

Cheque truncation system



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Lawyersclubindia Article : Cheque truncation in the Indian Scenario Page 1 of 3 Cheque truncation in the Indian Scenario During the last two decades or so the attitude and lifestyle of the consumers of banking service have been influenced by the advancement in technology. In tune with technological changes the banks' delivery system has to undergo tremendous transformation. The financial reforms process has enabled many competitors to enter the financial services market with a higher degree of efficiency and customer friendly behaviour.

The public sector banks although reacted promptly to the new challenges, have not kept pace with the new entrants in the arena because of their inherent limitations. Under the impact of technology, the banks have been trying to innovate newer products and services to become more competitive in the ever demanding customer driven market. The technology has made it possible for the banks to come to terms with the demands of customers. The system of cheque truncation is prevalent in several foreign countries.

Denmark and Belgium are the pioneers in the truncation system. They adopted complete cheque truncation system more than two decades ago. Sweden is the typical example for having achieved complete truncation where all the cheques can be presented and encashed at any branch; irrespective of the bank on which they are drawn. The process of cheque truncation is not only quick but also meets the requirements of future electronic transactions.

In India the collection and payment of cheques is governed by the provisions of the Negotiable Instruments Act, 1881 which requires that the instruments

must be in writing and have to be physically presented for payment in due course (before the amendment in the Negotiable Instruments Act). In view of this requirement the time taken for the processing of cheques, etc. was long particularly for the outstation cheques. In a country like India, the time taken for collection of outstation cheques is rather tiring for the customers.

With the advent of technology, the Government of India and Reserve Bank of India took initiative to improve the customer service. The working group constituted in 1982 to consider the feasibility of introduction of MICR/OCR technology for cheque processing recommended that India should join SWIFT (Society for Worldwide Interbank Financial Telecommunication) Network for the transmission and reception of international financial messages as well as instil electronic forms of monetary transaction in the Indian economic transactions. The term 'cheque' has been defined in Section 6 of the Negotiable Instruments Act as 'bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand'. As per definition it is essential that cheque should be presented for payment. But in truncation, the physical cheque is not presented but only its image shall be transmitted to the paying branch. ** In common parlance the word 'truncated' means deformed, disfigured, mutilated, etc. As per the Negotiable Instruments Act, the truncated cheque means a cheque which is truncated during the course of a clearing cycle.

The process of truncation requires the banker to convert the cheque data into electronic form for the purpose of safe keeping or to return the cheques at the request of the banker or to provide information on cheques as and when requested. The cheque in the electronic form means a cheque which

contains the exact mirror image of a paper cheque and is generated, written and signed in a secure system ensuring minimum safety standards with the use of digital signatures (with or without biometric signature) and http://www.lawyersclubindia.com/articles/print_this_page.asp?rticle_id=250 7/24/2011 Lawyersclubindia Article : Cheque truncation in the Indian Scenario Page 2 of 3 asymmetric crypto system. Features of truncated cheque system With the advent of technology and cyber era, security of the system has acquired prime importance. No doubt, the financial institutions have started providing fast services than ever before. But the technology has brought in its trail security problem also. Under the cheque truncation system, therefore, the image of the cheque is captured at the point of deposit where it is sealed and encrypted before its transmission.

This renders it tamper proof. This is done strictly as per international standards. The transmission between the presenting, paying and payee bank is authenticated by a certificate authority as part of the public key infrastructure. The process of image certification at the banks is certified by an independent auditor to ensure that it conforms to the requirements of the laws of evidence of that country. Under the cheque truncation system all cheques are transmitted electronically.

The original cheques are retained by the collecting banker. Indian scenario Truncation of cheques can be done by the clearing house or the bank which collects the truncated version of the cheque. As per Section 81 of the Negotiable Instruments Act, the banker who receives the payment, is also supposed to retain the copy of the cheque even after payment has been done. Section 89 of the Negotiable Instruments Act says that any distinction <https://assignbuster.com/cheque-truncation-system/>

between the original cheque and the truncated image should be construed as material alteration.

In such cases it is obligatory on the part of the clearing house or the bank to ensure the correctness of the truncated image while transmitting the image. An explanation has been added to Section 131 of the Negotiable Instruments Act vide the Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002. It says that it shall be the duty of the banker who receives payment based on an electronic image of a truncated cheque to ensure that there is no fraud, forgery or tampering apparent on the face of the instrument.

It would be seen that after the amendment the responsibility of the collecting bank has increased manifold. Earlier it was the position that if he collects any instrument in good faith and without negligence he was not liable for any fraud, etc. But after the amendment it is obligatory upon the collecting bank to verify the genuineness of the cheque with greater degree i. e. due diligence. Hence the cheque truncation system has burdened the collecting banker with a greater degree of responsibility.

As per sub section (2) of Section 64 of the Negotiable Instruments Act, where an electronic image of a truncated cheque is presented for payment, the drawee bank is entitled to demand any further information regarding the truncated cheque from the bank holding the truncated cheque in case of any reasonable suspicion. Two new sub-sections have been added to Section 89. As per these sub sections any difference in apparent tenor of electronic image and the truncated cheque shall be a material alteration and it shall be

the duty of the bank or the clearing ouse, as the case may be, to ensure the exactness of the apparent tenor of electronic image of the truncated cheque while truncating and transmitting the image. In spite of the advantages, the truncation system has its own drawbacks. The truncated cheques are vulnerable to fraudsters who can hack into this system and change the contents of the cheques. So the security of the system must be ensured. RBI has taken upon itself setting up of a safe, secure and http://www.lawyersclubindia.com/articles/print_this_page.asp?article_id=2507/24/2011 Lawyersclubindia Article : Cheque truncation in the Indian Scenario

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Page 3 of 3 efficientcommunicationnetwork for the exclusive use of the banking sector known as INFINET (Indian Financial Network). This network is already being used by a large number of banks for transfer of funds. INFINET uses the latest technology and security called PKI (Public Key Infrastructure) which is within the legal requirements of the Information Technology Act, 2000. Source : - http://www.ebc-india.com/practicallawyer/index.php?option=com_content&task=view&id=8047&Itemid=54 http://www.lawyersclubindia.com/articles/print_this_page.asp?article_id=2507/24/2011