



RBI/2004/261

DBOD.No.Leg.BC.55 /09.07.005/2004-05

November 1, 2004

To

All Scheduled Commercial Banks  
(Excluding RRBs)

Dear Sir,

**Committee on Procedures and Performance Audit on Public Services (CPPAPS)- Formulating policy for (i) Immediate Credit of local / outstation cheques (ii) Time Frame for Collection of local / outstation cheques and (iii) Interest Payment for delayed collection**

As you are aware, Reserve Bank has been issuing instructions, from time to time, to banks on issues relating to (i) Immediate credit of local / outstation cheques (ii) Time frame for collection of local / outstation cheques and (iii) Interest payment for delayed collection. The instructions in this regard are briefly summarised below:

2.(i) **Immediate Credit of local / outstation cheques:** Banks were advised to afford immediate credit in respect of outstation cheques upto Rs.2,500/- subject to certain conditions such as bank being satisfied about the proper conduct of the customers' accounts etc., which was raised to Rs.15,000/- vide our Circular DBOD.No.Leg.BC.21/09.07.007 dated August 23, 2002.

(ii) **Time Frame for Collection of Local / Outstation Instruments:** We had vide our Circular DBOD.No. BC.No.59/09.07.007 dated May 17, 1995 stipulated the time frame for collection of outstation cheques in the four metropolitan centers having MICR cheque clearing system, in respect of State capitals and centres with more than 100 bank offices as also in case of local cheques.

(iii) **Interest payment for delayed collection:** We had advised banks vide our Circulars DBOD.No.Leg. BC.88/C.466(IV)/88 dated February 4, 1988 and DBOD.No.BC.147/09.07007/99-2000 dated March 9, 2000 to pay interest at the rate as applicable for appropriate tenor of fixed deposit for the period of delay beyond 10 / 14 days in collection of outstation instruments. Banks were also advised vide the circular dated March 9, 2000 to pay penal interest at the rate of 2 per cent above fixed deposit rate applicable for abnormal delay caused by branch in collection of outstation instruments.

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3. On a comprehensive review of 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, it is observed that prescription of a single set of rules may not be appropriate. Pertinently in most countries banks are obliged to develop their own individual policy / procedures relating to collection of cheques and also provide due disclosures to the customers on the bank's obligations and the customers' rights. Hence, efficiencies in collection of proceeds and providing funds to customers in time is best achieved through a spirit of competition among the banks rather than through issue of guidelines by RBI.

4. Keeping in view the above, it has been decided to withdraw the instructions issued regarding (i), (ii) and (iii) above, leaving it to the individual banks to formulate policies in this regard. Banks should consequently formulate a comprehensive and transparent policy covering all the above three aspects, taking into account their technological capabilities, systems and processes adopted for clearing arrangements and other internal arrangements for collection through correspondents. Further, they may also review their existing arrangements and capabilities and work out a scheme for reduction in collection period. **Adequate care also may be taken to ensure that the interests of the small depositors are fully protected.** The policy framed in this regard should be integrated with the deposit policy formulated by the bank in line with the IBA's model deposit policy. **The policy should clearly lay down the liability of the banks by way of interest payments due to delays for non-compliance with the standards set by the banks themselves. Compensation by way of interest payment, where necessary, should be made without any claim from the customer.**

5. The policy may be placed before the Board of the Bank alongwith our current instructions and the Board's specific approval should be obtained on the reasonableness of the policy and the compliance with the spirit of our guidelines.

6. Banks may thereafter ensure that wide publicity is given to the policy formulated by the them in this regard by placing it on the web-site and also displaying the same on the notice board in their branches. The customers should be clearly apprised of the assurances of the bank on the services on these aspects at the time of establishment of the initial relationship be it as a depositor, borrower or otherwise. Further, they may also take necessary steps to keep the customers duly informed of the changes in the policy formulated by them from time to time.



7. The above guidelines have been issued to ensure that the obligations of the bank to the customers and the rights of the customers stand clearly established and observed in practice without demur. However, it may please be noted that the Reserve Bank of India and the Banking Ombudsman would continue to exercise the prerogative to examine any dispute which may arise between the bank and any of its customer, vis-à-vis their published policies and procedures.

8. Please acknowledge receipt.

Yours faithfully

(C.R.Muralidharan)  
Chief General Manager-in-Charge