 5 or more cheque return greater than 5 lakhs in second consecutive month   | Monthly          | Bank induced account closure Letter shall be sent to the customers |
| 4                           | 10 or more cheque return(any amount) per month for three consecutive month | Monthly          | Bank induced account closure Letter shall be sent to the customers |

### 11.4 Other factors to be considered

11.4.1 The Bank shall provide all documentary proof of fact of dishonour of cheque, in case the payee requires to submit the same as evidence in a court, consumer forum or to any other competent authority.

11.4.2 The Bank shall consolidate all information with respect to dishonoured cheques and present before the Audit/ Management Committee for a quarterly review

11.4.3 The Bank shall take necessary steps to prevent any collusion of the Bank's staff with the drawer of the cheque to withhold the communication of dishonour of cheque to the payee. The Bank shall ensure strict adherence to internal guidelines of communication & delivery of dishonoured cheque to the payee.

## 12. Service Charge

For all collection services rendered, the Bank will recover appropriate service charges as decided by the Bank from time to time and communicated to customer as indicated in the Code of Bank's Commitment to Customers adopted by the Bank

## 13. Glossary

| Term               | Description   |
|--------------------|---|
| Bank               | The Bank refers to the AU Small Finance Bank  |
| RBI                | Used as an acronym for "Reserve Bank of India"  |
| KYC                | Used as an acronym for "Know Your Customer"   |
| Cheque             | Cheque refers to cheques and all other Negotiable Instruments, for e.g. Demand Drafts, Interest/Dividend warrants   |
| Cheque Clearing    | It refers to the process of moving a cheque from the bank in which it was deposited to the bank on which it was drawn, such that it results in a credit to the account at the bank of deposit, and an equivalent debit to the account at the bank on which it was drawn |
| Correspondent Bank | It refers to a bank/ financial institution that provides services on behalf of another bank/ financial institution, e.g., conducts business transaction, collection of documents/ instruments etc.  |
| Nostro Account     | It refers to a bank account held in a foreign country by a domestic bank, denominated in the currency of that foreign country. These are primarily used for settlement of foreign exchange & trade transactions   |
| Payable at Par     | It refers to cheques that will be treated as local cheques, even if the issuing & drawee bank are located in different cities. The entire amount of the cheque will be credit to customer account, without deduction of outstation cheque charges.                      |
| CBS                | It refers to Core Banking Solution implemented by the Bank  |
| Focal Point Branch | It refers to a designated branch, where all the payment scrolls of government cheques will be sent for reporting, reconciliation & settlement of transactions   |

## Annexure 1 – Cheque Rejection Codes

| Code No | Reason for Return   |
|---------|---|
| 01      | Fund 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 require 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 differ |
| 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  |
| 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 (situation covered in 21-25)                |
| 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 | Amount/Name differs on advice   |
| 71 | Drawee bank's fund with sponsor bank insufficient                                 |
| 72 | Payee's separate discharge to bank required                                       |
| 73 | Not payable till 1st proximo  |
| 74 | Pay order requires counter signature  |
| 75 | 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 |   |
| 87 |   |
| 88 | Others(Pls Specify).....  |
| 92 | Bank excluded   |