

**Customer Service - Reversal of Erroneous Debits  
Arising on Fraudulent or Other Transactions**

DBOD.LEG.BC.86 /09.07.007/2001-02

April 8, 2002

The Chairman / Chief Executive  
All Scheduled Commercial Banks  
(excluding RRBs)

Dear Sir,

**Customer Service - Reversal of Erroneous Debits  
Arising on Fraudulent or Other Transactions**

Please refer to our circular DBOD.BP.BC. 57/21.01.001/95 dated May 4, 1995 (copy enclosed) advising banks to adhere to the guidelines and procedure for opening and operating deposit accounts to safeguard against unscrupulous persons opening accounts mainly to use them as conduit for fraudulently encashing payment instruments. However, we continue to receive complaints of fraudulent encashment by unscrupulous persons opening deposit accounts in the name/s similar to already established concern/s resulting in erroneous and unwanted debit of drawers' accounts. Banks are, therefore, advised to remain vigilant to avoid such lapses and to issue necessary instructions to the branches / staff.

2. Besides, in cases of the above kind, the banks have also not restored funds promptly to customers even in bona-fide cases but deferred action till completion of either departmental action or police interrogation. In this connection we invite a reference to our circular DBOD.No.Com. BC. 18/C.408A-78 dated February 15, 1978 (copy enclosed) in terms of which the banks were advised that once the bank is convinced that an irregularity / fraud had been committed by its staff towards any constituent, it should at once acknowledge its liability and pay the just claim.

3. With a view to redressing the grievances of the customers in this regard, we have reviewed the position and advise that (i) in cases where banks are at fault, the banks should compensate customers without demur, and (ii) in cases where neither the bank is at fault nor the customer at fault but the fault lies elsewhere in the system, then also the banks should compensate the customers ( upto a limit) as part of a Board approved customer relations policy.

4. Please acknowledge the receipt.

Yours faithfully,

S/d-  
(M.R.Srinivasan)  
Chief General Manager - in- Charge  
Encls:-As above

15 February 1978

The Chief Executives of all Commercial Banks

Dear Sirs,

**FRAUDS IN BANKS**

Recently, it came to our notice that a person committed a fraud by making certain material alterations viz. changing the name of the payee and overwriting the amount and date of the cheque on a bank (paying bank). The person got the amount of the altered cheque credited to his account with a third bank (collecting bank) and withdrew the money later. The account holder who thus lost the money took the matter to court which held that there was total negligence on the part of both the banks i.e. the collecting bank and the paying bank. In its judgement, the court observed that once a bank was convinced that an irregularity / fraud had been committed by its staff towards any constituent, it should at once, acknowledge its liability and pay the just claim, thereby setting an example for fair dealing with the general public, and not resort to unnecessary litigation. We commend these observations of the High Court to the banks for implementation.

Yours faithfully,

Sd/-  
(P.K. Venkateswaran)  
Joint Chief Officer

BP.BC.57 / 21.01.001/95

Ref.DBOD.BP.BC.57 / 21.01.001/95, May 4, 1995 (19950504)

## FRAUDS IN BANKS - MONITORING OF DEPOSIT ACCOUNTS.

### SEC. BANKING POLICY.

Please refer to our circulars DBOD.No.GC.BC. 193 / 17.04.001 / 93 dated November 18, 1993 and BP.BC.106 / 21.01.001 / 94 dated September 23, 1994 wherein we have reiterated the need for banks strictly adhering to the guidelines and procedures for opening and operating deposit accounts to safeguard against unscrupulous persons opening 'benami' (fictitious) accounts mainly to use them as conduit for fraudulently encashing third party cheques, drafts, etc. As a further measure to safeguard against misuse of bank accounts, banks were advised (vide our circular letter DBOD.No. GC. 202 / 17.04.001/93 dated December 6, 1993) to obtain photographs of depositors and account holders who are authorized to operate the accounts in respect of new deposit accounts opened with effect from January 1, 1994. Banks were also advised to forewarn their branches that the violation of essential safeguards and laid down procedures in opening and operations of deposit accounts by the branch officials would attract punitive action against them.

2. We observe that, despite our repeated instructions in the matter, instances of opening of fictitious accounts and fraudulent encashment of third party / account payee cheques, interest / dividend warrants, refund orders, etc. are being reported to us as also to the Securities and Exchange Board of India (Sebi). Such accounts are generally closed within a short period after syphoning off the money by the unscrupulous persons.

In order, therefore, to further tighten the monitoring system relating to opening and operations in deposit and other accounts, banks should take further steps as indicated below :

(a) A system of close watch on new deposit accounts should be introduced. The banks should advise their branches that although it will be the primary responsibility of the In-Charges of the deposit accounts section / departments to monitor such newly opened accounts, the branch managers or the managers of deposit accounts section at the branch will, at least, for the first three months keep a close watch so as to guard against any fraudulent or doubtful transactions taking place therein. It should be made clear to them that they will be held personally accountable in case it transpires subsequently that these accounts have been used during the initial period of three months for fraudulent transactions.

(b) A system of close monitoring of cash withdrawals for large amounts should be put in place. It has been observed that third party cheques, drafts etc. are deposited in the existing and newly opened accounts followed by cash withdrawals for large amounts thereby giving rise to suspicion about the nature of the whole transaction. In our circular DBOD. No.FMC.BC.153 / 27.01.003 / 93-94 dated September 1, 1993, it has been mentioned that the branch managers should closely monitor cash withdrawals for large

amounts. We advise that bank should introduce a system of closely monitoring cash deposits and withdrawals for Rs.10 lakhs and above not only in deposit accounts but also in all other accounts like cash credit / overdraft etc. The branches should also maintain a separate register to record details of individual cash deposits and withdrawals for Rs.10 lakhs and above. The details recorded should include, in the case of deposits, the name of the account holder, account number, amount deposited and in the case of withdrawals, the name of the account holder, account number, amount of withdrawal and name of the beneficiary of the cheque.

3. Please acknowledge receipt and confirm having noted these instructions for strict compliance.