



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

**February 2024**



**Corporate Office**

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**Introduction**

In terms of RBI Master Circular 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 of 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. DBOD.BC.Leg.No.113/09.12.001/2002-03 dated 26.06.2003 and paragraph 11.4(j) of RPCD.CO.RRB.BC.No.100/03.05.33/2013-14 dated 12.05.2014, 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 amount of the drawer on four occasions during the year for want of sufficient funds in the account, no fresh cheque book would be issued and the Bank would be at liberty to close 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.

**Background**

Basis ACB directives to re-visit the policy, the same has been reviewed and discussed with stakeholders i.e Products / Risk on reducing the threshold from existing 8 instances per quarter as suggested by GE Post discussion with Circle and Regional Head (Branch Banking) & Regional BBO head to align with the industry as per the below grid.

Proposed Process:

<b>Category</b>	<b>Cautionary Sent</b>	<b>Cheque book Flag Disabled</b>	<b>Identified for Closure</b>
Balance not maintained in all 3 months of a quarter	2 or more instances in a quarter	2 or more instances in a quarter	Subsequent quarter 2 additional instances i.e: cumulative 4 or more instances in subsequent quarter
Balance maintained in 2 or more months in a quarter	2 or more instances in a quarter	Subsequent quarter 2 additional instances i.e.: cumulative 4 or more instances in subsequent quarter	Subsequent quarter 2 additional instances i.e.: cumulative 6 or more instances in subsequent quarter

## 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.
- Cheques dishonoured for want of funds in respect of all accounts would be returned attaching a return memo indicating the reason for return on account of insufficiency of funds. 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 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 in subsequent quarter
  - 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 in subsequent quarter
    - i. Fresh cheque book are not be issued to customers when in subsequent quarter 2 additional instances i.e.: cumulative 4 or more instances in subsequent quarter
  - III. Subsequent quarter 2 additional instances i.e.: cumulative 6 or more instances in subsequent quarter
    - 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 a large number of 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 respect of advances accounts such as cash credit account, overdraft account, instances of cheque bounces 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 Coverage / Sales teams and reviewed by Credit team to arrive at required actions from both credit and operational perspective. Hence, for such accounts, the need for continuance or otherwise of these credit facilities and the cheque facility relating to these accounts would not be separately reviewed.
- 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 a large number of branches/ credit banker etc.) to advise the User regarding failed ECS debit.
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- 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.

### **General Matters**

For the purpose of 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.

### **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 & Wholesale Banking Operations), for review.

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