

Bank's Policy on collection of US Dollar denominated cheques

Preamble

Our bank's policy on "collection of cheques / instruments" covers guidelines for instruments payable abroad. The policy on "Compensation to customers for deficiency in services rendered" covers payment of interest for belated credit to customers account.

Given the number of instances of customer complaints on delay in collection and the scope for banks to further refine their procedures, RBI conducted a study of US Dollar cheque collection practices of banks and suggested banks to initiate certain steps in order to provide customer friendly collection arrangements.

Taking note of the suggestions, an analysis was made on the existing two policies viz (a) Collection of cheques / instruments and (b) Compensation to customers for deficiency in services rendered and need was felt to frame separate policy. Accordingly, our Bank's Board approved fresh policy on "Collection of US Dollar denominated cheques"

Scope of the policy:

This policy is framed based on the principles of transparency and fairness in the treatment of customers. This policy covers the following aspects.

- Collection of cheques and other instruments payable at USA
- Dissemination and display of policy.
- Commitment on increased use of technology and customer awareness.
- Reduction in transit time.
- Service charges
- Payment of interest
- Payment of compensation
- Instant credit for small value cheques.
- Customer complaints.
- Other issues.

1. Collection of cheques and other instruments payable at USA

This policy covers handling of US Dollar denominated foreign currency instruments payable at USA through US Dollar nostro correspondent banks and applicable service charges. The bank assumes no responsibility for the genuineness of the instruments tendered by the customers and accepted by it for collection. The policy specifies acceptance of instruments for collection on the "Best of Efforts" basis and affording of credit to customers account only on receipt of proceeds to the credit of bank's nostro account.

Branches may utilize three type of services viz (a) Cash Letter Services, (b) Cheque Collection/final credit services " and (c) Cheque 21 services.

Cash letter services: Under this service, clean instruments payable in USA are forwarded to the local representative offices of nostro correspondent banks in a preprinted serialized deposit tickets provided by them for onward physical movement of instruments to their US offices.

This system represents the most common means of paying the proceeds of a cheque worldwide, as it is less work-intensive and usually less costly than the other system and is usually free of charge. In this system, immediate credit is given to the nostro account subject to final payment i.e. the nostro account is credited immediately under reserve upon receipt of instruments and are subsequently sent to the drawee banks for realization. Under this system, normally funds are being credited to the nostro account within 7 to 10 days from the date of handling at branch level. There is a cooling period/fall back period of 21 days prescribed to take care of the cheque return practices in US and hence credits are available to customers taking into account the cooling period also. However, in case of forged endorsements, material alteration, counterfeit etc, the fall back period extends up to 1 year for altered cheques, 3 years for frauds and 7 years for Treasury cheques. Therefore, the bank runs a potential credit risk on the end customer in case the cheque is returned.

Branches may part with the amount only after expiry of the reserve period except for very valued customers where the branch is confident of recovering the amount, in case of return of the instrument.

b. Checks collection services/final credit service: Under this services, instruments received for collection shall not be credited to account unless and until correspondent bank receives payment from the drawee bank. Hence, there is no cool off period of 21 days prescribed to take care of cheque return practices in US. This procedure offers greater security for the bank and is however more costly and work intensive. The collection charges in respect of these cheques under this system may have to be borne by the customer, as the same will be deducted from the proceeds by the nostro bank while according the credit to our nostro account.

c. Check 21 Services. - "Check 21 "services. is an improvement over the existing system of "Cash Letter Services". This is in line with new law enacted by US known as " Check Clearing for the 21st Century Act 21 "This law allows banks to replace original checks with " substitute " checks or " image replacement document-check truncation " which has same legal validity as the original paper check itself.

This system promotes efficiency in the check clearing process, since electronic clearing is faster and more cost effective than traditional paper clearing and reduces time and risks associated with transporting instruments.

Under this system, the truncated images of the cheque are transmitted, thereby saving the number of days on physical movement of instruments from India to USA.

Branches shall obtain necessary instructions from the customer lodging foreign currency instruments indicating their option for either cash letter services or final credit services.

Further, while accepting such letters, the branch manager should exercise his discretion in affording immediate credit or otherwise and inform the customer as to the mode of collection followed.

2. Dissemination and display of policy.

The policy to be made available in Bank's network and branches to display on the notice board the salient features.

3. Commitment on increased use of technology and customer awareness

This policy covers the commitment to increased use of technology to provide quick collection services to customers. Branches shall educate/ inform the customer on the collection mode based on need, convenience and cost, including the advantages of using electronic modes of payment.

4. Reduction in transit time:

Branches to reduce the transit time for moving the cheques to Correspondent Banks by handling the cheques on the same date of receipt and use of efficient and reliable courier/postal service. The period for collection is stipulated at 5 to 7 working days from the date of deposit of cheque (with recourse basis under cash letter services and check 21 services) and a cool off period of 21 days and the period of 30 days from the date of deposit under "collection/final credit services"

Check – 21 services will reduce the collection time as only images are transmitted and no physical movement of cheque take place, when support is made available by correspondent banks in India.

5. Service charges:

The collection charges on USD cheques are available in the schedule of service charges, which are subject to change from time to time.

6. Payment of interest:

Banks shall pay interest on the amount of cheque from the date of sighting credit in their nostro account till such time the customer account is credited. Interest shall be paid minimum at the savings bank rate calculated on the amount of proceeds credited to the customer's account. The foreign exchange rate on the date of credit to our nostro account shall be the basis for calculation of interest irrespective of the rate prevailing on the date of claim/calculation/settlement.

7. Payment of compensation:

RBI suggested payment of compensation by way of additional interest to the customer for delay in collection beyond the declared collection period, without the customer requesting for the same and such interest shall be on "step-up basis" for the period of delay. Accordingly, this new policy envisages payment of compensation by way of additional interest at 2% over and above SB

interest for the period of delay beyond 30 days till the date of credit to customers account and such interest shall be on “step-up” basis for the period of delay.

8. Instant credit for small value cheques

Immediate Credit of Foreign Currency Cheques Payable Overseas (IFOC) facility is already in place. The important provisions of this scheme are detailed below

- Individuals and Joint account holders maintaining properly introduced SB accounts with the branch at least for one year are eligible to have this facility
- Only personal cheques drawn in USD and Euro can be purchased under this facility. However, cheques drawn in US Dollar and payable outside USA will not be covered under this facility.
- Amount eligible to be purchased is USD 500.
- This scheme is applicable to all branches excluding rural branches.
- In case of return of cheques, the branch has to recover interest as applicable to BP returned unpaid, from the date of purchase until the date of debit to the account / recovery from the customer.
- Customers who confirm to the eligibility criteria can be extended immediate credit facility to more than one cheque at a time within an overall limit of USD 500 as the case may be

9. Customer complaints

Customer complaints on delay in collection / receipt of proceeds will be attended to immediately.

10. Other issues

- Banks will ensure continuous evaluation of the practices and adopt the same wherever feasible.
- 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, accidents, 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 happens which may prevent it from performing its obligations within the specified service delivery parameters.
- Local laws prevailing in USA on return of cheque is applicable and customer is liable to return back funds to the bank in case the cheque is returned unpaid after the funds are credited to the customer’s account.