



## **Policy on Dealing with Frequent Dishonour of Cheques**

**January 2025**



## **Corporate Office**

### **Policy on Dealing with Frequent Dishonour of Cheques**

#### **Introduction**

In terms of RBI Master Circular RBI/2015-16/59 DBR No.Leg.BC. 21/09.07.006/2015-16 on Customer Service in Banks updated from time to time, banks are required to have a Board approved policy for dealing with frequent dishonour of cheques of value less than Rs.1 crore.

Accordingly, a policy was framed on dealing with frequent dishonour of cheques of value less than Rs.1 crore which was duly approved by Committee of Directors on 27.09.2012. There have been no changes in the policy in the intervening period.

Hitherto, in terms of RBI Circular No. RBI/2016-17/33 DBR.No.Leg.BC.3/09.07.005/2016-17 dated 4<sup>th</sup> Aug 2016 and paragraph 11.4 (i) of RPCD.CO.RRB.BC.No.100/03.05.33/2013-14 dated 12<sup>th</sup> May 2014, Banks were advised to introduce a condition for operation of accounts with cheque facility, that in the event of dishonour of cheque having value Rs.1 crore and above drawn on a particular account of the drawer on four occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued and the Bank may consider closing the current account at its discretion.

Accordingly, a comprehensive policy envisaging the two scenarios involving dishonour of cheques for financial reasons for value less than Rs.1 crore and for value Rs.1 crore and above had been framed in Feb 2020.

#### **1. Procedure for return of dishonoured cheques**

- The paying bank 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.
- In relation to cheques presented directly to the paying bank for settlement of transaction by way of transfer between two accounts with that bank, it should return such dishonoured cheques to payees/ holders immediately attaching a return memo indicating the reason for return the return memo should bear the date of return, signature / initial of the bank official along with the bank branch stamp. Return memo is to be issued even for internal business groups presenting such cheques for clearance from Axis Bank accounts.

## 2. Dealing with Frequent Dishonour of Cheque / ECS Mandates – Below Rs. 1 Crore

### A. Balance not maintained in all 3 months of a quarter

#### I. 2 or More Instances In A Quarter

- i. Fresh cheque book are not to be issued to customers where there are 2 or more cheque returns during a quarter for financial reasons.
- ii. Cautionary letters are to be sent to customers instructing them that cheques should be presented for payment only after ensuring adequate funding in the account.

#### II. Subsequent quarter 2 additional instances ie: cumulative 4 or more instances during the financial year

- i. Identified for Closure

### B. Balance maintained in 2 or more months in a quarter

#### I. 2 or more instances in a quarter

- i. Cautionary letters are to be sent to customers instructing them that cheques should be presented for payment only after ensuring adequate funding in the account.

#### II. Subsequent quarter 2 additional instances i.e.: cumulative 4 or more instances during the financial year

- i. Fresh cheque book are not to be issued to customers when in subsequent quarter 2 additional instances i.e.: cumulative 4 or more instances during the financial year

#### III. Subsequent quarter 2 additional instances i.e.: cumulative 6 or more instances during the financial year

- i. Identified for closure

- 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, utility-companies, insurance/corporations/Collection Service Provider/ Govt. departments, or any institution receiving/collecting payments from many branches/ credit banker etc.) to advise the User regarding failed ECS debit.
- The Bank may consider closing such accounts if in the subsequent quarter, there is no improvement in the operations after the customer has been suitably advised about the conduct of the account. Closure letters are to be sent out to the customers after the above threshold is reached intimating them about the closure of the account after 30 days. Within 30 days of the letters being sent, if the customer does not wish to have the account closed, he / she may contact the branch within the stipulated time period.

- In case of ECS mandates, similar process to be followed except for barring the cheque book facility. The Sponsor Bank would be advised that the account has been closed for reason of unsatisfactory conduct so that they can arrange for deletion of the mandate.
- In case the customer is enjoying credit facilities with our Bank / multiple / consortium Banks, such instances of cheque returns would be handled by the respective business vertical.

### 3. **Dealing with Frequent Dishonour of Cheque / ECS Mandates - Rs.1 Crore and above**

- Fresh cheque book should not be issued to customers where there are 4 or more cheque returns during a financial year for financial reasons.
- On the third cheque return instance in a financial year, for financial reasons, a cautionary advice would be sent out to the customer with instructions that cheques should be issued only after ensuring adequate funding in the account and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year.
- 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, utility-companies, insurance/corporations/Collection Service Provider/ Govt. departments, or any institution receiving/collecting payments from many branches/ credit banker etc.) to advise the User regarding failed ECS debit.
- The Bank may consider closing such accounts if there is no improvement in the operations after the customer has been suitably advised about the conduct of the account.
- Closure letters are to be sent out to the customers after the above threshold is reached intimating them about the closure of the account after 30 days. Within 30 days of the letters sent, if the customer does not wish to have the account closed, he / she may contact the branch within the stipulated time.
- In case of ECS mandates, Bank may consider closing the account after 4 ECS returns in a financial year due to financial reasons. The Sponsor Bank would be advised that the account has been closed for reason of unsatisfactory conduct so that they can arrange for deletion of the mandate.
- In case the customer is enjoying credit facilities with our Bank / multiple / consortium Banks, such instances of cheque returns would be handled by the respective business vertical.

#### **Exclusions:**

In respect of advances accounts such as cash credit account, overdraft account, instances of cheque bounce for financial reasons are already factored into the credit

and fraud Early Warning Signals (EWS) along with a comprehensive set of triggers which allows for a holistic assessment of the borrower. The EWS alerts are responded by respective segment Coverage / Sales teams and reviewed by respective segment Credit team to arrive at required actions from both credit and operational perspective. Hence, this Policy will not be applicable for advances accounts.

**Timelines:**

The activities for a quarter such as sending cautionary communication and closure notices to the customers including the closure of accounts with prior notice would be duly completed before the end of the subsequent quarter.

**General Matters**

For adducing evidence to provide 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, full co-operation is to be extended to the customer and documentary proof of the fact of dishonour of cheques should be made available.

As per Master direction on Customer service, Procedure thereof 15.1 Returning dishonoured cheques (i) Banks are required to implement the recommendation of the Goiporia Committee that dishonoured instruments are returned / despatched to the customer promptly without delay, in any case within 24 hours.

**Quarterly Review of Accounts with high incidence of Cheque Returns**

A quarterly report of accounts having high incidence of cheque returns shall be put to President (Branch Banking) and President (Retail Operations), for review. Further, the position of dishonoured cheques / ECS irrespective of their value shall be placed before Audit Committee of the Board of Directors (ACB) on quarterly basis.

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