

# POSITIVE PAY SYSTEM

## (A NEW WAY OF FRAUD PREVENTION IN BANKS)

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### **Abstract**

*The concept of Positive Pay involves a process of reconfirming key details of large value cheques. Effective from January 1st 2021, the RBI has introduced an electronic authentication system called Positive Pay that will allow customers to share the cheque details with the bank before its process. This additional security layer is meant to address the rising instances of cheque fraud that have made headlines throughout the past year. As reported by the RBI, the total volume of fraud transactions in India was pegged at Rs. 64,681 crores between April and September 2020 with forged or counterfeit cheques accounting a significant share. So, as perpetrators' methods for counterfeiting cheques turn more sophisticated with each passing day, the launch of Positive Pay is definitely a shot in the arm for banks. The paper shows areas in the efficiency in existing payment systems and Positive Payments System in India. The paper makes a modest attempt to identify opportunities and challenges for India. Numerous major changes in the payment system would take place at a quicker pace as Positive Pay System for cheque truncations.*

**Keywords:** Reserve Bank of India, Cheque Truncation System, Electronic authentication system, Fraud Prevention, National Payments Corporation of India

### **Introduction:**

The Reserve Bank of India (RBI) has made it mandatory for cheques worth Rs 5 lakh or above to follow the Positive Pay System (CPPS) to be encashed. If the rules are not followed, the banks are allowed to refuse clearance of such

cheques. Several banks including the Bank of Baroda (BoB) and the State Bank of India (SBI) have issued notifications to help the customers complete the PPS formalities.

### **What is the Positive Pay System?**

The concept of Positive Pay involves a process of reconfirming key details of large value cheques. Under this process, the issuer of the cheque submits electronically, through channels like SMS, mobile app, internet banking, ATM, etc., certain minimum details of that cheque (like date, name of the beneficiary/payee, amount, etc.) to the drawee bank, details of which are cross-checked with the presented cheque by CTS.

Under this, the person who issues a high-value cheque will be required to submit the details including the date of issuance, name of beneficiary etc to the drawee bank. This can be submitted electronically via email, mobile banking app, and internet banking.

Later, when the cheque is presented to another bank for payment processing, the details will be verified. If the details match, the return will be given to the depositor. Otherwise, the cheque will be returned unpaid.

This process is developed by the National Payments Corporation of India (NPCI).

### **What is a 'high-value cheque'?**

Under the PPS, the RBI had said that the cheques for amounts of Rs 50,000 and above will have to be compliant with the PPS. However, it was not made mandatory. This rule came into effect on January 1, 2021. "While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of Rs 5,00,000 and above", the RBI had added.

Following this, several banks have set the limit of Rs 5 lakh or above for mandatory PPS registration, effective August 1, 2022. Bank of Baroda issued a notification saying, "As per the RBI directive, Positive Pay System (CPPS) will

be mandatory w.e.f. 01.08.2022 for cheques issued for Rs 5 lakh & above. Such cheques will be rejected w.e.f. 01.08.2022 if Positive Pay confirmation is not provided."

**Which details are required to be furnished with the bank?**

1. Account number
2. Cheque number
3. Date of cheque
4. Amount
5. Transaction code
6. Beneficiary name
7. MICR code

**How does Positive Pay work?**

According to the RBI, while most retail consumers prefer to use electronic alternatives such as NEFT and RTGS, cheques are still a popular option now. Before customers issue a cheque, they need to share cheque details like name of the payee, issue date, and amount and send it to bank via email. When the cheque is presented to the bank for payment via CTS Clearing, the bank will compare the instrument details received against the details send. In case of any mismatch, the bank may review it for suitable action.

**The National Payments Corporation of India (NPCI):**

It will develop the facility of positive pay in CTS and make it available to participant banks. "Banks, in turn, shall enable it for all account holders issuing cheques for amounts of Rs 50,000 and above. While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of Rs 5,00,000 and above," The positive pay system will be implemented from *1/January/2021*. It added that the "banks are advised to create adequate awareness among their customers on features of

positive pay system through SMS alerts, display in branches, ATMs as well as through their website and internet banking".

According to The RBI further only those cheques that are compliant with positive pay system instructions will be accepted under the Dispute Resolution Mechanism at the CTS grids Banks, however, will be free to implement similar arrangements for cheques cleared and collected outside CTS.

Under the Positive Pay System, the issuer of the cheque will be required to submit electronically, through SMS, mobile app, *Internet banking or ATM* certain minimum details of that cheque like Date, Name of the Beneficiary, Payee, and Amount to the Drawee Bank. These details will be cross-checked before the cheque is presented for payment. In case any discrepancy is flagged by *Cheque Truncation System (CTS)* to the drawee bank and presenting bank, redressal measures would be undertaken.

#### **Features of Positive Payments System:**

It will be the account holder's discretion to use this facility. However, in the event of cheques for Rupees 5 lakh and above, banks may consider making it compulsory. The cheque issuer, in accordance with the Positive Pay System, must submit certain minimum information such as date, name of the payee, beneficiary name, amount, electronically via SMS, mobile app, internet banking or ATM, to the drawee bank. The information will be verified before payment of the cheque is sent. If a discrepancy is flagged by Cheque Truncation System (CTS) to the drawee and presenting bank, measures to redress the issue will be taken immediately. The 'positive pay' facility will be developed by the NPCI (The National Payments Corporation of India) and will be made available to the banks agreeing to incorporate this measure. RBI has also directed the banks to make their customers aware of the characteristics of the 'positive pay' scheme through SMS, branch displays, ATMs and their website and internet banking. Cheques complying with the guidelines of 'positive pay' system will be accepted under the dispute resolution process at the CTS grids. However,

banks can enforce similar arrangements if cheques are cleared and obtained outside the CTS.

**Bank using this method in India:**

Private sector banks have been following this system such as *Yes Bank, ICICI bank* follows the procedure of positive pay since 2016 irrespective of the amount on the cheques. As per RBI Governor, to promote the innovation in the financial sector, the central bank (RBI) will set up an innovation hub in the country. Also, a scheme of retail payments in the offline mode via *cards and mobile devices, and a system of ODR* (Online Dispute Resolution) mechanism will also be introduced soon.

Some banks such as IDBI Bank, Yes Bank and ICICI Bank have already started encouraging customers to use this feature. According to the bank's website, customers can update details of cheques via IDBI Bank GO Mobile+ app Yes bank and ICICI bank mobile app. National Payments Corporation of India (NPCI) is developing the Positive Pay facility and will make it available to banks. According to the RBI's notification, the issuer of the cheque will submit details electronically, through channels like SMS, mobile app, internet banking, ATM, The customer will need to enter details such as name of the person or the organisation to whom the cheque is issued, the amount, cheque number and the date of issue. Once the customer shares the details, the bank's system will upload the data into the centralized data system of Positive Pay. On receiving the cheque, the bank will verify the details from the central database. Banks will make the payment if the details which the account holder has provided matches with those on the cheque. In case of a mismatch, the bank will reject the cheque. The system allows banks to authenticate the cheque twice—once by matching the signature of the issuer and then by cross-checking details. Banks also embed several security features in the cheque using which they can verify whether the cheque leaf is genuine or not. Some of them include watermarks, logo, pantographic image, serial number, account number, and there could be features that are not visible under normal light.

**General directions issued by the RBI:**

It is noteworthy that the RBI has suggested to banks to consider making the direction mandatory only in case of cheques for amounts of rupees 5 lakh and above. While the reason for this is to avoid fraudulent payment of high-value cheques, it is doubtful whether the banks can make it compulsory for customers to follow the Positive Pay system. The issue and payment of cheques are governed by the Negotiable Instrument Act, 1881, which contains various prescriptions. Section 31 prescribes that the bank is liable to pay for the cheque when funds are available in the account. *Section 85* prescribes that the bank will be discharged from its liability when the payment is a '*payment in due course*'.

While defining 'payment in due course', *Section 10*, prescribes that the payment should be as per the 'apparent tenor of the instrument' with some more stipulations. Nowhere does the Act prescribe that some advance information should be provided to the banker regarding the cheque issued by a customer. Hence, it is doubtful whether the bank can compel its customers to adopt the Positive Pay system. Cheque is a 'bill of exchange' drawn on a bank, and a bill of exchange should be an unconditional order. There cannot be any condition attached to a bill of exchange or a cheque and on this count also, the directive is questionable. Instead of the Positive Pay system, the RBI may direct banks to make it mandatory to use only online avenues for payments exceeding amount of Rupees 50,000. In course of time the cheque system of payment can be drastically reduced, which can reduce cost to the entire financial system and have ecological benefits, too. It should be possible to India, move to Paperless Bank Transactions.

**(i) Puts Onus/Responsibility on Banks:**

The key advantage of the system is fraud prevention. Some large banks have been using their own system to verify such details. With the regulator implementing it, smaller banks can also now benefit from it. "Positive Pay works as insurance for customers. If an account holder shares details of the issued cheque and his bank still clears a fraudulent cheque, the onus is on the

bank and not on the customer," when a fraudulent transaction happens through cheques, it is difficult to put the onus either on customers or banks. Banks don't take the onus if the signature and cheque leaf are genuine. Banks put the onus on customers if a beneficiary alters the cheque calling it the account holder's negligence. Even if your bank doesn't make Positive Pay system mandatory, do opt for it to avoid falling victim to banking frauds.

**(ii) It Act Like Insurance for Cheques:**

Under Positive Pay, after an account holder issues a cheque to anyone, he or she will share the cheque details with the bank. Before making payment against the cheque, banks will match the details available on the cheque with those that the issuer has provided. Such checks will ensure banks process genuine cheques only. To make cheques safer, the Reserve Bank of India (RBI) has asked banks to implement a system called Positive Pay from January 2021. The system adds an extra layer of security to reduce cheque-related frauds. *"The system acts against cheque frauds where the cheque leaf and signature are genuine but a fraudster alters the cheque detail,"* As per the notification RBI has left it to banks to make the system mandatory or leave it to the discretion of the account holder to opt for Positive Pay mechanism. *"While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of rupees 5 lakh and above".*

**(iii) Positive Pay Mechanism for Cheques:**

According to the RBI policy statement issued on 6 August 2020, the Cheque Truncation System (CTS) -2010 standard specifying minimum security features on cheque leaves acts as a deterrent against cheque frauds, whereas standardization of field placements on cheque forms enables straight-through processing by use of optical/image character recognition technology. With a view to augment customer safety in cheque payments and reduce instances of fraud occurring on account of tampering of cheque leaves, the RBI decided to introduce a mechanism of positive pay for all cheques of value 50000 rupees and above.

**Cheque Truncation System (CTS) under Positive Pay System:**

The Cheque Truncation System (CTS) is a process of stopping the flow of a physical cheque issued by a drawer at some point by presenting a bank en-route to the paying bank branch. Instead of it, an electronic image of the cheque is transmitted to the paying branch through the clearinghouse, with relevant information such as data on the Magnetic Ink Character Recognition (MICR) band, date of presentation, presenting bank, etc. Cheque Truncation, therefore, eliminates the need to move the physical instruments across bank branches, other than in exceptional cases for clearing purposes.

According to the RBI policy statement issued on 6 August 2020, the Cheque Truncation System (CTS) for clearing cheques is operational pan India, and it covers 2 % and 15 % of the total retail payments in terms of the volume and value; currently, the average value of a cheque cleared in the Cheque Truncation System is 82000 rupees.

RBI had said earlier this year that it should introduce a pan India Cheque Truncation System by the month of September 2020 with a view to making cheque clearing faster and safer. Further, the Reserve bank, in its statement, on February Development and Regulatory Policies, had stated that the Cheque Truncation System, which is presently operational at the major clearing houses of the country, had established well, and it has also made significant efficiency gains. Therefore a pan India Cheque Truncation System shall be made operational by September 2020.

**The Process of the Positive Pay Mechanism**

As per RBI under this mechanism, cheques will be processed for payment by the Drawee Bank based on the information passed by its customer at the instance of issuance of the cheque. Under the Positive Pay Mechanism, the issuer shall first share the details of the cheque so issued. The details can be the cheque number, date, name of the payee, account number, amount, etc. An image of the front, as well as the back side of the cheque, is also required to be shared along with it, before it is handed over to the beneficiary. At the time of



submission of the cheque for encashment by the beneficiary, the details are matched with the details provided to the bank through the Positive Pay. When the details match, the cheque is honored. In case of mismatch, cheque is dishonored. The cheque is referred to the issuer. It further stated that, this measure would cover approximately 20 % and 80 % of total cheques issued in the country by volume and by value, respectively. Operational guidelines for the purpose will be separately issued according to the RBI policy statement. It will ensure customer safety and chances of fraud will be reduced.

**Conclusion:**

The Positive Pay System will fundamentally change the way of payments of Cheques, the mobile App. phone or tablet, bank Apps will become the primary device of all Positive Pay System. The Positive Pay System crystallised multiple bank accounts into a single mobile application, compared to all other payment systems is the most advanced payment system in the world to do safely transaction on Cheques. Positive Pay System will make a major positive impact on the economy, as it would substantially reduce cash payment and avoids over rite, misuse of cheques and avoids frauds on cheque transactions. Use of Positive Pay System would increase the economic benefit, would become more transparent, amenable to compilation of authentic data. The above discussion clearly indicates that, Positive Pay System has the capability to take India to a new level in the field of digital payment system at National and International levels. It is helps to avoid frauds, losses & liability, most of the banks would charge an insurance premium fee to provide a double layer security system with the positive pay system. The system is yet not mandatory; however, you can opt for it to avoid any fraudulent activity while making cheque payments. The RBI has been taking numerous steps in recent times to curb fraudulent practices, and the RBI notification on positive mechanism for cheques is another step towards smooth flow of payments.

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