

April 15, 2008

To
The Chief Executive Officers of
All Scheduled Primary (Urban) Co-operative banks

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 relative instructions are compiled in our Master Circular on Customer service –UCBs vide UBD.BPD. (PCB) MC No 8/09/39/000/2007-08 dated July 4, 2007. The important instructions in this regard are briefly summarised below:

2. (i) Immediate Credit of local / outstation cheques:

Scheduled UCBs were advised to afford immediate credit in respect of all local/outstation cheques up to Rs.7500/- tendered by individual accountholder subject to certain conditions such as bank being satisfied about the proper conduct of the customers' accounts etc.

(ii) Time Frame for Collection of Local / Outstation Instruments:

The banks were to stipulate 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:

In all cases of delay in collection of outstation cheques and other instruments, the banks are required to pay interest at saving bank rate for delayed collection of outstation cheques/instruments drawn either on their own outstation branches or on outstation branches of other (drawee) banks and sent for collection, if the proceeds are not realized /credited to the customers' accounts or the unpaid instruments are not returned to customers within a period of 14 days from the date of their lodgement. Banks were advised 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 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.

3. On a 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, the individual banks may 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 policy. (Copy enclosed for ready reference). **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. It may also be ensured that the customers are, in no way, worse off than earlier.**

5. The policy may be placed before the Board of the bank along with 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. You may please arrange to send a copy of Cheque Collection Policy to this Department and endorse a copy to Chief General Manager, Reserve Bank of India, Department of Payment and Settlement Systems, Central Office, Mumbai for our perusal and confirmation before it is implemented by the banks.

7. Please acknowledge receipt.

Yours faithfully,

(A.K.Khound)
Chief General Manager in Charge.