

PPB CHAPTER 6 Module A By Ashish Sir

Cheque Truncation System (CTS) 2010

The Cheque Truncation System (CTS) was **introduced by the Reserve Bank of India (RBI)** to clear cheques electronically **without physically moving them** between banks. Instead, electronic images of cheques are used for clearing. This system has been fully **operational since February 1, 2008**, and MICR-based cheque processing has been discontinued.

Key Features of CTS

1. Truncation Concept

- Physical cheques stop moving after being converted into electronic images by the presenting bank or clearing house.
- These **images, along with data like MICR information and bank details**, are shared with the paying bank for processing.

2. Characteristics of CTS

- **Only banks and clearing houses can truncate cheques.**

- Truncation occurs during the clearing cycle to save time.
- **Physical cheques are stored securely** after truncation.
- **Digital signatures may be added** to ensure authenticity.

ABC

Benefits of CTS

For Banks:

- **Cost Savings:** Fewer clearing locations and no need for physical cheque processing.
- **Efficiency:** Faster clearing cycles reduce liquidity requirements.
- **Security:** Eliminates risks of loss, tampering, or pilferage during transit.

For Customers:

- **Faster Clearing:** Reduced cheque clearing time.
- **No Geographic Constraints:** Cheques are cleared seamlessly across jurisdictions.
- **Cost Savings:** **No outstation cheque or speed clearing charges within the same CTS grid.**



1. Cheque Presentation by the Customer:

- The **presenting bank scans cheques** and captures MICR data.
- **Data and images are consolidated** and sent to the Clearing House Interface (CHI).

2. Clearing Process:

- The **Clearing House calculates settlement figures** and sends the data to the paying bank.

3. Payment Processing by the Paying Bank:

- Based on images and data, payment decisions are made.
- **Any unpaid instruments are returned the next day.**

4. Settlement:

- The **Clearing House finalizes the net settlement** for all banks.
- **Banks must maintain sufficient balance in their RBI accounts to meet obligations.**

5. Clearing Cycle: Includes one presentation clearing session and one return clearing session daily.

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Customer and Bank Responsibilities

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For Customers:

→ Language, different ink

- Use only CTS 2010-compliant cheques.
- Write clearly and legibly, ensuring all details are complete (date, payee name, amount).
- Avoid alterations; use a new cheque if needed.
- Keep the MICR band clear of any marks or overwriting.

For Banks:

- Ensure cheques comply with CTS 2010 standards.
- Perform due diligence, including verifying cheque authenticity and detecting tampering.
- Capture high-quality images during scanning.

In CTS, three images of a cheque are captured:

1. Front (Gray Scale): For detailed clarity.
2. Front (Black & White): For OCR processing.
3. Back (Black & White): To capture endorsements and stamps.

GRID-BASED CLEARING SYSTEM

CTS operates on a grid system, dividing India into three grids:

1. Northern Grid: Delhi

2. **Western Grid:** Mumbai

3. **Southern Grid:** Chennai

- Banks send scanned cheque data to the respective clearing house in their grid.

• **Settlement for all banks within the grid occurs centrally.**

Security Measures in CTS



- Use of **Public Key Infrastructure (PKI)** to ensure data integrity and prevent unauthorized access.
- **Image Quality Assessment (IQA)** ensures clear, legible images are used for processing.

Positive Pay System (PPS)



Introduced by RBI in January 2021, **this system enhances cheque security by reconfirming details of high-value cheques (₹7,50,000 and above).**

- **Customers share cheque details** (date, payee name, amount) with the drawee bank via SMS, mobile apps, or internet banking.
- **Banks cross-check these details** with the cheque presented for clearing.

• **Discrepancies are flagged for resolution.**

- **Banks may make PPS mandatory** for cheques above ₹75,00,000.

RBI GUIDELINES ON COLLECTION OF INSTRUMENTS

The Reserve Bank of India (RBI) provides **comprehensive guidelines for the collection of cheques and other instruments** to ensure transparency, protect customer interests, and improve banking practices. Here's a simplified breakdown:

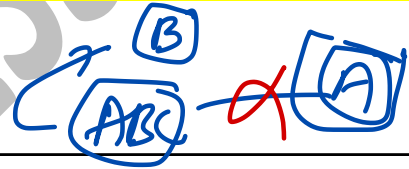
1. Cheque Collection Policies (CCP)

Banks are required **to create clear, transparent policies** for cheque collection covering the following areas:

- ✓ **Immediate Credit:** When and how customers can get immediate credit for local/ outstation cheques.
- ✓ **Time Frame for Collection:** Maximum time taken for clearing local or outstation cheques.
- ✓ **Interest for Delayed Collection:** Compensation for customers if the clearing process exceeds the stipulated time.

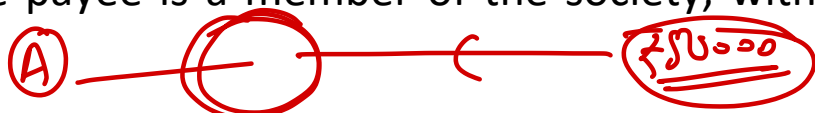
Key Principles:

1. Banks should ensure their **CCP is comprehensive** and customer-centric.
2. The **collection period should be reduced** wherever possible.
3. **Small depositors' interests** must be protected.
4. **Compensation for delays** should be automatic, without requiring a claim from customers.
5. **Compensation is at the savings bank (SB) interest rate if no other rate is specified in the CCP.**



2. Collection of Account Payee Cheques

- **Strict Guidelines:** RBI prohibits crediting an account payee cheque to anyone other than the payee mentioned on the cheque.
- **Exceptions:** If the drawer or payee wants the cheque credited to another account, they must issue a fresh cheque or remove the account payee restriction.
- **Co-operative Societies:** For cheques below ₹50,000, banks can credit the account of a co-operative credit society if the payee is a member of the society, with a



written representation from the society confirming compliance.

3. Payment of Cheques, Drafts, and Pay Orders

- **Validity Period Reduced:** The validity of cheques, drafts, pay orders, and banker's cheques has been reduced from six months to **three months** since April 1, 2012.
 - **Reason:** To prevent misuse by circulating these instruments as cash for extended periods.
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4. Cheques/ Instruments Lost During Processing

When cheques are lost during transit, clearing, or at the paying bank's branch:

1. The bank must **inform the account holder immediately** to take corrective actions, such as stop payment.
 2. **Responsibility Lies with the Collecting Bank:** The bank must compensate the customer for expenses incurred in obtaining duplicate instruments and for any delays.
 3. **If the cheque is lost at the paying bank's branch,** the collecting bank can recover reimbursed amounts from the paying bank.
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5. Bills for Collection

- Bills requiring collection at another branch or bank should be forwarded directly from the lodging branch to the realising branch.

6. Payment of Interest for Delays in Collection of Bills

- Banks must pay **interest at 2% above the SB account rate** for delays in bill collection.
- The **normal transit period** is calculated as:
 1. 2 days for dispatch of bills. +
 2. 2 days for presentation to drawee. +
 3. 2 days for remittance of proceeds. +
 4. 2 days for crediting the proceeds to the drawer's account.

If the delay is due to the drawee's bank, the lodger's bank can recover interest from the drawee's bank.

CASH AND ITS CUSTODY

The **management and custody of cash are critical** for banking operations to ensure **security, accountability, and efficiency.**

Below are the simplified guidelines:

1. General Rules

- **Cash Handling:** Cash and small coin balances are kept in the strong room under the joint custody of the Head Cashier/Cashier and the Manager. For currency chest branches, two designated officers are in charge.
- **Counter Operations:** Only Cashiers/ Tellers are authorized to receive money over the counter. Proper notices must be displayed to inform depositors.
- **Counting Machines:** Teller counters should have note-counting machines to avoid human errors and speed up transactions.

2. Strong Room/Safe

- The strong room and all cash receptacles are under **dual custody**. Both officials must be present when it is opened.
- Only the Cashier's hand balance receptacle is under a **single lock**.

3. Cash Balance Management

- **Daily Transactions:** Most of the cash balance is kept in the strong room, while the **Cashier's hand balance is kept minimal for** daily needs.
- **Cash Verification: (Important)**
 - Notes above ₹100 are **personally counted** by the **Supervising Official.**
 - Notes of lower denominations are checked using the **clip system** (a few notes in each bundle are clipped and verified).
 - Notes are sorted into three categories: Issuable, Soiled, and Mutilated.
- **End-of-Day Checks:** The Supervising Official ensures the **cash balance matches the Cash Balance Book** before closing the strong room.

4. Shortage or Excess in Cash

- **Shortages:**
 - Recovered from the Cashier/concerned employee the same day.

- If not recovered, debited to the **Suspense Account** and reported to the Head Office.
 - **Excess Cash:** Credited to the **Sundry Deposit Account** on the same day.
 - Complaints of excess/short cash from customers are investigated, and genuine cases are compensated.
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5. Cash Remittances

- Cash remittances between branches are handled by authorized employees with strict precautions:
 - **Night journeys** and unnecessary halts are avoided.
 - Cash boxes are securely locked and chained inside bank vans.
 - A **register** is maintained for all cash remittances.
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6. Cash Replenishment at ATMs

- ATMs must have adequate cash to avoid outages but should not hold excessive stock.
- **Security Measures:**
 - **Cash is replenished in the presence of at least two authorized individuals.**

- Biometric data and photos of cash handlers are recorded.
- A **User Report** records the time and date of ATM access.

• **Monitoring and Reconciliation:**

- Centralized departments monitor ATM balances.
- Reconciliation with service providers is done within **T+3 days** if cash management is outsourced.

7. Insurance

- All cash in transit and in the bank (safe or counter) is covered under a **Blanket Insurance Policy**.
- Banks must ensure no cash exceeds the **insured limit**.

8. Custody of Keys

- A **Key Register** maintains details of all keys, including their holders.
- Keys of safes and strong rooms must remain with the authorized officials only.
- **Key Replacement:** Worn or damaged keys must be reported to the Head Office for replacement.

- Repairs or duplication of keys require prior approval and supervision.

9. Duplicate Keys

- **Sealing and Storage:**
 - Duplicate keys are sealed in cloth-lined envelopes with the custodian's seal.
 - The sealed packets are stored securely at another branch.
- **Annual Rotation:** Duplicate keys must be withdrawn and rotated annually.
- Any withdrawal or replacement of duplicate keys must be reported to the Head Office.

SECURITY MEASURES AT BANK BRANCHES AND ATMS

Bank branches and ATMs are often vulnerable to risks like robbery, break-ins, and fraud. Additionally, branches face fire risks, while ATMs are prone to skimming, cash theft, and data capture by fraudsters. To address these challenges, banks have established comprehensive security guidelines.

1. Location and Layout

- **Site Selection:** Currency Chests and branches should be located in safe areas, preferably close to police stations with good communication systems.
 - **Branch Design:**
 - Manager's cabin should provide a clear view of the banking hall and be near the entrance.
 - Strong rooms and safes must be out of public view.
 - Cashiers' cabins should be far from entry/exit points.
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2. Protective Fittings

- Main entrances should have **shutter gates** and **collapsible gates** with secure locks.
- Strong rooms must have grill gates, and windows/ventilators should have sturdy grills.
- Weak points like exhaust fan openings and AC ducts should be reinforced with steel or RCC.
- Cash cages should have grills or wire mesh with automatic locks.

- Safes, if not in strong rooms, must be securely embedded and periodically reviewed.
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3. Electronic Security Gadgets

- Install **CCTVs**, X-ray scanners, sensors, time locks, access control systems, and alarms in branches, ATMs, and data centers.
 - **Emergency Alarms and Lights:** These should always be functional.
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4. Fire Protection

- **Fire Extinguishers:** Branches must have adequate extinguishers, regularly refilled.
 - **Smoke Detectors and Alarms:** Installed at strategic points.
 - Staff must be trained in handling extinguishers and participate in fire safety mock drills.
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5. Security Guards

- **Armed Guards:**

- Currency Chest branches require two armed guards during working hours and one 24/7.
 - **Recruitment Checks:** Guards' backgrounds should be thoroughly verified, including police records.
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6. Firearms

- Firearms must be cleaned and maintained regularly.
 - Expired cartridges should be replaced with new ones after obtaining necessary permissions.
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7. Currency Chest Security

- Install **steel barricades** and separate the chest area from the branch hall.
 - Armed guards should have secured positions where they cannot be neutralized by intruders.
 - Alarm system switches must be within the barricaded area and guard rooms.
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8. Police Support

- Branch managers should maintain close relations with local police and seek their advice.

- Police can be requested to increase surveillance if the area is prone to crime.

9. Handling Large Cash Transactions

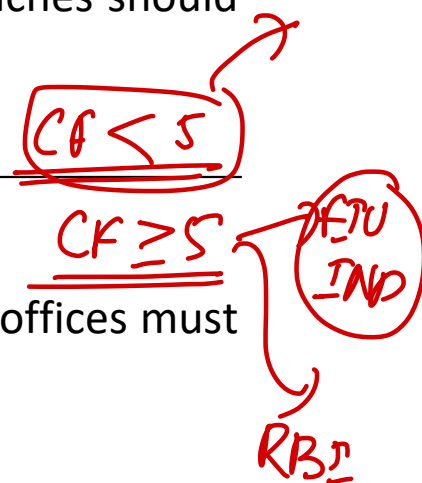
- Payments of large amounts should be done inside strong rooms, away from public view.
- Cash movement details must remain confidential, with no fixed routes or schedules.

10. Operational Measures

- Branches should maintain **marked currency notes** for investigation in case of robberies.
- Lights in the banking hall should remain on for visibility of unusual movements.
- Suspicious activities or individuals near branches should be immediately reported to the police.

11. Counterfeit Note Detection and Impounding

- Notes tendered over the counter or at back offices must be checked using machines.
- Counterfeit notes are:



- **Stamped as "Counterfeit" and impounded.**
- **Not credited to customers' accounts.**
- **Recorded in a separate register under joint custody.**
- **Reporting Guidelines:**
 - Up to 4 counterfeit notes: Monthly report to police.
 - 5 or more counterfeit notes: Immediate FIR.

12. ATM Security

- **Cash Replenishment:**
 - Performed in pairs, with staff thoroughly screened.
 - Cash levels must balance availability and unutilized stock to prevent outages or theft.
- **Monitoring and Reconciliation:**
 - ATM balances are monitored centrally.
 - Transactions with outsourced service providers are reconciled within T+3 days.
- **Video Footage:** Used to resolve disputes and detect fraud.

13. Insurance

- Cash in transit, branches, and ATMs is insured under a blanket policy.

- Banks must ensure cash levels stay within insured limits.
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14. Key Custody

- Keys of safes, strong rooms, and other critical areas must be logged in a **Key Register**.
 - Duplicate keys are sealed and stored securely in another branch or bank.
 - Duplicate keys are rotated annually, with all withdrawals and replacements reported to the Head Office.
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15. General Best Practices

- Counterfeit notes must never be returned to customers or destroyed.
- Training programs should be held to educate staff on fire safety, fraud detection, and emergency responses.
- Security systems at branches and ATMs must be regularly tested to ensure functionality.