

OPERATIONAL ASPECTS OF HANDLING CLEARING

Customers lodge various instruments like cheques, drafts, pay orders, trade bills. These may be payable locally or at outside Centre's.

- The **instruments payable locally** is collected through the clearing house system
- While the **instruments payable outside** is sent by the bank for collection.
- The **inter-bank transactions among the local banks are settled by the clearing house.**
- There may be separate clearing houses for MICR (Magnetic ink Character Recognition) and non-MICR instruments.

The clearing house is managed by RBI, State Bank of India or any other bank nominated by RBI.

Electronic Clearing Service (ECS)

- It is in addition to regular clearing involving ECS credit and ECS debit.
- **In the case of ECS credit**

There is a single receiver of funds from a large number of customers,

- **While in the case of ECS debit**

A single account is debited against which several accounts with member banks are credited.

CHEQUE TRUNCATION SYSTEM (CTS)

- For the purpose of **enhancing the efficiency in cheque clearing**, Reserve Bank has introduced **CTS for clearance**
- Cheques facilitating the **presentation and payment of cheques without their physical movement.**
- The cheque would be paid in **CTS clearing based on their electronic images.**

At present, the CTS are operated on grid basis. Under grid-based CTS clearing, all cheques drawn on bank branches falling in the grid jurisdiction are treated and cleared as local cheques on T+1 basis.

- As there is still a large volume of **non-CTS-2010 format cheques** being presented in image-based clearing.

The drawee banks will return the non-CTS-2010 standard instruments, presented in the regular CTS clearing, the reason code '**37-Present in proper zone**'.

Sec. 6 of the NI Act, 1881

The NI Act defines a truncated cheque to mean "**a cheque which is truncated during the course of a clearing cycle, either by the Clearing House or by the bank, whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing**".

Characteristics of CTS

- It is an **electronic image of a paper cheque.**



- Only the **banks involved and the Clearing House can truncate a cheque** (i.e., create an electronic image of a cheque). **The drawer/holder of a cheque cannot truncate a cheque.**
- The **paper cheque, after truncation, is kept in the custody of the bank/clearing house that truncated the cheque.**

Approach to CTS

The CTS is operated on a Grid basis, dividing the country in three Grids viz. **Northern, Wester and Southern**, each having a separate **Clearing House** located at **Delhi, Mumbai and Chennai respectively.**

CTS - Process Flow

(a) Presenting Bank: For each cheque, the **presenting bank/ branch capture the data (on the MICR band) and the images of the cheque, either at the branch level or at the service branch.**

(b) Presentation Clearing: The **Clearing House processes the data, arrives at the settlement figure and routes the images and requisite data to the paying banks.**

(c) Paying Bank: The **paying banks receive the images and data from the Clearing House for payment processing, which is done on the same day.**

(d) Return Clearing: The **return file/ data sent by the paying banks are processed by the Clearing House. Return cycle is completed on the following day of the corresponding presentation.**

(e) Settlement: Banks need to maintain sufficient balance in their current account with RBI to meet the daily settlement obligation.

(f) Clearing Cycle: There is **one presentation clearing session and one corresponding return clearing session per day for CTS instruments.**

(g) Security Feature: To ensure **security, safety and non-repudiation of**



data/ images, end-to-end Public Key Infrastructure (PKI) has been implemented in CTS.

(h) Endorsement: At the time of scanning, a **single line endorsement is printed on the back of each instrument** which is the unique identifier for the instrument.

RBI GUIDELINES ON COLLECTION OF INSTRUMENTS

Formulating Cheque Collection Policies

The policy should include the norms to be followed by the bank in respect of the following aspects:

- (a) **Immediate Credit for Local/Outstation cheques**
- (b) **Time frame** for Collection of Local/Outstation Instruments
- (c) **Interest payment** for delayed collection

The policy should be based on following broad principles:

- Banks should formulate a **comprehensive and transparent policy** covering all the above three aspects.
- **Review their existing arrangements** and work out a scheme for reduction in collection period.
- Adequate care to ensure that the **interests of the small depositors are protected.**
- To be **integrated with the deposit policy** of the bank in line with the IBA's model deposit policy.

Cheques/ Instruments Lost in Transit/ in Clearing Process/ at Paying Bank's Branch

There are incidents of cheques received by banks (for collection or payment) being **lost during the process of collection/ payment.**



Undermentioned guidelines should be followed for such lost cheques:

(i) Cheques lost in transit or in the clearing process or at the paying bank's branch: The bank should immediately **inform the account holder** so that he/she can **inform the drawer to take steps for stop payment** and can also take care that other cheques issued by him are **not dishonoured due to non-credit of the amount of the lost cheques/instruments.**

(ii) The onus of such loss lies with the collecting banker and not the account holder.

(ii) The banks should reimburse the account holder related expenses for obtaining duplicate instruments and also interest for reasonable delays occurred in obtaining the same.

(iv) If the cheque/instrument has been lost at the paying bank's branch, the **collecting banker should have a right to recover** the amount reimbursed to the customer **from the paying banker.**

Bills for Collection

Bills for collection including **bills discounted** required to be collected through another bank at the realising centre should be forwarded directly by the forwarding office to the realising office.

Payment of Interest for Delays in Collection of Bills

The lodger's bank should pay interest to the lodger for the delayed period in respect of collection of bills at the **rate of 2% p.a.** above the rate of interest payable on balances of SB accounts.

CASH AND ITS CUSTODY

1. General

- The **Cash and Small Coin Balances must be kept in the Strong Room** in the **joint custody of the Head Cashier/Cashier** and the **Manager** put in charge of joint custody.



- **Managers should see that no member of staff other than the Cashier/Teller receives money over the counter from depositors.**
- **For avoiding human errors and quicker handling note counting machines should be provided at the Teller counters.**

2. Strong Room/ Safe

The Strong Room or Safe must be under the **dual custody of the Head Cashier/Cash Officer and the Manager in charge of cash**. Both officials must be present when the Strong Room/Safe is opened.

3. Cash Balance of the Bank

- The **bulk of the Cash Balance** should always be in the Strong Room/Safe under **joint custody**, while the remainder (Cashier's Hand Balance) which will be kept **as low as conveniently** possible, will be left with the Head Cashier/Cashier during the day for the day's transactions.
- **Checking of Cash Balance:** Before taking notes and coin into the 'Joint Custody' balance, the Supervising Official will check their correctness

4. Shortage or Excess in cash

- Banks adopt **certain procedures to mitigate human errors** in handling cash.
- The system of recording **denomination wise number of pieces of currency notes for every receipt and payment** - both on the voucher and the cash registers (manual or electronic), and also the Branch Cash Balance register is followed.

Accounting for shortage or excess in cash has to be carried out as follows:

- Any shortage is recovered on the same day from the Cash Officer/ Head Cashier/Cashier, who in turn will recover it from the concerned employee.
- Failing recovery on the same day, the amount of shortage should be debited to the Suspense Account taking the signatures of the staff responsible for the shortage on the reverse of the voucher under report to the Head Office and adjusted on recovery from them.
- Any excess in the Cash Balance must be credited to Sundry Deposit Account on the same day itself.

In case a customer makes a complaint of having received **short cash or paid excess cash**, after satisfying about the **genuineness of the complaint**, the amount is paid by debit to the Sundry deposit account.

5. Remittance of Cash

Cash remittances sent from one office to another should always be entrusted to employees.

- **Night journeys and unusual halts at junctions'** mid-way should be avoided.
- The **remittance box should always be transported in the van** provided by the bank.
- The box should be **securely chained and locked to a staple** or other fixed object in the van in which the remittance is carried.
- A **Register should be maintained to record all cash remittances** to and from branches.

6. Cash Replenishment at ATMs

Keeping the ATM machines filled with adequate amount of cash is important to avoid cash-out situations and to maintain uninterrupted service to the customers.

7. Insurance

- All cash remittances in transit are covered under the Blanket
- Care should be taken to ensure that no excess cash over the insured limit is kept.

8. Custody of Keys

- Particulars of all important keys, **including those of the Cash Officer/Head Cashier/Cashier**, must be entered in the **Key Register containing the details of all keys** (both originals and duplicates) that are in use at the branch, and with whom are they held.
- In case of safes previously **handled by unauthorized officials** the **levers of the locks should be changed**.
- **All repairs must be carried out under the personal supervision of the Manager and the Cash Officer/ Head Cashier/ Cashier** having joint control over the Strong Room or safe.
- Whenever a **lock is changed or the levers of locks changed, it must be noted in the Key register**.

9. Duplicate Keys:

Banks must follow the instructions as mentioned below with regard to the Duplicate Keys:





- The officials holding the keys of the Strong Room/ Safe room and safes/cupboards containing cash, gold ornaments under pledge to the bank and other securities, **will pack their duplicate keys individually in a strong cloth lined envelope which will be sealed by them with their seals.**
- The sealed packets must be placed in a **strong wooden or tin box locked or otherwise secured and wrapped in water-proof cloth.**
- The box of duplicate keys should be kept in **safe custody with another local branch of the same bank**, or of another bank.
- **Duplicate keys must be withdrawn from safe custody and rotated once in every year**

SECURITY MEASURES AT BRANCHES AND ATM'S

There are incidents of **robbery, break-ins etc. at bank branches**, and also of bank customers being looted just outside bank branches. Besides, branches are also exposed to **fire risk**. There have also been incidents of the ATMs being broken open and the cash stored in them stolen.

Various guidelines have been laid down by banks for various security arrangements.

(a) Location and Layout Related

- The **location of Currency Chests or bank branches** should be chosen keeping the safety and security in view.
- The **Police authorities should be consulted** before deciding on a location for a branch.
- **Proximity to Police Station and functional communication system are very important.**



- The **layout of the branch**, i.e., Manager's cabin, cash vaults, Cashier's cabin, entry/exit points should be designed keeping in view **the security aspect**.

(b) Protective Fittings Related

- The main entrance of the branch should be provided with **shutter gates**.
- Strong rooms should be provided with grill gates.
- Windows/ventilators should have proper standard grills. Unnecessary windows should be walled.

(c) Electronic Security Gadgets

- Branches, ATMs, Data Centres, should be equipped with the security gadgets like CCTV, X-Ray Scanners, sensors, electronic locks, hot lines, auto-dialers, time locks, turnstile gates, access control, etc. **These devices help in reducing delay in communication to the police, identifying the culprits and catching them.**
- **Emergency lights and alarms** should be installed and should always be in working condition.

(d) Fire Protection Related

- Adequate number of **fire extinguishers** should be provided at the branches suitably located, that
- must be **periodically refilled**.
- **Smoke detectors** should be fitted at various points, with appropriate fire alarm system.

(e) Security Guards Related

- **Posting of guards (armed or otherwise)** should be decided based on the vulnerability of the branch, keeping in the view the threat perception in the area.
- Currency Chest branches should have **two armed guards** during working hours and one-armed guard round the clock.

(f) Fire Arms Related

The fire arms should always be in working condition. All armed guards should clean and maintain the guns regularly so that they remain in working condition.

Counterfeit Notes

No credit to customer's account is to be given for counterfeit notes detected.

Incidents of detection of counterfeit notes are to be reported to the Police as follows:

- Transactions involving **up to four pieces of counterfeit notes** are consolidated in a statement as per prescribed format and sent by **the Nodal Bank Officer to the police authorities** or the Nodal Police Station, along with the suspect Counterfeit Notes, at the end of the month.
- For every transaction **involving five or more pieces of counterfeit notes**, a FIR on prescribed format along with the counterfeit notes is filed immediately by the Nodal Bank Officer with the local police authorities or the Nodal Police Station.
- **A copy of the monthly consolidated report/ FIR is sent to the forged note vigilance cell at the head office.**