

Mechanised cheque processing using MICR technology - Procedural Guidelines

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FOREWORD

Cheque Clearing represents an important milestone in the development of an efficient payment and settlement system. The introduction of new technologies in recent years has helped to foster such a system all over the world. As a part of such an evolving framework, the entire process of manual processing of cheques has undergone a sea-change when mechanised processing of cheques using Magnetic Ink Character Recognition (MICR) technology was introduced. This technology was first used in India in the late eighties at the four major metropolitan cities of Mumbai, Chennai, New Delhi and Kolkata. These centres were set up and are managed by the Reserve Bank of India. The success of these MICR based local clearing processing centres has spurred initiatives on the part of commercial banks for setting up of many more MICR based Cheque processing centres at commercially important centres of the country with the latest state-of-the-art technology. Some centres have also got the facility for 'Imaging' which enables capturing of the digital images of the cheques.

2. Consistent with its philosophy for standardisation of work procedures across different sites, the Department of Information Technology of the Reserve Bank of India has come out with a set of comprehensive guidelines for operating the Mechanised cheque processing systems using MICR technology. This booklet details the procedural guidelines to be followed at the banks and at the Cheque Processing Centres. This publication, has benefitted immensely from the contributions of Shri. G.M.Shetti, Additional Chief General Manager since retired, and of Shri S.Sankara Subramanian, General Manager, Shri S.Ganesh Kumar, Deputy General Manager and Shri S.B.Gaud, Assistant General Manager. This publication is offered essentially to provide useful and practical information for the benefit of commercial banks.

3. Mechanised cheque processing using MICR technology has brought in its wake quicker realisation of cheques, improved customer service and more effective housekeeping at banks. However, full benefits of the technological upgradation in this area would accrue only with full support of all the banks that participate in the clearing operations. Two key parameters, namely low reject rates in MICR processing and low or nil clearing reconciliation entries at banks- should be the indicators on which MICR processing should focus on. Very close adherence to the procedural guidelines offered here will help improve the performance of cheque processing operations and minimise risks.

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CHAPTER I

INTRODUCTION

1.1 One of the important means of efficient funds movement through the organised sector of an economy is the process of clearing of cheques. To facilitate quick processing of cheques and prompt settlement thereof, mechanised cheque processing systems using Magnetic Ink Character Recognition (MICR) technology for cheque clearing was introduced in the mid eighties and has been in operation at the four major metropolitan cities viz., Mumbai, Kolkata, Chennai and New Delhi. Subsequently, 40 centres with substantial cheque volumes were identified and allotted to different public sector banks for managing the Cheque Processing Centres as indicated in Annexure I. Some of these centres have already commenced full scale operations, while others are at various stages of implementation.

1.2 This booklet lays down the procedural guidelines for mechanised cheque processing based on MICR technology to be used by banks managing the MICR Cheque Processing Centres and their participant members.

1.3 These guidelines deal mainly with the operations of the MICR based cheque processing and have to be read with and subject to the Uniform Regulations and Rules for Bankers' Clearing Houses.

1.4 The term 'cheque' in this booklet shall mean and include all types of clearing instruments including cheques, drafts, pay orders, 'at par' instruments, etc.

CHAPTER II

MECHANISED CHEQUE PROCESSING SYSTEM

Standardisation of Cheque Forms

2.1 To facilitate MICR based Cheque Processing, instruments passing through clearing are required to be issued in standard format and defined size of 8" x 3 2/3". The instruments should be printed on MICR grade quality paper (the specifications of which are given in Annexure II) with a "read band" of 5/8" in width reserved at the bottom on which essential particulars occur in special MICR ink in the E-13B Font. Cheques are printed by approved security printers forming part of a panel which is maintained by the Indian Banks' Association. The website of Indian Banks' Association may be referred to know the updated list of empanelled printers and paper manufacturers..

MICR Code Line Structure

2.2 The code line occurring in the Read Band is divided into five fields with distinct delimiters separating each field, the details of which are as under:

- i. **Cheque serial number** of *six numeric digits* preceded and followed by a delimiter. The alpha-numeric prefix to the serial number normally used by banks should be printed outside the code line in close proximity, just above the read band, in normal ink.
- ii. **Sort field or the city/bank/branch code number** consisting of nine digits followed by a delimiter. The first three digits represent the city, the next three indicate the bank and the last three digits signify the branch. The nine digit sort code is unique for any bank branch in the country.

Details of the City Codes are given in the Annexure V.

The bank code is a three digit code number allotted to the bank on an all-India basis. A list of 3 digit bank code numbers allotted to banks alongwith the three letter abbreviation (alpha code) to the respective bank is furnished in Annexure VI. Allotment of bank codes is centralised at the office of the Chief General Manager in-Charge, Department of Information Technology, Reserve Bank of India, Central Office, Shahid Bhagat Singh Marg, Mumbai-400001. {Fax No.(022)2691557} and applications have to be routed through the President of the respective clearing house of which the bank is a direct member. Sub-members are required to present and receive the clearing instruments through a Sponsor Bank who is a (direct) member of the Clearing House.

The branch code is the last three digits of the nine digit sort code and is unique to a branch in a city. Allotment of branch codes is by the President of the Clearing House of which the Bank is a member; generally the service branch of a bank is allotted the branch code of '001'.

A sub-member will be treated as if it were a branch of the sponsoring bank. It would have the bank code number allotted to the sponsor bank to be followed by the branch code which would normally commence from 251.

A full list of nine digit code number allotted to each bank/branch along with the three letter alphabetical abbreviations for the clearing stamp could be obtained from the President of the concerned Clearing House.

- iii. **Account number field** consisting of six digits followed by a delimiter is an optional field. In the case of Government Cheques issued by RBI alone, the account number is of seven digits. The Government Account number is 10 digits in length-7 digits occurring in the Account number field and three in the transaction code field.
- iv. **Transaction code field** comprising of two digits in all instruments except Government cheques drawn on RBI which have a 3 digit transaction code. Control documents - batch and block tickets have a three digit representation in the transaction code field. A full list of transaction codes and their representation is furnished in Annexure VII.
- v. **The last field represents the amount field** and consists of *13 digits* bounded on both sides by a delimiter. The amount is encoded in paise without the decimal point.

Issue of MICR Cheque Books

2.3 Each member bank should ensure that the cheque books issued by its branches to account holders are in the MICR format. Before bulk printing the cheque books for the first time, adequate number of specimen cheque leaves could be forwarded to the nearest MICR Cheque Processing Centre for being tested with reference to the quality of MICR paper / printing, on the reader/sorter.

2.4 Corporate customers or other account holders like Central or State Government Departments, who print their cheques which are drawn on the branches of member banks should be individually advised to print the cheque leaves in the MICR format with pre-printed MICR code line. Specimen cheque forms / 'at par' items etc. could, if desired, be tested at the nearest MICR processing centre before bulk orders are executed. This applies to Continuous Stationery cheques as well. In case of non-testing and consequent high reject rates on pre-printed field, penalties may be levied on the drawee bank.

Non-Standard Instruments to be Standardised

2.5 Constituents of banks including Central and State Government offices who issue instruments like income tax/sales tax refund orders, Government Pay Orders, etc. should be advised, by the banks on which such instruments are drawn, to make arrangements to issue the instruments in the standard MICR format to facilitate processing them on Reader/Sorters. Non-standard instruments may not form part of the cheque clearing.

MICR CHEQUE PROCESSING EQUIPMENTS

2.6 The following are the MICR cheque processing equipments:

(i) MICR Document Encoder

The encoder is a table top machine which can print the coded particulars of cheques and other payment instruments in magnetic ink on the 5/8" read band at specified position. The conventional encoder has a keyboard and a programmable journal printer (i.e. lister). It endorses on the reverse of the instrument a fixed or variable stamp. The encoder has the facility to proof the pay-in-slip amount or control totals simultaneously by marking off successive amounts of encoded cheques thus arriving at a zero balance when all the cheques are encoded and bringing out discrepancies, if any, in the totals or errors during encoding. The figures are cumulated to enable encoding of the control documents viz., Batch and Block tickets. The encoders are also programmed to simultaneously affix/print the Clearing Endorsement Stamp on the reverse of the

instrument, in the format prescribed. Encoders with compatibility to PCs are available, as also are power encoding machines and encoders with limited sorting facilities. Encoding work could either be decentralised at branches or centralised at the Service branch depending on the logistic in the bank. Clustering of encoding work at some branches to take care of smaller branches in the vicinity is another option available. Detailed guidelines on the availability of different types of MICR encoders and steps to be taken by member banks in setting up the MICR cheque encoding facilities in their Service Branch/Main Clearing Department are given in Annexure VIII.

(ii) Reader Sorter

A Reader/Sorter is a device that reads the MICR encoded documents and sorts (direct) them to one of the many pockets as per the pre-determined sort pattern/programme. Most reader/sorters can operate on off-line mode as well as on-line with a host computer. Documents are fed automatically from an input hopper, which can handle documents of various sizes simultaneously. The documents travel past an electronic field which magnetises the characters and symbols in the MICR read band and generates distinct wave patterns intelligible to the machine. The physical sorting of cheques on the machine is carried out under the control of a computer program. This sort program, while directing the documents to the designated pockets, simultaneously captures and stores the information in the MICR code line on the cheques. The information captured from the documents is simultaneously stored on disk/tape, etc. and used for further processing. In case certain information is not read due to defective printing, encoding, etc., the cheque is directed to a 'Reject' pocket along with the control documents. These are taken out and the missing information is completed by manually keying in the data.

(iii) Image Capture

Image capture and image processing technology is a recent development in document processing by which the image of a payment instrument is captured simultaneously when it is processed on reader/ sorters by adding an image capture module and related software. The images so captured are stored on magnetic media for retrieval and processing. The images can be displayed on a screen and copies can be printed. It is also possible to transfer the image data to banks through magnetic media or through the communication backbone. The availability of image files enhances the processing quality and speeds up reject recapture, balancing, etc. The stored images could also be retrieved at a later date to facilitate quick reconciliation of clearing differences.

ENDORSEMENTS ON CHEQUES

Special Crossing Stamp

2.7 All cheques received for collection over the bank's counters are required to be branded with the bank's special crossing stamp. The suggested dimension and the position of the Special Crossing Stamp are given in Annexure IX.

Other Endorsements

2.8 Apart from the endorsements which are already made on the cheque when the customer has deposited the cheque for realisation, there are two categories of endorsements/stamping which are made by the collecting bank during the cheque processing - the Clearing stamp and the bank's certification or confirmation of various endorsements on the cheque and an undertaking to the effect that the proceeds will be credited to the payee's account on realisation.

Clearing Stamp

2.9 The clearing stamp indicates particulars regarding the name of the presenting bank/branch (alpha codes), date of presentation and the type of clearing. Encoding machines are programmed to affix the clearing stamp on the reverse of the cheque simultaneously while encoding the amount. Format of the clearing stamp (local clearing) is given in Annexure X.

Confirmation of Endorsements

2.10 As regards the confirmation/certification of endorsements, the attention of member banks is invited to the Uniform Regulations and Rules of the Clearing Houses providing that once the clearing stamp is affixed, it could be presumed that the collecting bank confirms the previous endorsements and undertakes to credit the party's account on realisation and no specific endorsement/certificate of confirmation to this effect on the instrument is necessary.

CHAPTER III PROCEDURE FOR HANDLING CLEARING CHEQUES BY BANKS/BRANCHES

At Branch Level

3.1 Each branch will receive the local and intercity MICR clearing cheques from the customers over the counters, along with the pay-in-slips and will process them as per the existing procedure. Separate pay-in-slips / challans may be used for local clearing cheques and intercity cheques. Branches need not sort these cheques drawee bank/branch-wise or prepare corresponding listing and abstracts. They would only have to segregate the intra-bank bank instruments from inter-bank instruments. The procedure for preparation of outward clearing of inter-bank instruments at the branches will be as under:

a) If the branch is supplied with MICR document encoder (s):

- i. The cheques will be encoded as and when received after balancing the totals with the pay-in-slip totals or in batches as is convenient.
- i. The clearing stamp occurs on the reverse of the instrument simultaneously with encoding.
- ii. Each payment instrument presented in clearing should bear the special crossing stamp in the manner explained in paragraph 2.9.
- iii. The cheques will be presented into convenient batches (upto 200 cheques in each batch).
- iv. The audit trail is generated by the encoder machine simultaneously with encoding.
- v. The claim figures for each batch will be encoded on a Batch Ticket.
- vi. The format and the MICR code structure of a Batch Ticket are furnished in Annexure XI.
- vii. A forwarding schedule indicating the name of the branch, number of cheques and aggregate value of each batch and the grand total should be prepared.
- viii. A Branch Clearing Control Report should be prepared (in duplicate) as per format furnished in Annexure XII.
- ix. Zero Proofing of the batches to ensure that there are no errors during encoding is also necessary.

b) If the branch does not have an encoder machine:

- i. The total of pay-in-slips should be balanced with the total of the amounts listed.
- ii. The cheques will be listed under batches (upto 200 cheques in each batch). A dummy batch ticket indicating the name of the branch, number and total amount of the instruments in the batch should be prepared.
- iii. Each payment instrument presented in clearing should bear the special crossing stamp in the manner explained in paragraph 2.7. The clearing stamp will be affixed by the Service Branch / Main Clearing Department / Encoding branch while encoding the instruments at their end.
- iv. A forwarding schedule indicating the name of the branch, total number of cheques in each batch and the total amount, should be prepared.
- v. A Branch Clearing Control Report should be prepared (in duplicate) as per format furnished in Annexure XII.

c) In either case, entries in the Outward Clearing Register will have to be made as per the existing procedure prevalent in the bank.

3.2 After balancing the outward clearing cheques in all respects, the Branch Clearing Control Report, Forwarding Schedule, and the instruments pertaining to each batch under cover of the Batch Ticket(s) should be forwarded to the Service Branch/Main Clearing Department along with the audit trail i.e. the listing of amounts of cheques in respect of each batch duly referenced.

At Service Branch/Main Clearing Department

3.3 The Service Branch/Main Clearing Department should ensure that the duly balanced outward clearing batches are received from the various branches within the prescribed time schedule. The outward clearing presentation for the bank as a whole, duly balanced and with the necessary control documents, should be forwarded to the Cheque Processing Centre as per the time schedule stipulated by it.

3.4 **The Service Branch/Main Clearing Department** will have the following broad functions:

- a. receive fully encoded cheques from branches who have encoders.
- b. provide encoding facility to its branches who do not have the encoding machine.

Note: The encoding procedure will be similar to the procedure followed in the branch with an encoder as indicated in Paragraph 3.1(a) above except that instead of comparing the totals with pay-in slips, the control total indicated in the forwarding schedule [paragraph 3.1b(iv)] will be entered for zero proofing. Discrepancies noticed, if any, should be reconciled with the add list provided by the branch. The total branch presentation (total of Batch Tickets of the branch) should also be tallied with the figures furnished in the Branch Clearing Control Report.

- c. cross reference each Batch Ticket with the corresponding audit trail by assigning serial number and branch identification.
- d. add up the Batch Ticket figures and prepare a Block Ticket representing the aggregate claim of the bank as a whole, in respect of the batches and cheques included in the presentation. The format and the MICR Code line structure of a Block Ticket are furnished in Annexure XIII.
- e. Present the instruments in the manner detailed vide para 4.5 of Chapter 4.

- f. Keep the audit trails duly cross referenced at the end, in an envelope.
- g. A chart indicating a representative Block of Outward Clearing sent to the Cheque Processing Centre (CPC) is furnished in Annexure XIV.
- h. send the outward clearing to the Cheque Processing Centre through a representative.
- i. Hold the Branch Clearing Control Report for verification of actual credit received from the CPC.

Intercity Clearing

3.5 The procedure to be followed for intercity clearing - i.e. presenting cheques drawn on other MICR centres would be similar to the above; the only requirement is that the intercity instruments should be made into separate batches and presented alongwith a separate covering schedule. Realisation of intercity cheques would be intimated after the process is completed. Separate reports - including control reports - would be made for Intercity Clearing.

CHAPTER IV OPERATIONS AT THE CHEQUE PROCESSING CENTRE

4.1 The MICR Cheque Processing Centre (CPC) will be set up by RBI or a Public Sector Bank designated for the purpose, hereinafter referred to as a Sponsor Bank. The responsibility of installing, maintaining and operating the necessary cheque processing equipments and software including the necessary infrastructure would be undertaken by the Sponsor Bank. The CPC will offer member banks of the Clearing House the necessary cheque processing facility as a service against the service charge to be recovered from the member banks.

4.2 The activities of CPC which would include receiving and sorting/ listing of cheques drawee bank/branchwise, preparing drawee bank/ branchwise reports, etc. (which member banks presently handle in-house) would be distinct from the responsibility of the bank managing the Clearing House who, apart from accounting the settlement i.e. raising the debits/ credits in the accounts of various member banks held in its books, will also look after the overall functioning of the Clearing House and day-to-day monitoring of the Clearing House operations including the operations of the CPC, admission of new members, maintaining the discipline relating to return of unpaid cheques, etc.

4.3 Both the above responsibilities i.e. management of clearing house and setting up of the Cheque Processing Centre may either rest with the same bank or with two different banks. In the latter case, it becomes necessary that there is proper earmarking of responsibilities and proper coordination between the two agencies to ensure smooth conduct of the Clearing House operations. With a view to lay down proper guidelines in this regard, a model Memorandum of Procedure (MOP) for accounting of settlement, etc. has been drawn up for adoption by the Clearing House members. The model MOP is furnished in Annexure XV.

4.4 Subject to the provisions made in the model Memorandum of Procedure (MOP) referred to above, the MICR Cheque Processing Centre (CPC) would attend to the following functions and procedures :

- i. All member banks of the Clearing House at the centre are eligible to avail of the services of cheque processing provided by the CPC. The member banks will furnish a formal request to this effect to the CPC in the manner prescribed in MOP. The sub-members of the Clearing House will participate in clearing through the respective sponsor members and for all purposes, so far as they relate to cheque processing activities, a sub-member including its branches will be treated on par with the branches of the concerned sponsor member.
- ii. The service of cheque-sorting/listing would be as per the sort pattern determined by the Clearing House in advance. The general pattern would be to sort the cheques drawee bank-wise and within the bank, drawee branch-wise and could also transaction code wise as per the

decision taken by the Clearing House. Further fine sorting of the cheques may be undertaken by the CPC for individual banks as per sort programme (such as account wise sorting) mutually agreed upon, for which additional service charge could be levied.

- iii. Member banks should make their own arrangements to deposit the outward clearing cheques with the CPC for processing as per the time-slots indicated by the Clearing House.
- iv. Similarly, member banks should make their own arrangements to collect the inward clearing cheques from the CPC as per the time schedule indicated by the Clearing House.

OUTWARD CLEARING

4.5 The outward clearing items presented by each member bank would be in the following order:

Block Ticket, Batch Ticket, Cheques under the batch, next Batch Ticket, Cheques under next Batch and so on....., followed by an envelope containing the addlists in respect of the instruments contained in each batch. The lot should be neatly placed in one or more trays in proper order. The trays should be duly locked by the presenting bank.

4.6 The Cheque Processing Centre (CPC) will:

- i. receive the outward clearing cheques from the member banks, as per the stipulated time schedule;
- ii. conduct a prima facie scrutiny to ensure that -
 - (a) appropriate Block Ticket has been placed as the header;
 - (b) supporting batches are under cover of proper Batch Tickets;
 - (c) all paper clips, pins, staples, etc. on individual cheques have been removed;
 - (d) the envelope containing the addlists has been placed at the end;
- iii. enter the receipt particulars on the PC placed at the receiving counter;
- iv. insert the CPC control documents for the purpose of processing;
- v. send the trays to the Reader/Sorter Room.

DATA PROCESSING AND CHEQUE SORTING

4.7 The Data Processing Wing of the CPC will comprise the following units based on the workflow:

- (a) Prime Pass Unit
- (b) Reject Re-entry and Balancing Unit

- (c) Fine Sort and Manual Sort Unit
- (d) Data Processing and Printing Unit

These are only indicative and could vary from centre to centre.

(a) Prime Pass Unit

4.8 Prime Pass Unit will:

- (i) receive the outward clearing Block of each member bank from the Receiving Counter;
- (ii) determine the unit of work and assign the work to different sorters;
- (iii) pass the instruments through the reader/sorter.

4.9 The operations carried out during prime pass would include capturing the data (and image if provided with the image capture module) through reading the MICR code line, on the Block/Batch Tickets, and the supporting instruments; segregation of the control documents and the instruments not read/incompletely read in the each batch, sorting of the instruments into broad groups to facilitate further fine sorting etc.

4.10 During the Prime pass, it should be ensured that the order in which the control documents, batch tickets and rejected items appear is not disturbed. The good items of the lot sorted to different pockets should also be properly labelled and kept in trays without disturbing the order. The Reader/Sorter is programmed to assign a unique sequence number to each item passing through the reader/sorter and print the same on the reverse of the item for further identification, recall of the data, or the image of the instruments. The reader/ sorter is also programmed to indicate a running report on the items processed and rejects encountered so that the quality of processing and also of the instruments being processed could be continuously monitored.

(b) Reject Re-entry and Balancing Unit :

4.11 Reject Re-entry

Reject re-entry supplements the data in respect of a rejected item in order to complete the same or remove the deficiencies therein. The Unit will have terminals on line with the system. The terminal operator will perform data entry in respect of all the items that have been rejected from each instrument of the relevant batches.

If the system has image capture facility, the image of the item will appear on the screen side by side the MICR code line particulars. This will substantially enhance the ease and quality of reject re-entry. Further, the software could be customised to treat the instruments rejected due to deficiencies in fields other than the sort field on par with good documents and sort them as such to respective bank pockets.

4.12 Balancing and Adjustments

The objective of this unit is to validate the totals of item-wise data captured on the system with the presentation totals as reflected in the Block/Batch totals indicated by the presenting banks.

- i. A batch is out of balance when the total value read on the Batch Ticket is not equal to the total value obtained by the system by adding the amount fields read of all items in the batch. This may be caused by omissions; inaccurate reject re-entry; incorrect casting of totals by the resending bank, errors in encoding etc.

- ii. After the reject re-entry operations in respect of a work unit is over, the balancing work will be taken up. The system will display the item-wise details of the unbalanced batches one by one to enable balancing and adjustments. The system will also enable printing of item-wise details of unbalanced batches which are to be verified with the addlist placed in the envelope received from the presenting bank.
- iii. After rectification of item-wise discrepancies, data entry of corrections has to be done after which the batch should normally balance. If a difference persists despite individual items having been validated, the Batch amount correction may have to be resorted to.
- iv. All corrections which result from discrepancy/inaccuracies at the bank level would be communicated to the bank concerned through a suitable Adjustment Advice, along with the Batch Ticket, corresponding addlist and the item-wise listing as per instruments read by the system.

(c) Fine sort and Manual Sort Unit

4.13 Fine sorting of good documents

- i. The cheques will be sorted drawee bank/branch-wise and within a branch according to transaction type.
- ii. At par items which are sorted to a separate pocket in the prime pass, will be further fine sorted to drawee banks and then to designated branches. (Normally 'at par' items will be sorted to the Service Branch).
- iii. Government cheques drawn on RBI shall be sorted according to the special sort pattern advised by the Clearing House.

4.14 Fine sorting of rejected items

- i. It should be the endeavour to sort the reject items mechanically, to the extent possible, so that only a minimum number of instruments are subjected to manual sorting since this method is prone to human error.
- ii. At centres where image capture facility is available, it is possible to sort all instruments with good sort field directly to the bank pockets, even though the item is logically a reject due to deficiencies, in other fields, since the reject re-entry under image capture is done with the help of images without referring to physical instruments.
- iii. Even under conventional cheque processing system (i.e. without image capture), the software provides for machine sorting of reject items picking up only the sort field or the bank code within the sort field.
- iv. The remaining cheques needing manual sort are sorted bank-wise and placed in separate lots for the bank concerned to further fine sort them branch-wise for delivery to the concerned branches.

(d) Data Processing and Printing Unit

4.15 After all the 'out-of-balance' batches are reconciled and adjusted, the complete data in respect of outward clearing of all banks will be merged and a fully validated data base shall be created. The data thereafter, will be further processed and the Clearing House Settlement Statement and other reports will be generated. CPC will generate the following reports for use by the member banks:

- i. **Clearing House Balance Register** in the format given in Annexure XVI to provide each member bank with a report showing its clearing transactions at the bank level i.e. both presentations and receipts, by number of instruments and aggregate value and the net position vis-à-vis each member bank.
- ii. **Branch-wise Clearing Statement** in the format given in Annexure XVII to provide each member bank, a branch-wise summary of inward and outward clearing figures both by number of instruments and aggregate value, together with the net clearing balance.
- iii. **Item-wise Listing of Inward Clearing Instruments** in the format given in Annexure XVIII. The detailed listings will be printed for each drawee bank, within the bank by each branch and within the branch by each transaction code, providing a summary of inward figures by transaction type, at the end of the report.

4.16 The CPC will also generate the following reports for the Manager of the Clearing House (MCH):

- i. **Clearing House Settlement Register** in the format given in Annexure XIX. The statement will indicate the clearing position in respect of each member bank, both presentation and inward and the net settlement figures in favour or against each member bank.
- ii. Settlement information in a computer media, say a floppy disk or tape, as indicated by the MCH, as per the record lay out and security features as agreed upon between the CPC and MCH or in case the accounting system in MCH is not computerised, the voucher listings and bankwise credit/vouchers as per format furnished by the MCH in terms of the MOP (Please refer to Annexure XV).

4.17 The CPC will also generate the following control reports for use by banks and MCH for monitoring the cheque clearing operations:

- i. **Reject Analysis Report - Bank-wise** in the format given in Annexure XX.

This report gives the field-wise details of rejects during the processing of payment instruments in clearing A copy of the report will be furnished daily to the respective member bank to enable the bank to monitor the quality of its presentation and also the MICR printing of its cheque books and other payment instruments.
- ii. **Reject Analysis Report - Summary** in the format given in Annexure XXI.

This statement gives a summary of the reject analysis bank-wise to enable the CPC and MCH to monitor the reject rate on a daily basis.
- iii. **Statement of Comparison of Receipts and Settlement** in the format given in Annexure XXII.

This statement gives the claims made by each member bank as per its presentation and actual credit given thereagainst to the concerned bank in the settlement bringing out the excess/short credits and the batch adjustments made in respect thereof.

(iv) **Report on Daily Operation of CPC** as per the format given in Annexure XXIII.

4.18 A copy each of the report referred to in (ii) to (iv) above will be forwarded by CPC to the MCH on a daily basis. Further, the CPC may furnish to the MCH any other periodical report as agreed between the CPC and MCH and also any adhoc report as the President of the Clearing House may require.

INWARD CLEARING

4.19 The undernoted documents would form the Inward Clearing of the individual member bank:-

- i. Good instruments sorted branch-wise and transaction code wise.
- ii. Reject items
 - machine sorted branch-wise
 - machine sorted bank-wise
 - manually sorted
- iii. Branch Listing of Inward Clearing Items
- iv. Branchwise Clearing Statement
- v. Clearing House Balance Statement
- vi. Adjustment advices in respect of amendments made in the outward clearing items presented to CPC supported by Batch Ticket, addlist and item-wise listing of items presented in the batch as read by the system.
- vii. Any other report as per the local decision

4.20 The delivery of inward clearing will be arranged in boxes with provision of locking in the Delivery Section of CPC. In this regard the following formalities have to be observed:

- i. The banks are expected to depute authorised representatives to the CPC for collecting the inward, as per the time schedule indicated by CPC.
- ii. Banks should obtain identity cards from CPC in respect of their staff deputed to collect the inward.
- iii. CPC staff should verify the identity cards before allowing access to delivery area/ receptacles.
- iv. Whenever there are changes in the staff deployment, fresh identity cards should be obtained and cards already issued to staff who have been withdrawn should be surrendered for cancellation.
- v. The staff taking delivery should enter the name of the bank, name of the representative and time of delivery in the Delivery Register maintained by the CPC; the closing time of the delivery counter could also be noted in the Delivery Register.

BACK UP OF DATA TO BE MAINTAINED BY CPC :

4.21 CPC should maintain proper library of the daily data file of instruments processed by it. Three generations of the back up should be maintained.

- i. (i) Data back up to be maintained on the system disk for a minimum of 10 days or such other (longer) period as the Clearing House/ MCH may stipulate.
- ii. Data back up to be maintained on computer media on site in a properly arranged library for 8 years or such other (longer) period as Clearing House/MCH may stipulate.
- iii. Another copy of data back up to be maintained on computer media off site in a different locality for 8 years or such other (longer) period as Clearing House/MCH may stipulate.

4.22 System back up should similarly be maintained, on a weekly basis, one set onsite and another set offsite. The tapes/floppies should be rotated on a continuing basis to ensure that the system back up is updated regularly.

CHAPTER V

HANDLING OF INWARD CLEARING BY BANKS

5.1 i) The Service Branch/Main Clearing Department of each member bank will depute an authorised representative possessing valid identity cards to the MICR Cheque Processing Centre for collecting its inward clearing instruments and other reports at the time and venue indicated by the Cheque Processing Centre/ Manager of the Clearing House.

ii) The Service Branch should ensure that its representative calls at the CPC at the stipulated time, collects the instruments and delivers them at the Service Branch promptly.

iii) Security staff of CPC should check the identity cards of visitors before allowing them access to delivery area/receptacles.

iv) The staff deputed to collect inward clearing shall be required to write the name of the bank, name of the representative, time of delivery, etc. in the Delivery Register maintained at CPC.

5.2 The inward clearing instruments are given to the Service Branch by the CPC in two lots. The first lot represents the good (unrejected) instruments which have been fully sorted by the Reader Sorter machines. The second lot consists of the instruments that were rejected during the process and had to be manually sorted. While the first lot of instruments are sorted drawee branch-wise and transaction code wise, the second lot of instruments are sorted bank/branch-wise only. In addition, there could be other lots of instruments such as 'At Par' instruments sorted to the designated branch/ Service Branch. The Service branch should arrange to further fine sort the second lot of instruments drawee branch-wise on the basis of the sort code available on the MICR read band and place them after the lot of fully sorted instruments of each branch.

5.3 Alongwith the MICR clearing inward instruments, the MICR Cheque Processing Centre will also furnish to each member bank, the Clearing House reports, either in hard copy or on magnetic media or both, as indicated in Para 4.15.

5.4 If the volume of instruments is relatively high or if the time frame available at the Service Branch does not permit detailed verification of inward clearing items with the listings, then a prima facie scrutiny should be conducted as indicated in paragraph 5.6 below and the inward instruments

distributed to the branches alongwith the listings. The branches should be instructed to conduct the detailed scrutiny before distributing the instruments to dealing assistants.

5.5 If the volume of inward instruments is manageable, the Service Branch could also take up verification of the inward instruments as per the branch-wise listing so as to ensure that the physical instruments received tally with the number of instruments mentioned in the reports, the procedure for which is enumerated in paragraph 5.9 below.

5.6 **Prima facie scrutiny of Inward Clearing Instruments at the Service Branch**

- i. The branch-wise instruments and the outputs should be matched with the totals in the Branch Clearing statement and the summary of Branch Listings.
- ii. The verification of the manually sorted instruments has to be done at the Service Branch so as to ensure that these instruments go to the correct drawee branch.
- iii. The branch-wise listings provided by the CPC flag the instruments that have been Rejected during the processing by the indication 'R' alongside such instruments. The Service Branch should check these entries with the physical instruments to ensure that the rejected instruments go to the correct branch.
- iv. The lots should be kept ready for delivery to the representative/ messenger of the branch concerned.

5.7 The following procedure may be adopted for handling of differences arising out of the above verification :-

- a. If the Service Branch finds that any item is listed to any branch but not received, then it can make a note of such non-receipt and inform the branch accordingly.
- b. In case the Service Branch receives an item that is not listed to any of its branches but belonging to one of its branches, it should include this additional items(s) also in the 'Branch-wise Inward Listing' report, make a note of such unlisted receipt and inform the concerned branch accordingly.
- c. In case the Service Branch receives an item that does not belong to any of its branches i.e. the cheque is drawn on another member bank but is listed against any branch, the Service Branch should make a note of it against the branch-list concerned and ask the branch to return the same through return clearing as an item not drawn on it.
- d. In case the Service Branch finds an item that does not belong to any of its branches i.e. the cheque is drawn on another member bank and is also not listed in any of the branch listing, then it can set it aside for transmission to the concerned drawee Bank/branch, **without making any claim.**

5.8 A reference may please be made to the Branch Clearing Control Report (Annexure XI). referred to in paragraph 3.1 above. The branch-wise inward clearing as per the report (Branchwise clearing position) should be entered in Part B of the Report. The report in duplicate should be forwarded to branches alongwith the Inward clearing.

Verification of the Previous Day's Outward from the Branch Clearing Statement

5.9 In addition to the inward instruments drawn on branches of a bank, the Branch-wise Clearing Statement furnished by the CPC would contain the summary position of the branch-wise presentation of the total number of instruments and the total value thereof. This represents the outward presentation of the branch concerned on the previous day as reflected in the Branch Clearing Control Report. The information should be recorded in the Branch Clearing Control Report of the branch concerned.

5.10 The Service Branch should compare the two figures referred to in the above paragraph and verify the correctness of the credit received with the outward claim lodged by it on the previous day. If there is a variation between the claim made and the actual credit reported by the CPC, the reason/s for the variation have to be ascertained with reference to the adjustments, if any, made by the CPC (i.e. in the values on the Batch Tickets of branch presentation). The CPC would be furnishing details of such adjustments made and the causes for the adjustments. This sheet coupled with the Batch Ticket is returned by the CPC along with the copy of the Audit Trail / Patti submitted by the branch the previous day. This would help the Service Branch in reconciling the difference. The Service Branch should verify branch-wise credits as furnished in the Branch Clearing Statement vis-a-vis the presentation made in respect of each branch on the previous day. Even though the total value of the credit received by the bank may tally with the claim made by the bank as a whole, individual branch-wise amounts have to be checked, to ensure non-occurrence of compensatory errors, if any.

5.11 Processing of Inward Clearing at the Drawee Branch

- a. On receipt of the inward instruments alongwith the listings related thereto, the drawee branch will tally all the instruments, marking off each instrument against the entry in the branch listings received from the Service Branch. This process would be easy since the instruments would be in the same order as the listings except for the manually sorted instruments representing the rejected items for which separate indications on the listings/reports would be available.
- b. If the branch finds any instrument that is listed to it (for which a debit has been made on it) but not received by it, it should be treated as a 'Clearing Receivable' entry. A Clearing Receivable Report in 'FORM-A' has to be prepared and forwarded to the Service Branch for onward transmission to the presenting branch concerned, **in duplicate**. The format of this report is furnished in Annexure XXIV.
- c. If the branch finds any instrument received that is not listed to it (for which no debit has been raised on it by the Clearing House), it should be treated as a 'Clearing Payable' entry. For such items, a Clearing Payable Report in 'FORM - B' has to be prepared and forwarded to the Service Branch for onward transmission to the Clearing House, **in duplicate**. A specimen of the Form-B is given in Annexure XXV. The cheque should be passed for payment if it is otherwise in order and the relevant credit passed on to the Service Branch.
- d. In case, the branch receives an instrument that is neither listed to it nor pertaining to it, then the branch should promptly forward the same, **without any claim**, to the Service Branch who would transmit it to the drawee Bank/Branch concerned.
- e. The position after verification including the discrepancies noticed as referred to in (a) to (d) above, should be noted in the Branch Clearing Control Report received from the Service Branch.

- f. After verification of the statements/listings with the instruments in the above manner, the branch may go ahead with further processing of the instruments - debit to accounts concerned etc., in the usual manner.

Verification of claims made in Outward Clearing

5.12 In respect of the outward clearing instruments presented on the previous day, the Service Branch will convey to the branch concerned the actual credit afforded by the CPC, in the Branch Clearing Control Report. The branch should note the figures reported therein carefully. If there is a difference between the claim made and the actual credit received, then the branch should analyse the reason for the difference. The Service Branch would have received from the cheque processing centre the information regarding adjustments, if any, made in the batch totals and the reasons therefor. The CPC will also provide full particulars of the MICR codeline in respect of each instrument presented in the said batch. It should be possible for the branch to use the information and reconcile the difference. Since the realisation is related to corresponding customer credits, the branch should locate and reconcile such outward clearing differences promptly and account for the same and make necessary adjustments. Action taken in this regard should be noted in the Branch Clearing Control Report.

Feed Back to Service Branch

5.13 After the processing of inward clearing and also verification of the outward clearing figures, a copy of the Branch Clearing Control Report duly completed should be returned to the Service Branch. The reports in Form A and Form B should also be enclosed to this report.

Handling of Cheque Returns

5.14 The mechanised cheque processing system proposed under the scheme does not envisage handling of the settlement operations relating to the clearing of unpaid cheques on reader/sorter machines. The same will be handled by the Clearing House adopting the existing procedure viz. manual procedure or Floppy Input-statement Based Clearing procedure. The Service Branch/Main Clearing Departments of banks will as hitherto, arrange for exchange, of the returns of unpaid cheque in the Clearing House through the receptacles and settling on the basis of data of Input statements.

RECONCILIATION OF CLEARING DIFFERENCES

5.15 Generally, there are two types of 'clearing differences' that may arise viz., (a) Inward Clearing Differences and (b) Outward Clearing Differences.

Inward Clearing Differences

5.16 Inward Clearing Differences are of the following types:

- a. Cheques listed to the bank/branch but not received by it - the Clearing Receivables
- b. Cheques received by the bank/branch but not debited to it - the Clearing Payables;
- c. Cheques received by the bank/branch with the actual debit not tallying with the face value of the instrument.

5.17. For all the Clearing Receivable differences reported by a branch, the Service Branch should maintain full data and try to match these with the Clearing Payable differences reported by the other branches. If no such matching is possible, then the Service Branch could forward the Form-A to the presenting bank for further action as per the Clearing House Rules. For Clearing Payable differences too, the same procedure could be adopted and unresolved Form- B sent to the cheque processing centre as per the Guidelines. The CPC, would, on the basis of the MICR data available at their end, find out the bank/branch to whom the actual debit has been raised and inform the same to the bank/branch reporting the Clearing Payable difference who could issue a Pay order to the affected branch for settlement of this un-reconciled clearing difference.

5.18 In the case of a cheque listed for a value higher than the actual amount of the cheque, the branch may debit the drawee's account for the actual amount of the instrument, if it is otherwise in order, and the excess should be reported to the Service Branch for onward follow-up with the bank/branch concerned. In the case of a cheque which is listed i.e. the debit has been raised, for an amount lower than the value of the cheque, the branch may debit the drawee's account for the actual value of the instrument, if it is otherwise in order, and the difference passed on to the Service Branch for onward transmission to the presenting bank/branch after verifying the position from the cheque processing centres.

Outward Clearing Differences

5.19 Outward Clearing Differences could arise in one of the following ways:

- a) No credit received in respect of an instrument presented.
- b) Short credit received in respect of an instrument presented.
- c) Excess credit received in respect of an instrument presented.
- d) Credit received in excess of the claim.

In respect of (a), (b) and (c) above, the differences should be reconciled promptly, if necessary by obtaining the additional information from the CPC or in consultation with the drawee bank/branch concerned. As regards (d), where credit is received in excess of the claim, the Service Branch should be informed of the position by reporting the same in the daily Branch Clearing Control Report. The service branch should attend to such cases promptly and ascertain the reasons therefor by referring the matter to the CPC. Before making a reference, however, the Service Branch should verify from the Branch Clearing Statement and the branchwise claim figures whether the excess credit is adjusted against a corresponding short credit against another branch. Such inter-branch clearing differences should be reconciled internally without reporting the same to the CPC.

5.20 It must be recognised that reconciliation of clearing differences is an important activity that assumes greater significance since this is also an area that may give rise to frauds. The essence of reconciliation is the need for all banks and branches to follow the set rules and guidelines laid down in this regard. Prompt reporting and solving of the same should, therefore, be the prime concern of all players in the field. It would also be desirable that all unreconciled clearing differences payable are transferred to the Head/ Controlling Office after the lapse of particular period - say a year or so, to enable better handling of this activity.