



# Cheque Collection Policy

## Introduction

Shivalik Small Finance Bank aims to dedicate its energy towards serving the rural and urban sector in the most transparent manner and providing them with modern technology driven services at the most affordable rates. Also, we possess a team of dedicated professionals who wholeheartedly dedicate their efforts to provide the best quality of customer services.

The bank's vision is to serve the lowest strata of society with the best products at the best prices and the best technology- driven customer service, at the same time being a model employer for the national industry and emerging as a global role model in the small banking sector. This cheque collection policy of the bank reflects our approach to provide better service to the customers of the Bank and set higher standards for Customer Service.

## Objective

This cheque collection policy of Shivalik Small Finance Bank reflects its ongoing efforts to provide better service to its customers and set higher standards of performance. 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.

The key objectives of the policy are:

- Collection of cheques and other instruments payable locally, at centers within India
- Bank's 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
- Policy on dealing with collection instruments lost in transit
- Policy with regards to issuance of payable at par Cheque books
- Policy with regards to clearing of non-CTS 2010 standard cheques
- Policy on management of customer accounts with Frequent Dishonor of Cheques

## Definition

**Drawee** – is a legal and banking term used to describe the party that has been directed by the depositor to pay certain sum of amount to the person presenting the cheque.

**Payee** – is a party in an exchange who receives payment.

**Drawer** – is a maker of a cheque/draft/letter of credit who directs the drawee (the bank) to pay the stated amount to a payee.

**Payer** – is the person who pays the payment.

**MICR** – stands for Magnetic Ink Character Recognition, is a technology used to verify the legitimacy or originality of paper documents, especially cheques. Special ink, which is sensitive to magnetic fields, is used in the printing of certain characters on the original documents.

**CTS** - CTS (Cheque Truncation System) is the process of stopping the physical movement of cheques and replaced by electronic images and associated MICR line of the cheque.

**Grid Clearing** - Grid Clearing is an arrangement that allows banks to present/receive cheques from/to multiple cities in a Single Clearing House through a service branch at one city.

## **Arrangement For Collection**

### **Local Cheques**

Local cheques are payable within the jurisdiction of the clearing house and will be presented through the clearing system prevailing at the center. Credit arising out of local cheques shall be given to the customer's account as indicated in the Cheque Collection Policy (CCP) of the Shivalik Small Finance bank.

Cheques deposited at SSFBLT 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. Cheques deposited after the cut - off time will be presented in the next clearing cycle.

As a policy, bank would give credit to the customer account on the same day clearing settlement takes place, which is in general T+1 without any extension. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearing house. Bank branches situated at centers where no clearing house exists, would present local cheques on drawee banks/designated clearing houses across the counter and it would be the bank's endeavor to credit the proceeds at the earliest.

Cheques, irrespective of the type of the drawer account, of all drawee Banks under CBS will be accepted for collection at any center without any charges.

All cheques received by any of the branches of the bank in inward clearing will be treated at par and clearing charges will not be levied to the accounts for debiting such cheques.

### **Outstation Cheques**

Any cheque that cannot be collected locally because the location where it is tendered is not linked to a CTS grid and the drawee bank does not have a branch there will be treated as an outstation cheque.

Such cheques will be collected through one of the mechanisms explained below:

- The cheque is payable at a location where SSFBLT has a branch - The instrument will be collected through SSFB's branch at that location. The TAT for collection of outstation cheques will be 10 business days
- The cheque is payable at a location where SSFBLT does not have a branch but has a correspondent bank arrangement there - The instrument will be collected through the correspondent bank's branch. The TAT for collection of outstation cheques will be 14 business days
- The cheque is payable at a location where SSFBLT has neither a branch nor a correspondent bank arrangement - The instrument will be sent directly to the drawee bank branch for collection. The TAT for collection of outstation cheques will be 14-28 business days

The definition of outstation cheques excludes demand drafts, banker's Cheques, interest warrants and dividend warrants drawn on the Bank itself.

With the implementation of CTS, the number of outstation cheques sent for collection is considerably reduced. However, in cases where there is no branch of the drawee bank within the same grid (principally in

the case of district / single state cooperative banks), the cheques will be sent on collection to the respective grid service branch for realization.

### **Cheques Drawn On Foreign Countries**

Cheques drawn on foreign country's instruments are accepted for collection on "best of efforts" basis. The Bank may enter into specific collection arrangement with its correspondent bank for speedy collection of such instrument. The Bank would give credit to the party on credit of proceeds to the Bank's NOSTRO Account with the correspondent bank after considering cooling periods as applicable to the countries concerned.

### **Purchase Of Local/Outstation Cheque**

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.

### **Purchase Of Local Cheques, Demand Drafts, Etc. During Suspension Of Clearing**

Whenever clearing is suspended and it is apprehended that the suspension may be prolonged, Bank shall temporarily accommodate its constituents, both borrowers and depositors, to the extent possible by purchasing the local cheques, drafts, etc., deposited in the accounts for collection, special consideration being shown in respect of cheques drawn by Government departments/companies of good standing and repute, as also demand drafts drawn on local banks. While extending this facility, Bank shall take into consideration such factors as creditworthiness, integrity, past dealings, and occupation of the constituents, so as to guard itself against any possibility of such instruments being dishonored subsequently.

### **Immediate Credit Of Local/Outstation Cheques/Instruments**

No immediate credit of local cheques would be given as the bank endeavors that delays do not occur in realization of proceeds of the cheques. At centers where no clearing house exists cheques will be presented across the counter and the proceeds will be credited at the earliest.

Branches / extension counters of the bank would grant immediate credit for outstation cheques / instruments drawn on our Bank centers up to the aggregate value of Rs.15000/- (maximum limit outstanding per account at any one point of time) tendered for collection of individual account holders subject to satisfactory conduct of such accounts for a period not less than 6 months.

Immediate credit will be provided at the sole discretion of the Branch Head after carefully verifying the satisfactory conduct of the account, creditworthiness of the customer and the genuineness of the need of the customer.

The facility will be offered on savings bank/current/cash credit accounts of the Customers. Under this policy, prepaid instruments like demand drafts, interest/dividend warrants shall be treated on par with cheques. An amount of Rs. 250/- would be charged on each such case as a flat fee over and above the normal collection charges. For the purpose of this policy, a satisfactorily conducted account shall be the one, which fulfils all of the following:

- Opened at least six months earlier and complying with KYC norms
- Conduct of which has been satisfactory, and the Bank has not noticed any irregular dealings
- Where no cheques / instruments for which immediate credit was afforded returned unpaid for financial reasons

- Where the Bank has not experienced any difficulty in recovery of any amount advanced in the past including cheques returned after giving immediate credit
- Maintenance of Average Monthly Balance (AMB) stipulation for at least 6 months

Immediate credit would also be subject to the following criteria:

- The account should be denominated in Indian Rupees
- The facility shall be extended to the customer at his / her base branch only
- Cheques shall not be post-dated / out of date / nearing out of date (to avoid risk of return in clearing). The cheques must be dated at least 14 working days from the date of expiry of the cheque
- The account shall not be "inoperative"
- The amount of immediate credit, whether for a single or multiple cheques / DDs, shall not exceed Rs. 15,000/- in an eligible account, at any point in time as per RBI notification BC. 21 / 09.07.007 / 2002-03 dated Aug23,2002
- There should be no partial immediate credit of a cheque / DD
- The cheque shall not be the customer's own cheque from another account i.e., not self-drawn cheque
- The policy of immediate credit would be reviewed annually considering the amount of losses, frauds, and customer issues

### **Payment Of Interest For Delayed Collection Of Outstation Cheques**

The bank will pay interest to the customer on the amount of the collection instrument in case there is delay in giving credit beyond the time period mentioned above.

Savings Bank interest rate for the period of delay beyond 7/10/14 days as the case may will be paid in collection of outstation cheques. Where the delay is beyond 14 days and up to 30 days interest will be paid at the rate applicable to for term deposit for the respective period.

This payment would be made without any demand from customers in all types of accounts. There will 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 except for reasons which are beyond the control of the Bank.

Interest payments would be applicable only for instruments (drawn in INR) sent for collection within India.

### **Delay In Presentment Of Local Cheques (Presentable Through Local Clearing/Cts):**

In case it is proved that there is a delay in presentation of a local clearing instrument by the Bank beyond 2 working days of depositing the instrument, and where the delay is attributable to internal systems of the Bank and not the banking system as a whole, and is not attributable to force majeure events, the Bank shall pay interest on the cheque amount at the extant savings rate for the period of delay.

Local instruments:

- Savings Bank rate for the period of delay beyond 7/10/14 days as the case may will be paid in collection of local cheques
- Where the delay is beyond 14 days and up to 30 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 30 days, interest will be paid at the rate applicable for Term deposits rate applicable for 30 days' time bucket as on date of payment
- In the event the proceeds of cheque under collection were to be credited to an overdraft/loan account of the customer, interest will be paid at the rate applicable to the loan account

## **Instruments Lost In Transit/In Clearing Process Or At Paying Bank Branch**

In the event a cheque or an instrument accepted for collection is lost in transit or lost in the clearing process or lost at the paying bank's branch, the Bank shall immediately upon receipt of such information, bring the same to the notice of the account holder so that the account holder can inform the drawer to record a stop payment against the instruments and also take care that cheques, if any, issued by him / her to the extent of amount of loss cheques are not dishonored due to non-credit of the amount of the lost cheque's instruments.

In respect of cheques lost in transit or in the clearing process or at the branch, SSFB shall immediately bring the fact to the notice of the account holder through any of the channels i.e., in writing, call, SMS, or email so that account holder can inform the drawer to record stop payment.

Bank shall compensate the customer with respect to the cheque/s lost in transit or delayed clearing of cheques same as mentioned in clause 5.1 delay in cheque presentation. The Bank would provide all assistance to the customer to obtain a duplicate instrument from the drawer of the cheque.

Bank shall compensate the account holder in respect of instruments lost in transit in the following way:

- In case intimation regarding loss of instrument is conveyed to the customer beyond the time limit stipulated for collection (7/10/14 days as the case may be). Savings account interest will be paid for the period exceeding the stipulated collection period
- In addition, the Bank will pay interest on the amount of the cheque for a further period of 15 days at Savings 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 event the instrument is to be obtained from a bank/ institution who would charge a fee for issue of duplicate instrument
- The bank would also compensate the customer for any reasonable charges incurred due to delay in credit of lost cheque upon production of receipt

## **Dishonored Cheques**

A cheque is said to be honored if the banks give the amount to the payee. While, if the bank refuses to pay the amount to the payee, the cheque is said to be dishonored. In other words, dishonor of cheque is a condition in which bank refuses to pay the amount of cheque to the payee.

### **Procedure For Return/Dispatch Of Dishonored Cheques**

Branch officials shall ensure that the dishonored instruments are returned or dispatched to the account holders or depositors promptly without delay, in any case within 1 working day.

In case of returned cheques, a cheque return memo will be prepared by SSFB wherein the reason for return of the cheque will be indicated. The memo along with the dishonored cheque will be sent to the payee/depositor/account holder by registered post or through a local courier or will be handed over across the table (post obtaining the receipt on register as defined in "Standardization of Registers Process).

SSFB shall return or dispatch the dishonored cheques to the customer at his / her last recorded address available. In case a cheque had been received by another branch of SSFB on collection, it shall be dispatched to the sending branch along with the cheque return memo and advice within 1 working day from the date of dishonor.

## **Dealing With Incidence Of Frequent Dishonor**

In instances of frequent return of outward cheques, SSFB may send letters advising customers concerned to take steps necessary to reduce the number of returns.

- With a view to enforce financial discipline among the customers, operation of accounts would be subjected to a condition that in the event of dishonor of a cheque valuing rupees one crore and above drawn on a particular account of the drawer on four occasions & other account with over 6 frequent cheque dishonors during the financial year for want of sufficient funds in the account, fresh cheque book would not be issued & the Bank may consider closing such account at its discretion
- 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 would be reviewed by appropriate authority higher than the sanctioning authority
- A cautionary advice & request to close the account will be given to the customer in the following cases:
  - Wherein Cheques of value over 1 crore has bounced for the 3rd time in a year
  - Wherein Cheques of value less than 1 crore has bounced for the 5th time in a year

## **Re-Presentation Of Technical Return Cheques And Levy Of Charges For Such Returns**

If a cheque is returned for a technical reason and can be presented again without any action or intervention of the account holder or depositor's part, SSFB will present the cheque again, after intimating the account holder/depositor through one of the channels – by letter, via email, through SMS or over a phone call.

However, if an instrument is returned for reasons relating to availability of funds in the drawer's account or due to a technical reason which requires an action from either the drawer or the payee, SSFB will return the cheque to the payee/depositor/ account holder as per the process explained in section 7.1 above.

SSFB shall levy cheque return charges only in cases where the reason for return can be attributed to either the drawer or the payee. Charges will not be levied if the reason for return is attributable to the Bank. An illustrative list of returns, where the customers are not at fault are indicated in Annexure-I.

## **General**

For the purpose of presenting evidence to prove the fact of dishonor of cheque on behalf of a complainant (i.e., payee / holder of a dishonored cheque) in any proceeding relating to dishonored cheque before a court, consumer forum or any other competent authority, the bank would extend full co-operation, and would furnish the customer documentary proof of fact of such dishonor of cheques post intimating Operations and Legal department of the bank.

## **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.

## Reporting Requirements

The Clearing team shall collate on a quarterly basis, the centralized MIS for the data in respect of dishonored instruments. The data shall be shared with the business verticals concerned for them to engage with the customers concerned and take suitable action, if necessary.

The Head of Operations shall place before the Customer Service Committee of the Board on a half yearly basis, all the revisions made in the Policy, if any.

The Head Operations of the bank shall place before the Audit/ Supervisory Committee of the Board, every quarter, a consolidated data with respect to incidents of frequent dishonor of cheques and the actions taken on such accounts.

Any employee of SSFB shall report to Clearing In-charge in case he or she finds any discrepancy in the cheque, with a view to reduce the risk of fraud. Any instance of fraud will be reported to Reserve Bank of India in the manner prescribed by them and to the Board or the relevant constituent committee of the Board.

## Record Keeping

SSFB shall preserve the physical instruments and deposit slips in respect of CTS clearing securely for a period of 10 years, as defined in record management policy of the bank. In case of cheques presented through non-CTS clearing, over the counter and sent on collection, the deposit slips and other relevant documents shall be retained for a period of 10 years from the date of cessation of relationship with customer, so as to permit reconstruction of the customer transactions.

### Annexure-I

Illustrative but not exhaustive list of objections where customers are not at fault

Code No.	Reason For Return
33	Instrument mutilated; requires bank's guarantee
35	Clearing House stamp/date required
36	Wrongly delivered/not drawn on us
37	Present in Proper Zone
39	Image not clear; present again with paper
40	Present with document
41	Item listed twice
42	Paper not received

67	Payee's endorsement irregular/ requires collecting bank's confirmation
76	Required information not legible/correct
82	Bank/Branch blocked
84	Other reasons – connectivity failure
92	Bank excluded