



Policy on Cheque Collection

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Policy Owner	Retail Liabilities
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1. Introduction

ESAF Small Finance Bank (hereinafter referred to as “the Bank”) emphasizes on creating a society with equal opportunities and has access to sustainable financial services which help in economic development. Customer Service is a key focus area of the Bank. The Bank focusses on consistent improvement in customer experience and quality of operations.

Keeping in view the regulatory guidelines, the Bank has formulated a comprehensive and transparent cheque collection policy.

2. Objective

This cheque collection policy of the Bank reflects its on-going efforts to provide better service to its 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.

The key objectives of the policy are as under:

- Lay down norms for credit for Local / Outstation cheques and other instruments
- Institutionalize a mechanism for monitoring the dishonour of high value cheques.
- Lay down procedures to be adopted in case of loss of cheques or delay in collection of cheques and other instruments payable locally at centres within India.
- Devise the mechanism for cheque return or re-presentation of cheques.

3. Applicability

The policy will apply to all customers of the Bank and it covers all the cheque collection instruments offered/ distributed by the Bank. It also captures the roles and responsibilities of bank employees, scope of activities, scope of operations and the monitoring mechanism of the activities of the cheques collection.

4. Governance Structure

The Bank shall have the following governance structure for the approval and implementation of this policy.

Customer Service Committee

The Customer Service Committee of the Board consists of members of the Board of Directors of the Bank. This Committee shall, inter alia, perform the following functions:

- Review this policy and make recommendations to the Board.
- To ensure the policy is periodically aligned with leading market practices and regulatory requirements.

- Review the Board's concerns in customer services and complaints.

Product & Process Committee (PPC)

The Committee shall approve any new processes associated with cheque clearing or dishonour in alignment with this policy and other regulatory requirements. The Committee shall approve such processes keeping in view the suitability and appropriateness of the product for such customers.

Head – Retail Liabilities

The Head – Retail Liabilities shall prepare the Cheque Collection policy in consultation with Risk, Compliance, Operations and IT Departments, which shall be put forward to the Customer Service Committee and thereafter to the Board for approval. This policy shall seek to cover the broad types of cheques, collection and dishonour procedures. The Head – Retail Liabilities shall ensure the review of the policy on an annual basis. Any supplementary processes to the procedures/ mechanism as laid down in the policy shall be approved by the Product & Process Committee.

5. General Guidelines on Issue and Acceptance of Cheques/Cheque Book

The branch staff shall issue CTS – 2010 standard cheque books over the counters at the request of the customer to the customer or his/ her authorised representative. However, they shall exercise appropriate care while issuing large number of cheque books.

The branch staff may issue cheque books with larger number of leaves if a customer demands the same and also ensure that adequate stocks of such cheque books are maintained with all the branches to meet the requirements of the customers. However, discrete analysis to be made on the requirement and shall obtain approval from the Cluster Head.

The cheque book can be of two types, Personalized and Non-Personalized. Personalized cheque book carry cheque leaves where name and account numbers of the account holders are printed.

All cheque forms should be printed in Hindi and English. The Bank shall honour the cheques written by the customer in Hindi, English or in the concerned regional language

The Bank shall accept cheques for payment even if the date mentioned on the cheque is a date in Hindi or the date is as per the National Calendar (Saka Samvat), if the cheque is otherwise in order. The Bank shall ascertain the Gregorian calendar date corresponding to the National Saka calendar in order to avoid payment of stale cheques.

The Bank shall offer the facility for acknowledgement of cheques at branch counters as well as cheque drop boxes installed inside branches. The Bank shall not however force the customer to drop the cheques in the drop box. The Bank shall also display a notice in English, Hindi and the regional language in the drop box that customers shall have the option to tender the cheques at the counter and obtain acknowledgement on the pay-in-slips.

The Bank shall not decline to accept outstation cheques deposited by its customers for collection. The Bank shall not collect any account payee cheques for any person other than the payee constituent mentioned in the cheque.

6. Arrangements for collection of Instrument

6.1 Collection of Cheques

All cheques and other negotiable instruments payable would be presented through the CTS clearing system.

The Bank shall accept cheques during the working hours of the Bank. The Bank shall install cheque drop boxes inside branches. For the cheques drawn on other Banks, the cut-off time for collection will be worked out on the basis of the time afforded by the clearing houses of that location. The timings will be displayed at the Bank branches.

For the cheques drawn on own branches of the Bank, the collection timings will be as follows:

- Cheques deposited across counter up to bank working hours on the same working day
- Cheques deposited in drop boxes up to bank working hours on the same working day

The Bank would give credit to the customer's account on the same day on which the final clearing settlement takes place or at the most the next working day of their presentation in clearing. Withdrawal of amounts so credited would be permitted as per the cheque return schedule of the clearing house.

6.1A Cheque Truncation System (CTS)

CTS - 2010 standard is a set of benchmarks prescribed by RBI towards achieving standardization of cheques issued by banks across the country. This include provision of mandatory minimum-security features on cheque forms like quality of paper, watermark and bank's logo in invisible ink, void pantograph, etc. and standardization of field placements on cheques.

In Cheque Truncation System (CTS), physical movement of cheque is stopped at the collecting bank and only image is transferred to the drawee bank. The drawee bank processes the instrument using the image. In CTS, payments are made by the drawee bank on the basis of the images. In order to ensure quality of the images transmitted for processing at the drawee bank, certain image specifications are mandated by RBI in the CTS clearing. Images that do not meet the specifications are rejected. Apart from the process changes, customers may be guided by a special directive by RBI regarding corrections / alterations on the cheques.

No changes / corrections can be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount in figures) or legal amount (amount in words), fresh cheque leaves should be used by customers. This prohibition is applicable to cheques cleared under the image-based Cheque Truncation System (CTS) only. It is not applicable to cheques cleared under physical exchange of instruments.

Bank shall introduce continuous clearing with 'on-realisation-settlement' as per the RBI guidelines. A detailed SOP shall be prepared on this regard. This will facilitate continuous clearing of cheques under the Cheque Truncation System (CTS), transitioning from the current batch processing to a continuous clearing model. This means cheques will be cleared within a few hours of submission instead of the current 1-2 day clearing cycle.

6.1B Outstation Cheques

Cheques drawn on other banks at outstation centres other than those covered under CTS, will normally be collected through banks' 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. Cheques drawn on bank's own branches at outstation centres, will be collected using the inter-branch arrangements in vogue.

6.2 Cheques payable in foreign countries

Cheques payable at foreign centres will be sent for collection through Banks in India with AD Category I license and through our foreign correspondent banks.

6.3 Payment of Cheques/Drafts/Pay Orders/Banker's Cheques

The Bank shall not make payment of cheques bearing that date or any subsequent date, if they are presented beyond the period of 3 months from the date of such instrument. The Bank shall notify the holders of such instruments of the change in practice by printing or stamping on the cheque leaves and by issuing suitable instruction for presentment within the period of 3 months from the date of the instrument.

Bank shall exercise care while affixing stamps on the cheque forms, so that it does not interfere with the material portions such as date, payee's name, amount and signature. The use of rubber stamps, etc, should not overshadow the clear appearance of these basic features in image. It is necessary to ensure that all essential elements of a cheque are captured in an image during the scanning process and bank and customers have to exercise appropriate care in this regard.

6.4 Cheques/ Instruments lost in transit / in clearing process or at paying Bank's branch:

In respect of cheques lost in transit or in the clearing process or at the branch, the Bank shall immediately bring the same to the notice of the accountholder so that accountholder can inform the drawer to record stop payment and can also take care that other cheques issued are not dishonoured due to non-credit of the amount of the lost cheques / instruments. The Bank shall compensate the customer with respect to the cheque lost in transit or delayed clearing of cheques as per the Customer Compensation Policy of the Bank.

The Bank shall reimburse the accountholder related expenses for obtaining duplicate instruments and also interest for reasonable delays occurred in obtaining the same. If the cheque/ instrument has been lost at the paying Bank's branch, the Bank shall have a right to recover the amount reimbursed to the customer for the loss of the cheque/ instrument.

6.5 Positive Pay System for Cheque Truncation System

The Bank shall implement the concept of "Positive Pay" as per the RBI Direction - Positive Pay System for Cheque Truncation System.

Availing of this facility for cheques amounting to ₹ 50,000/- and above is at the discretion of the account holder. Bank may consider making it mandatory in case of cheques for amount of ₹5,00,000/- and above. However, the inward cheques received for clearing through CTS shall not be returned unpaid even if customer have not shared the cheque details through Positive Pay for the time being.

The Bank shall allow the customers to submit the Positive Pay System details through the form available at Branches during Branch working hours. Also, Bank shall provide this facility in digital modes through Mobile Banking and Internet Banking. Through digital mode, Positive Pay details can be submitted 24X7.

7. Time Frame for Collection of Local / Instruments:

For local cheques, credit and debit shall be given on the same day or at the most the next day of their presentation in clearing. In respect of local clearing, the Bank shall permit usage of the shadow credit afforded to the customer accounts immediately after closure of relative return clearing and in any case, withdrawal shall be allowed on the same day or maximum within an hour of commencement of business on the next working day, subject to usual safeguards.

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

Time frame for collection of cheques drawn on State Capitals / major cities / other locations to be 7/10/14 days respectively. The Bank shall pay interest at the fixed deposit interest rate for the corresponding maturity if there is any delay in collection beyond this period.

8. Dishonour of Cheques

The Bank may reject cheques on account of technical reasons such as stale cheques, incorrect date, signature not matching with the account holder's sign and such other reasons or on account of insufficient funds. For the purpose of adducing evidence to prove the fact of dishonour of cheque on behalf of a complainant (i.e. payee / holder of a dishonoured cheque) in any proceeding relating to dishonoured cheque before a court, consumer forum or any other competent authority, the Bank should extend full co-operation, and should furnish him/her documentary proof of fact of dishonour of cheques.

The Bank shall ensure that cheques/ drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them. The Bank shall ensure that appropriate action is taken against their staff who have refused to accept cheques/ drafts containing fractions of a rupee.

Cheques with alteration / modification are not accepted under CTS. No changes / corrections can be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount in figures) or legal amount (amount in words), fresh cheque leaves shall be used by customers. This will help the bank in identifying and controlling fraudulent alterations.

8.1 Procedure for return/despatch of dishonoured cheques

The Bank shall ensure that dishonoured instruments are returned/ despatched to the customer promptly without delay, in any case within 24 hours. The Bank should return dishonoured

cheques presented through clearing houses strictly as per the return discipline prescribed for respective clearing house in terms of Uniform Regulations and Rules for Bankers' Clearing Houses. If the Bank is the collecting Bank, on receipt of such dishonoured cheques it shall immediately despatch it to the account holders.

In case of outward cheque return, an advice will be prepared by the Bank wherein the reason for return of the cheque will be indicated. The advice along with the dishonoured cheque will be sent to the customer by registered post/ local delivery/ across counter. The Bank shall return/ dispatch the dishonoured cheques to the customer at his / her last recorded address available with the branch. In case the cheque is drawn on any other branch of the Bank and is dishonoured, then the Bank shall send the dishonoured cheque with the memo within 1 working day from the date of dishonour.

In case of dishonour/ return of cheques, the Bank should clearly indicate the return reason code on the return memo / objection slip which should also bear the signature/ initial of the Bank officials as prescribed in Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH).

8.2 Dealing with incidents of frequent dishonour of cheques/ payment instructions of value of Rs. 1 crore and above

The Bank shall introduce a condition for operation of accounts with cheque facility that in the event of dishonour of a cheque/ payment instruction valuing Rs. 1 crore and above drawn on a particular account of the drawer on four occasions during the financial year for want of sufficient funds in the account, no fresh cheque book shall be issued.

If a cheque is dishonoured for a third time on a particular account of the drawer during the financial year, the Retail Liabilities Department shall issue a cautionary advice through Branch Operations Department to the concerned constituent drawing his attention to aforesaid condition and consequential stoppage of cheque facility in the event of cheque being dishonoured on fourth occasion on the same account during the financial year. The Bank shall issue similar cautionary advice through Branch Operations Department if it intends to close the account.

In case the cheque is returned due to no fault of the customer, the Bank shall not levy any cheque return charge.

8.3 Dealing with incidents of frequent dishonour of cheques/ payment instructions of value of less than Rs. 1 crore.

Since frequent dishonour of cheques of value of less than Rs. 1 Crore is also a matter of concern; Bank shall take appropriate action in those accounts where such dishonour of cheque occurs. This policy also deals with matters relating to frequent dishonour of ECS Mandates.

If there are incident of dishonour of cheques of value less than Rs.1 crore on 6 occasion during the financial year for want of sufficient funds, then this would be considered as frequent dishonour of cheques.

Hence with a view to enforcing financial discipline among the customers, in the event of dishonour of a cheque for an amount less than Rs. 1 crore, on six occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued.

If a cheque is dishonoured for fifth time on a particular account of the drawer during the financial year, the Bank shall issue cautionary advice to the customer drawing his / her attention to number of cheques returned and consequent stoppage of cheque facility in the event of cheque being dishonoured on the sixth occasion on the same account during the financial year.

In the event of the bank considering closure of the account, the Central Operations Department shall close the account with approval from Branch Banking Department after serving notice of 30 days to the customer.

However, in respect of advances accounts such as Cash Credit, Overdraft account, where the cheque valuing below Rs. 1 Crore and drawn on branch particular account of a drawer are returned on 6 occasions during the financial year for want of sufficient funds in the account, the need for continuance or otherwise of the credit facilities and the cheque facility relating to those accounts shall be reviewed by the Credit Monitoring Department.

8.4 Delay in Re-presentation of Technical Return Cheques and Levy Charges for such Returns

The Bank shall levy cheque return charges only in cases where the customer is at fault and is responsible for such returns. In cases where the cheques need to be re-presented without any recourse to the payee, such re-presentation should be made in the immediate next presentation clearing not later than 24 hours (excluding holidays) with due notification to the customers of such representation through SMS alert, email etc.

8.5 If a cheque/instrument for which immediate credit has been afforded is returned unpaid

Bank shall recover interest at clean overdraft rate for the period Bank remained out of funds and also cheque return charges, subject to the following: -

- a) Bank will charge interest from the date of credit of proceeds of the cheque in the account till reimbursement/realization of the amount to/by the Bank.
- b) Where the cheque is credited to a Savings Bank account, such credits will not be reckoned for interest in SB balance purposes if the cheque is returned unpaid.
- c) If proceeds are credited in an overdraft/loan account, interest would be recovered at applicable rate/clean overdraft rate, whichever is higher, on the amount of returned cheque/instrument for the period from date of credit to the date of recovery.

9. Purchase of local cheques:

The Bank, at its discretion, may purchase local cheque tendered for collection as per the customer's request or as per any prior arrangement. The Bank shall in addition to the satisfactory conduct of account consider the standing of the drawer of the cheque as a factor

while purchasing a cheque. All branches will follow the internal guidelines as per the extant delegation of authority given on purchase of cheques.

10. Force Majeure

The Bank shall not be liable if any transaction does not fructify or may not be completed or for any failure on part of the Bank to perform any of its obligations contemplated hereunder if performance is prevented, hindered or delayed by a Force Majeure event (defined below) and in such case its obligations shall be suspended for so long as the Force Majeure. "Force Majeure Event" means any event due to any cause beyond the reasonable control of the Bank, including without limitations, unavailability of any communication systems, breach, or virus in the processes or payment or delivery mechanism, sabotage, fire, flood, explosion, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent bank(s), civil commotion, strikes or industrial action of any kind, riots, insurrection, war, acts of government, computer hacking, unauthorized access to computer data and storage devices, computer crashes, malfunctioning in the computer terminal or the systems getting affected by any malicious, destructive or corrupting code or program, mechanical or technical errors/failures or power shut down, faults or failures in telecommunication etc. which prevents it from performing its obligations within the specified service delivery parameters.

11. Reporting Requirements

The Centralized Operations Team (COPS) shall report to the Branch Banking Department – HO team the data in respect of each dishonoured cheque for amount of Rs.1 crore and above and Rs 1 crore and below as separate MIS. Branches shall inform Branch Banking Department - HO team on details of dishonoured cheque for Rs.1 crore and above returned across the counter. COPS shall send a report to the Branch Banking Department on cheque related frauds detected, number of valid and invalid ones on a quarterly basis.

COPS shall separately consolidate data in respect of cheques drawn in favour of stock exchanges and dishonoured irrespective of the value of such cheques as a part of their MIS relating to broker entities, and the same shall be reported to the Branch Banking Department.

The Bank employee shall report to his senior official in case the employee finds any discrepancy in the cheque, with a view to reduce the risk of fraud. The bank shall report to the Board or the respective committee of the Board and the RBI the actions and resolutions taken by the bank in cases involving fraud.

COPS shall place before their Audit / Supervisory Committee, every quarter, consolidated data in respect of incidents of frequent dishonour of cheques of value of Rs. 1 crore and above and cheques of value less than Rs.1 crore.

12. Record Keeping

The Bank will preserve the physical instruments in their custody and the images of cheques received under CTS securely for a period of 10 years as required under Procedural Guidelines for CTS. Further, the Bank shall retain such documents as may be required for 8 years from the date of cessation of relationship with customer, so as to permit reconstruction of the customer transactions.

Under CTS the physical cheques are retained at the presenting bank and do not move to the paying banks. In case a customer desires, bank can provide images of cheques duly certified/authenticated. In case, if a customer desires to see / get the physical cheque, it would need to be sourced from the presenting bank, for which a request has to be made to the bank. An element of cost / charge may also be involved for the purpose. This is exclusively in relation to inward clearances of cheques.

13. Service Charges

For all collection services the bank will recover appropriate service charges as decided by the bank from time to time and communicated to customer through the Website of the Bank.

14. Policy Review & Updates

This Board approved policy will be reviewed as and when required or at least on an annual basis for incorporating changes in handling Cheques and regulatory updates, if any.

15. Grievance Redressal

If any customer has a complaint against a bank due to non-payment or inordinate delay in the payment or collection of cheques, complaint can be lodged with the bank. If the bank fails to resolve within 30 days, the customer may make a complaint under “The Reserve Bank-Integrated Ombudsman Scheme (RB-IOS 2021)”. Complaints can be filed online on <https://cms.rbi.org.in>, or through the dedicated e-mail or sent in physical mode to the ‘Centralised Receipt and Processing Centre’ set up at RBI, 4th Floor, Sector 17, Chandigarh – 160 017 in the format given at the following path - https://rbi docs.rbi.org.in/rdocs/content/pdfs/RBIOS2021_121121_A.pdf. A toll-free number – 14448 (9:30 am to 5:15 pm) – is also available for customers to seek assistance in filing complaints and information on grievance redressal, with multi-lingual support.

16. Regulatory References

- RBI Circular - Positive Pay System for Cheque Truncation System -DPSS.CO.RPPD. No.309/04.07.005/2020-21 Dated September 25, 2020
- Master Circular on Customer Service in Banks dated July 1, 2015
- RBI Notification on Discontinuation of the requirement for Paper to Follow (P2F) for Central Government cheques under Cheque Truncation System dated December 31, 2015
- RBI notification on Procedure for Dishonour of cheques dated June 26, 2003
- IBA Model Cheque Collection Policy
- BCSBI Code of Commitment to Bank’s Customers