

Some issues related to policies on cheque collections*

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Abstract

Till 2004 the cheque collection standards were regulated when the RBI decided to deregulate them. Das and Das (2006) studied the scenario post deregulation of cheque collection standards in India and furthermore the cheque collection policies framed by different banks were compared. Subsequent developments and Reserve Bank of India's intervention led to most of the banks modifying their cheque collection policies. Indian Banks' Association (IBA) also came up with a model policy. In this note we take up certain issues related to policies on cheque collections like, IBA's formulation of model policy; immediate credit of small denomination cheques; UK's benchmarking of cheque collection standards and National Consumer Disputes Redressal Commission's recent order on cheque collection benchmarks.

1. Introduction

In 2004 RBI deregulated the standards set for cheque collections. The cheque collection policies formulated by banks post deregulation were studied by Das and Das (2006) in their Report [6]. Subsequent developments and Reserve Bank of India's intervention led to most of the banks modifying their cheque collection policies. Indian Banks' Association (IBA) also came up with a model policy. We take up certain issues related to policies on cheque collections like, IBA's formulation of model policy; immediate credit of small denomination cheques; UK's benchmarking of cheque collection standards and National Consumer Disputes Redressal Commission's recent order on cheque collection benchmarks.

On the issues related to policies framed by banks, in its response in [1] RBI mentions, and we quote

“With respect to the proper implementation of the guidelines issued by the Reserve Bank, by the banks in framing their cheque collection policies, the Reserve Bank makes the following submissions.

* The views expressed in the paper are those of the author and not necessarily of the institution to which he belongs.

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(a) As averred in the Reserve Bank's affidavit dated November 9, 2006, banks have been advised to get their respective policies framed by them individually and separately keeping in view the guidelines of the Reserve Bank of India, to be approved by their respective boards and to give wider publicity to it by displaying it at their branches, publishing the same on their websites, etc.

(b) The Reserve Bank has been pursuing the matter with all banks in various meetings for compliance of its circular dated November 1, 2004 for formulating policies by banks on cheque collection and giving it wide publicity. Of late, a meeting of the select banks was convened on September 15, 2006 for gathering feedback in this regard. The feedback received therefrom is being scrutinised and assessed by the Reserve Bank of India so that the objectives as articulated in the circular dated November 1, 2004 are fully met with. The Reserve Bank has been and is following with various banks to ensure that the cheque collection policies are being implemented in the spirit of the above guidelines.”

From above what one may gather is in agreement with what is mentioned in the Report [6].

2. Cheque collection policy of banks

Comparing the policies framed by the banks, as per Report [6], the classification of banks revealed that only 29% banks were close to pre-deregulation status, i.e., more than 70% banks were worse than the pre-deregulation status. This reflects a tendency of the banks to regress to inferior standards (at the cost of customer service) when regulations are diluted suddenly. However, three years down the line, after RBI's and NCDRC's intervention, most of the banks have now modified their cheque collection policy with help from IBA.

With most of the banks having done a thorough revision of their cheque collection policy, a category rating (with respect to various parameters of the cheque collection policy) of the banks based on the multidimensional ranking technique used by Thorat, Maria and Das (2003) is expected to indicate a marked improvement and relative change of position of the banks. In fact, Ramarao, Das and Midha (2009) recently established marked improvements in the policies framed by the banks. They also identified relative change of position of the banks (over the three years period) with respect to the cheque collection policies. Their analysis shows that RBI's intervention led to marked improvement in the performance of most banks with respect to their cheque collection policies.

As an afterthought to Report [6], IBA has come out with a 'Model Policy on Collection of Cheques/Instruments' (see Appendix B and reference [7]). Perusing through this model policy, which runs into 7 pages containing seven sections, we come across a few points that are noteworthy. IBA's attempt to frame such a non-statutory model policy is most welcome; however, this needs to be thoroughly reviewed. Another related policy document brought out by IBA is the 'Model Compensation Policy' (see Appendix C and reference [8]). More than 30% of this policy deals (mostly in a repetitive fashion) with cheque collections already covered in the Model Policy on Collection of Cheques/Instruments.

It is felt that the model policy needs to be looked into meticulously; more so since [2] indicates that RBI has written to the Chairmen of all the Scheduled Banks for reviewing their Cheque Collection Policies taking into consideration the model cheque collection policy circulated by IBA.

3. IBA's 'Model Policy on Collection of Cheques/Instruments' and related 'Model Compensation Policy'-- Some points to ponder

The model policies on cheque collections and compensation have been formulated keeping in mind (1) the principle of transparency and (2) the principle of fairness in the treatment of customers. These are the two pillars on which each of the two policies has been based. Apart from purchase of cheques and lost cheques, the policy covers issues related to local, outstation and foreign cheques. We deliberate on them one at a time (our remarks are italicized).

Local Cheques:

1. At centers where there is a clearing house the bank considers to give credit to the customer account on the same day clearing settlement takes place. *However, in case no clearing house exists, the banks appear to reserve the right to enjoy float. The credit or value date, in case of no clearing house, should be linked to the day proceeds from drawee bank is received by the presenting bank. This would be in line with the basic pillar of the policy document- fairness in the treatment of the customers.*
2. Immediate credit up to a certain amount would be provided **only** at centers where no formal clearing house exists. *This appears to be a move towards dilution of standards existing prior to deregulation.*
3. *While stipulating explicit time frame for collections, there is no mention of how many days the bank can take for settlement of funds. As a result the policy is devoid of any compensation for delayed payment.*

Outstation Cheques:

1. The policy clearly indicates that cheques drawn on other banks at outstation centers **will normally be collected** through bank's branches at those centers or through a correspondent bank. *This is a clear indication of the magnitude of outstation cheques that are not routed through RBI's inter-city (national) clearing facility (even for centers where such a facility exist).* For cheques drawn on bank's own branches at outstation centers, which are CBS enabled, the bank will provide same day credit.
2. Immediate credit up to a certain amount would be provided on specific request of the customer holding a satisfactory operated account. No additional charge to be levied for this facility.

3. Explicit time frame for collections mention maximum periods of 7, 10 or 14 days depending on the center where the cheque is payable.

4. *Payment of interest for delayed collection has been diluted in the sense that only SB rate is suggested for delays up to 14 days. This should be brought in line with the pre deregulation scenario. For delays up to 14 days, interest could be paid at a rate which is maximum of either (a) minimum existing FD rates, or (b) FD rate for the period of delay, or (c) SB rate. Furthermore, defining abnormal delay as a period exceeding 90 days is too large a period (keeping in mind the technological progress). This is again hitting the pillar of the policy.*

Foreign Cheques:

1. The cheques are presented to the drawee bank either through bank's own offices or through a correspondent bank having presence at the foreign location. The proceeds are received by the presenting bank in form of a credit in their offices at the foreign center or a credit into the Nostro Account of the bank maintained with one of the correspondent bank. *(Also see Appendix A)*

2. *There is no explicit time frame for collections except mention of crediting payee's account on credit of proceeds to the bank's Nostro Account after taking into account the cooling period. This is a clear tilt in the pillars of the policy. Not passing the benefits of a value date from the date bank's Nostro Account is credited is a sure violation to fairness in the treatment of customers. The question of cooling period is also not transparent.*

3. *Regarding payment of interest for delayed collection, there are contradictory statements in the two policies.*

Purchase of Cheques:

The policy is discretionary. *By giving full discretion without mentioning any basis for such discretion, the banks are not only being non-transparent but also keeping avenues open to discriminate between customers on non-technical grounds. Once purchase facility is mentioned (for cheque amounts exceeding the immediate credit limits), it should not be vague and devoid of comprehensiveness.*

Cheques lost during Collection:

The policy has clearly and judiciously indicated the liability of the bank in case of lost cheques.

4. Immediate Credit- A myth

A component of enrichment by banks (at the cost of depositors), not covered in float enrichment, was pointed out explicitly by the Tarapore committee in their Report [5] and further reiterated in our Report [6]. This enrichment is due to non-compliance by banks in providing the facility of Immediate Credit of Local/Outstation cheques to small depositors. In order to have some idea on the number of small depositors or the number of cheques with value less than Rs. 15,000 during

the period 2005-09, one needs to look at the frequency distribution of the non high-value cheque amounts. The following table on cheque values and volumes is based on RBI published statistics.

Year	TV (Rs. crore)	TN (lakh)	High Value (Rs. crore)	High Value (lakh)
05-06	11329134	12868	4981428 (43.97%)	159.24 (1.24%)
06-07	12042426	13673	5034007 (41.80%)	187.30 (1.37%)
07-08	13396066	14606	5500018 (41.06%)	219.19 (1.50%)
08-09	12461202	13959	4550667 (36.52%)	218.48 (1.57%)
05-09	49228828	55106	20066120 (40.76%)	784.21 (1.42%)

The frequency distribution of the non high-value cheque amounts should be highly skewed to the right since the mean of such a distribution is Rs. 53,685. In arriving at this figure, we have taken the RBI figure of $159.24+187.30+219.19+218.48 = 784.21$ lakh cheques under high-value clearing attributing to 40.76% of the total cheque value of Rs. 4,92,28,828 crore in 2005-09.

In case we look at the frequency distribution of the outstation cheque amounts and the non high-value local cheque amounts separately, we should observe the following:

1. The frequency distribution of the outstation cheque amounts is highly skewed to the right since the mean of such a distribution is Rs. 3,57,339 (taking RBI's rough estimates of 0.5% in number and 2% in value for such cheques).
2. The frequency distribution of the non high-value local cheque amounts is highly skewed to the right since the mean of such a distribution is Rs. 52,137.

The above statistics would highlight the actual cumulative relative frequency of low value cheques (with amounts less than Rs. 15,000) among the non high-value cheques and thus enable policy makers to look into immediate credit of local and outstation cheques in more depth.

Why should one be given immediate credit at 0% rate of interest? This amounts to as if the bank is giving a loan at 0% rate. Even if one excludes bank's risk component for such immediate credits, why should the bank extend such charity and provide immediate credit? This is a valid question and there is a point in favor of the banks for their reluctance to provide the facility without any interest or charge.

One would agree that (as a first impression) the argument is justified and compelling. However, if one goes much deeper in thoughts it may be seen that it is the banks that are extracting benefits in cheque clearing affairs without a customer realizing it. As mentioned earlier, this is so since after the funds hit the clearing house account of banks, a bank may be providing ghost credits

and also giving interest at 3.5% rate, but actually till the bank gives access to such money, the interest rate should be close to a standard loan interest rate of the bank.

As a substitute for not giving this higher interest rate (but instead giving 3.5%), one can, as a tradeoff, consider banks to be more proactive towards immediate credit (on cheques with amounts less than Rs. 15000) for our country's small customers (if not all customers) at no additional charge.

5. International scenario and benchmarking standards

In Report [6] we have discussed the international scenario on cheque collections. In this connection, it may be noteworthy to see a November 2006 Cheques Working Group Report [3] issued by the Payment Systems Task Force, chaired by the Office of Fair Trading (OFT), UK. The Task Force was established following an announcement by the Chancellor in his pre-Budget Report of November 2003 that the OFT would play an enhanced role in payment systems. The key proposals of OFT include:

- money deposited into any account will start to earn interest (in interest-bearing accounts) or will count against overdrafts no later than two working days after the cheque is deposited (for example, Wednesday for a cheque paid in on Monday)
- all consumers and businesses will be able to withdraw funds deposited by cheque into current and basic bank accounts no later than four working days after the cheque is deposited (for example, Friday for a cheque paid in on Monday). For instant access savings accounts and those savings accounts from which withdrawals are allowed subject to a penalty, withdrawal will be available no later than the sixth working day after the cheque is deposited (for example, Tuesday of the following week for a cheque paid in on Monday), and
- financial institutions will not be able to take money deposited by cheque back out of an account later than six working days after deposit ('guaranteed fate'), unless the payee is a knowing party to fraud. Currently, there is no maximum time limit for fate in the UK. This agreement puts the UK in a world-leading position.

Going through the full OFT Report one can find their in-depth analysis. All these reforms has taken effect from November 2007 and will thus improve all users' experience of the cheque clearing system, particularly vulnerable consumers, basic bank account holders and small businesses.

The OFT Report indicates that cheque usage may be falling and the rate of decline is accelerating as faster and more efficient payments gain popularity. The rate of decline may well accelerate in coming years as faster electronic payments are introduced. Notwithstanding this declining usage, there has been some pressure for changes to the timetable for clearing cheques, a timetable which

has remained unaltered for many years. This is because cheques still play an important role for certain groups of users, such as small and medium sized enterprises (SMEs), and for certain types of payment.

We would also like to add that Cheque Clearing for the 21st century (Check 21) of USA is at par with India's cheque truncation project. Though Check 21 is operational in USA, which was passed into a law way back in October 2003, it did not prompt them to withdraw the benchmark regulations on time frame and interest payments on cheques in the country. This fact along with the recent OFT Report of UK adds to our contention on need for benchmarking cheque collection standards. Thus, we can say that, contrary to RBI's deregulation reasoning, in most countries, rather than banks, it is the regulatory framework which develops the policy relating to collection of cheques.

Incidentally the NCDRC, finding it prudent to set appropriate standards, has recently issued the following directions (see reference [10]):

- (a) For the local cheques credit and debit shall be given on the same day or at the most on the next day.*
- (b) The maximum period for collection of outstation cheques shall be 7/10/14 days. And, if there is any delay in collection of the said cheques beyond the period of 7/10/14 days, interest at the fixed deposit rate, or at a specified rate as per the respective policy of the banks, is to be paid to the payee of the cheques;*
- (c) The salient features of the policy with regard to the collection period of outstation cheques and interest payable thereon in case of delay shall be published on the notice board in a precise manner in bold/visible letters at conspicuous place in every branch.*
- (d) A copy of the complete policy shall be made available by the Branch Manager, if the consumers require the same for reading.*
- (e) The salient features highlighting the rights of the consumers shall also be displayed on the notice board of each branch of the Banks.*
- (f) Needless to say that the RBI would monitor the directions given by it as well as this Commission.*

6. Conclusion

We take up certain issues related to policies on cheque collections like, IBA's formulation of model policy; immediate credit of small denomination cheques; UK's benchmarking of cheque collection standards and National Consumer Disputes Redressal Commission's recent order on cheque collection benchmarks.

IBA's model policy on collection of cheques

IBA's model policy on cheque collections introduces the two pillars on which the policy document would stand. They are (1) the principle of transparency and (2) the principle of fairness in the treatment of customers. However, there are several points in the model policy document, like, float in case of foreign cheques, discretionary attitude in case of purchase of cheques, immediate credit of local cheques, definition of abnormal delay, etc. which appear to shake the two pillars.

Immediate credit—A myth

The concept of immediate credit of up to a certain amount of the cheque (for next day withdrawal) is a Federal Reserve regulation in USA. However, in India somehow, in spite of RBI regulations, this concept has more or less remained only on paper for the past 30 years. It is felt that there is a need to look on a regular basis the all India percentage of satisfactorily operated accounts and the percentage of cheques of less than or equal to Rs. 15,000 that were afforded immediate credit. This would reflect facts leading to clearer perspectives.

International scenario and benchmarking standards

The OFT Report indicates that cheque usage may be falling and the rate of decline is accelerating as faster and more efficient payments gain popularity. The rate of decline may further accelerate in coming years as newer electronic payments are introduced. Notwithstanding this declining usage, there has been some pressure for changes to the timetable for clearing cheques, a timetable which may have remained unaltered for many years. This is because cheques still play an important role for certain groups of users, such as small and medium sized enterprises, and for certain types of payment.

The world scenarios, as also elaborated in Report [6], are more in for proper regulations on benchmarking standards in case of cheque collections. Cheque Clearing for the 21st century (Check 21) of USA is at par with India's cheque truncation project. Though Check 21 is operational in USA, which was passed into a law way back in October 2003, it did not prompt them to withdraw the benchmark regulations on time frame and interest payments on cheques in the country. Incidentally, subsequent to our Report, in November 2006, the Office of Fair Trading, UK, came out with key proposals on benchmarking cheque collections. These reforms have taken effect in UK from November 2007 and will improve all users' experience of the cheque clearing system, particularly vulnerable consumers, basic bank account holders and small businesses. This fact along with the long-standing standards in USA adds to our contention on need for benchmarking cheque collection standards in India. Thus, we can say that, contrary to RBI's deregulation reasoning, in most countries, rather than banks, it is the regulatory framework which develops the policy relating to collection of cheques. Incidentally the NCDRC and subsequently the RBI, finding it prudent to set appropriate standards, has recently benchmarked the time frame for cheque collections.

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Appendix A

Report of the IBA Working Group on Collection of dollar denominated cheques

RBI had suggested that IBA could constitute a task force to examine the issue and also explore the possibility of doing the work of collection through a common agency bank for all banks in India with well laid down and transparent procedural guidelines and well standardized service level.

Accordingly, IBA constituted a Working Group of select banks to deliberate on the RBI's reference and submit a report.

Recommendations of the Working Group

- Banks may carry out a comprehensive review of their existing collection arrangements for USD instruments payable in USA. The review would enable them to isolate reasons for undue delays in collection of cheques and look for alternate channels for collection.
- There is need to make customers aware of legal and other technical factors causing delays in collection of USD cheques. There is also need to explain the rationale behind “cooling period” and also inability of the banks to give value dated credit for provisional payments sighted in NOSTRO accounts.
- Banks shall explore the possibility of deriving the benefit of check 21 arrangements as electronic transmission of truncated images of cheques can effectively quicken collection by about four days.
- Banks have arrangements to give immediate credit through purchase of the instrument to customers having satisfactory dealings with them. Banks may frame their own policies in this regard.

(Source: IBA News Letter January 2007, Indian Banks' Association)

Appendix B

IBA's Model Policy on Collection of Cheques/Instruments

[http://www.iba.org.in/events/\(a\)%20rev%20cheque.doc](http://www.iba.org.in/events/(a)%20rev%20cheque.doc)

1. Introduction

Keeping in view the technological progress in payment and settlement systems and the qualitative changes in operational systems and processes that have been undertaken by a number of banks, the Reserve Bank of India had, with effect from 1st November 2004, withdrawn its earlier instructions to commercial banks on (i) Immediate Credit of local/outstation cheques, (ii) Time Frame for Collection of Local / Outstation Instruments and (iii) Interest Payment for Delayed Collection. The withdrawal of these mandatory guidelines was expected to enable market forces of competition to come into play to improve efficiencies in collection of cheques and other instruments. This collection policy of the Bank is a reflection of our on-going efforts to provide better service to our 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 increased use of technology to provide quick collection services to its customers. This policy document covers the following aspects:

- Collection of cheques and other instruments payable locally, at centres within India and abroad.
- Our 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.
- Our policy on dealing with collection instruments lost in transit.

2. Arrangements for Collection:

2.1. Local Cheques

All cheques and other Negotiable Instruments payable locally would be presented through the clearing system prevailing at the centre. 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. Cheques deposited after the cut-off time and in collection boxes outside the branch premises including off-site ATMs 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. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearinghouse. Wherever applicable, facility of high-value clearing (same day credit) will be extended to customers.

Bank branches situated at centres where no clearing house exists, would present local cheques on drawee banks across the counter and it would be the bank's endeavour to credit the proceeds at the earliest.

2.2. Outstation Cheques

Cheques drawn on other banks at outstation centres will normally be collected through bank's branches at those centres. 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 a correspondent bank. The bank would also use the National Clearing services offered by the Reserve Bank of India at centres where such collection services exist.

Cheques drawn on bank's own branches at outstation centres will be collected using the inter-branch arrangements in vogue. Branches which are connected through a centralized processing arrangement and are offering anywhere banking services to its customers will provide same day credit to its customers in respect of outstation instruments drawn on any of its branches in the CBS network.

2.3 Cheques payable in Foreign Countries

Cheques payable at foreign centres where the bank has branch operations (or banking operations through a subsidiary, etc.) will be collected through that office. The services of correspondent banks will be utilized in country/centres where the correspondent has presence. Cheques drawn on foreign banks at centres where the bank or its correspondents do not have direct presence will be sent direct to the drawee bank with instructions to credit proceeds to the respective Nostro Account of the bank maintained with one of the correspondent banks.

2.4 Immediate Credit of Local / Outstation Cheques / Instruments:

Branches / extension counters of the bank will consider providing immediate credit for outstation cheques / instruments up to the aggregate value of Rs..... tendered for collection by individual account holders subject to *satisfactory conduct* of such accounts for a period not less than 6 months. Immediate credit will be provided against such collection instruments at the specific request of the customer or as per prior arrangement. The facility of immediate credit would also be made available in respect of local cheques at centres where no formal clearing house exists.

The facility of immediate credit will be offered on Savings Bank / Current / Cash Credit Accounts of the customers. For extending this facility there will not be any separate stipulation of minimum balance in the account.

Under this policy, prepaid instruments like Demand Drafts, Interest / Dividend warrants shall be treated on par with cheques.

In the event of dishonor of cheque against which immediate credit was provided, interest shall be recoverable from the customer for the period the bank remained out of funds at the rate applicable for overdraft limits sanctioned for individual customers.

For the purpose of this Policy, a *satisfactorily conducted* account shall be the one

- a) Opened at least six months earlier and complying with KYC norms.
- b) Conduct of which has been satisfactory and bank has not noticed any irregular dealings.
- c) Where no cheques / instruments for which immediate credit was afforded returned unpaid for financial reasons
- d) Where the bank has not experienced any difficulty in recovery of any amount advanced in the past including cheques returned after giving immediate credit.

Bank shall levy normal collection charges and out of pocket expenses while providing immediate credit against outstation instruments tendered for collection. Exchange charges applicable for cheque purchase will not, however be charged.

2.5 Purchase of local/outstation cheques

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.

3. Time Frame for Collection of Local / Outstation Cheques / Instruments:

For local cheques presented in clearing credit will be afforded as on the date of settlement of funds in clearing and the account holder will be allowed to withdraw funds as per return clearing norms in vogue.

Cheques / Instruments presented in high value clearing (with the minimum value of Rs.1 lac) shall be credited on the same day (applicable only in areas covered by high value / same day clearing).

For cheques and other instruments sent for collection to centres within the country the following time norms shall be applied:

- a) Cheques presented at any of the four major Metro Centres (New Delhi, Mumbai, Kolkata and Chennai) and payable at any of the other three centres : Maximum period of 7 days.
- b) Metro Centres and State Capitals (other than those of North Eastern States and Sikkim): Maximum period of 10 days.
- c) In all other Centres : Maximum period of 14 days.

d) Cheques drawn on foreign countries: Such instruments are accepted for collection on the 'best of efforts' basis. Bank may enter into specific collection arrangement with its correspondent bank for speedy collection of such instrument. Bank would give credit to the party on credit of proceeds to the bank's Nostro Account with the correspondent bank after taking into account cooling periods as applicable to the countries concerned.

[Note : The time-limits indicated above may normally be taken as the maximum period for collection of cheques / instruments. Individual banks can specify shorter time-limits depending upon the collection arrangements / technology platform used by them. However, banks with limited network of branches and depending predominantly on correspondent banks/drawee banks for collection of outstation instruments may indicate longer time periods based on their experience in the past. If necessary they may also notify in their policy documents, centres/areas from where they would be giving credit for collection instrument only upon realisation.]

The above time norms are applicable irrespective of whether cheques/instruments are drawn on the bank's own branches or branches of other banks.

4. Payment of Interest for delayed Collection of Outstation Cheques:

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments in case there is delay in giving credit beyond the time period mentioned above. 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.

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

- a) Savings Bank rate for the period of delay beyond 7/10/14 days as the case may be in collection of outstation cheques.
- b) Where the delay is beyond 14 days interest will be paid at the rate applicable to for term deposit for the respective period.
- c) 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.
- d) 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.

It may be noted that interest payment as given above would be applicable only for instruments sent for collection within India.

5. Cheques / Instruments lost in transit / in clearing process or at paying bank's branch:

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 on coming to know of the loss, bring the same to the notice of the accountholder so that the accountholder can inform the drawer to record stop payment and also take care that cheques, if any, issued by him / her are not dishonoured due to non-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.

In line with the compensation policy of the bank the bank will compensate the accountholder in respect of instruments lost in transit in the following way:

- a) 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) interest will be paid for the period exceeding the stipulated collection period at the rates specified above.
- b) In addition, 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.
- c) 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.

6. Force Majeure

The bank shall not be liable to compensate 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 prevents it from performing its obligations within the specified service delivery parameters.

7. Charging of Interest on cheques returned unpaid where Instant Credit was given:

If a cheque sent for collection for which immediate credit was provided by the bank is returned unpaid, the value of the cheque will be immediately debited to the account. 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 had remained out of funds on account of withdrawal of funds. Interest

where applicable would be charged on the notional overdrawn balances in the account had credit not been given initially.

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. If proceeds were credited to an overdraft/loan account, interest shall be recovered at the rate of 2% above the interest rate applicable to the overdraft/loan from the date of credit to the date of reversal of the entry if the cheque/ instrument was returned unpaid to the extent the bank was out of funds.

Appendix C

Model Compensation Policy

[http://www.iba.org.in/events/\(c\)%20rev%20comp.doc](http://www.iba.org.in/events/(c)%20rev%20comp.doc)

Introduction

Technological progress in payment and settlement systems and the qualitative changes in operational systems and processes that have been undertaken by various players in the market have enabled market forces of competition to come into play to improve efficiencies in providing better service to the users of the system. It will be the bank's endeavor to offer services to its customers with best possible utilization of its technology infrastructure. Withdrawal of the Reserve Bank of India instructions to banks on time frame for collection of outstation cheques, payment of interest on delayed collection of outstation cheques/instruments, with effect from 1st November 2004, had offered bank further opportunities to increase its efficiency for better performance. This Compensation policy of the bank is therefore, designed to cover areas relating to unauthorized debiting of account, payment of interest to customers for delayed collection of cheques/instruments, payment of cheques after acknowledgement of stop payment instructions, remittances within India, foreign exchange services, lending, etc. The policy is based on principles of transparency and fairness in the treatment of customers.

The objective of this policy is to establish a system whereby the bank compensates the customer for any financial loss he/she might incur due to deficiency in service on the part of the bank or any act of omission or commission directly attributable to the bank. By ensuring that the customer is compensated without having to ask for it, the bank expects instances when the customer has to approach Banking Ombudsman or any other Forum for redressal to come down significantly.

It is reiterated that the policy covers only compensation for financial losses which customers might incur due to deficiency in the services offered by the bank which can be measured directly and as such the commitments under this policy are without prejudice to any right the bank will have in defending its position before any forum duly constituted to adjudicate banker-customer disputes.

1. Unauthorised / Erroneous Debit:

If the bank has raised an unauthorized/erroneous direct debit to an account, the entry will be reversed immediately on being informed of the erroneous debit, after verifying the position. In the event the unauthorized/erroneous debit has resulted in a financial loss for the customer by

way of reduction in the minimum balance applicable for payment of interest on savings bank deposit or payment of additional interest to the bank in a loan account, the bank will compensate the customer for such loss. Further, if the customer has suffered any financial loss incidental to return of a cheque or failure of direct debit instructions due to insufficiency of balance on account of the unauthorized/erroneous debit, the bank will compensate the customer to the extent of such financial losses.

In case verification of the entry reported to be erroneous by the customer does not involve a third party, the bank shall arrange to complete the process of verification within a maximum period of 7 working days from the date of reporting of erroneous debit. In case, the verification involves a third party, the bank shall complete the verification process within a maximum period of one month from the date of reporting of erroneous transaction by the customer.

Erroneous transaction reported by customers in respect of credit card operations which require reference to a merchant establishment will be handled as per rules laid down by card association.

2. ECS direct debits/other debits to accounts

The bank will undertake to carry out direct debit/ ECS debit instructions of customers in time. In the event the bank fails to meet such commitments customer will be compensated to the extent of any financial loss the customer would incur on account of delay in carrying out the instruction/failure to carry out the instructions.

The bank would debit the customer's account with any applicable service charge as per the schedule of charges notified by the bank. In the event the bank levies any charge in violation of the arrangement, the bank will reverse the charges when pointed out by the customer subject to scrutiny of agreed terms and conditions. Any consequential financial loss to the customer will also be compensated.

Where it is established that the bank had issued and activated a credit card without written consent of the recipient, the bank would not only reverse the charges immediately but also pay a penalty without demur to the recipient amounting to twice the value of charges reversed as per regulatory guidelines in this regard.

3. Payment of Cheques after Stop Payment Instructions:

In case a cheque has been paid after stop payment instruction is acknowledged by the bank, the bank shall reverse the transaction and give value-dated credit to protect the interest of the

customer. Any consequential financial loss to the customer will be compensated as provided under para 1 above. Such debits will be reversed within 2 working days of the customer intimating the transaction to the bank.

4. Foreign Exchange Services:

The Bank would not compensate the customer for delays in collection of cheques designated in foreign currencies sent to foreign countries as the bank would not be able to ensure timely credit from overseas banks. It is the bank's experience that time for collection of instruments drawn on banks in foreign countries differ from country to country and even within a country, from place to place. The time norms for return of instruments cleared provisionally also vary from country to country. Bank however, would consider upfront credit against such instrument by purchasing the cheque/instrument, provided the conduct of the account has been satisfactory in the past. However, the bank will compensate the customer for undue delays in affording credit once proceeds are credited to the Nostro Account of the bank with its correspondent. Such compensation will be given for delays beyond one week from the date of credit to Nostro Account/ due date after taking into account normal cooling period stipulated. The compensation in such cases will be worked out as follows:

- a) Interest for the delay in crediting proceeds as indicated in the collection policy of the bank.
- b) Compensation for any possible loss on account of adverse movement in foreign exchange rate.

5. Remittances in India:

The compensation on account of delays in collection of instruments would be as indicated in the bank's collection policy which is reproduced below for information:

“Payment of Interest for delayed Collection of Outstation Cheques:

As part of the compensation policy of the bank, the bank will pay interest to its customer on the amount of collection instruments in case there is delay in giving credit beyond the time period mentioned above. 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.

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

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

g) 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.

h) 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.

It may be noted that interest payment as given above would be applicable only for instruments sent for collection within India”.

The bank’s compensation policy for financial loss suffered by the customers due to loss of instrument after it has been handed over to the bank for collection by the customer would also be as indicated in our collection policy. The same is extracted below for information:

“Cheques / Instruments lost in transit / in clearing process or at paying bank’s branch:

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 on coming to know of the loss, bring the same to the notice of the accountholder so that the accountholder can inform the drawer to record stop payment and also take care that cheques, if any, issued by him / her are not dishonoured due to non-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.

In line with the compensation policy of the bank the bank will compensate the accountholder in respect of instruments lost in transit in the following way:

d) 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) interest will be paid for the period exceeding the stipulated collection period at the rates specified above.

e) In addition, 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.

f) 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.

6. Violation of the Code by banks agent

In the event of receipt of any complaint from the customer that the bank’s representative / courier or DSA has engaged in any improper conduct or acted in violation of the Code of Bank’s Commitment to Customers which the bank has adopted voluntarily, bank shall take appropriate

steps to investigate and to handle the complaint and to compensate the customer for financial losses, if any.

7. Transaction of “at par instruments” of Co-operative Banks by Commercial Banks *

The RBI has expressed concern over the lack of transparency in the arrangement for payment of “at par” instruments of co-operative banks by commercial banks resulting in dishonour of such instruments when the remitter has already paid for the instruments. In this connection it is clarified that the bank will not honour cheques drawn on current accounts maintained by other banks with it unless arrangements are made for funding cheques issued. Issuing bank should be responsible to compensate the cheque holder for non payment/delayed payment of cheques in the absence of adequate funding arrangement.

[* para 7 is applicable only for policy documents of commercial banks]

8. Force Majeure

The bank shall not be liable to compensate 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 prevents it from performing its obligations within the specified service delivery parameters.
