

The Evaluation of cheque clearance of Pubali Bank Limited



**A report submitted in fulfilment of the requirements
for the degree of Masters of Business Administration**

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Letter of Transmittal

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Subject: Submission of internship report.

Dear Sir,

It is my pleasure to get an opportunity to work on the topic of “**The Evaluation of Cheque Clearance of Pubali Bank Ltd.**”. The report has been prepared as a part of the requirement of the MBA program of BRAC Business School.

I have been working an intern in Pubali Bank Limited for 12 weeks as a part of my internship program. Working on this report was a great learning experience for me as I got to learn the differences between practical and theoretical work. I shall be pleased to answer any query you may have regarding the report.

Sincerely,

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Executive Summary

This report is designed to provide the readers with a practical insight of Cheque clearance clients. For this report, I have been associated with one of the most renowned commercial Pubali Bank in Bangladesh. This report begins with giving the readers an insight on the history and existence of Pubali Bank and its current standings. Following that the report continues introducing the Bank (PBL), the second chapter consists of my experiences and job responsibilities as an intern at PBL. Subsequently, I have completed extensive research on their cheque clearing system to provide the readers with insight necessary things. To prepare this paper, I had to go through their annual reports. Some of the clients also gave time for a short interview and disclosed their experience regarding the cheque clearing system of PBL. It was found that customers have positive impression of cheque clearing system.

Acknowledgement

This page is meant to acknowledge all the wonderful people who made it possible for me.

I am greatly thankful and indebted to my course instructor, Saif Hossain, for his support, patience and guidance in all aspects of this report. I would also like to thank Biplob Chandra Saha (AGM, Branch Manager Kafrul Branch), Mrs Shangita (Officer, General Banking Department) and Mrs. Asma Akter (Senior Officer, General Banking Department) of Pubali Bank Limited for giving me their valuable time along with the opportunity to work with them and information regarding the bank. The experience I have gathered will be a privilege for my future career planning. I gathered practical knowledge that was needed to make this internship program successful. Furthermore, I would also like to acknowledge with much appreciation the crucial role of the customers who are using Pubali Bank Limited's service. They gave me the permission to use their personal information to complete the task.

I would like to thanks to my parents for being patient with me. Finally, I would very much like to acknowledge the patience, love, encouragement and never-ending prayers provided by my husband, my brother and my sister.

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1

Introduction

Bank is an organization chartered by a state or federal government, which provides the following services such as receiving payment, credit, savings, insurance, security brokerage, investment banking, merchant banking, cash management, real estate and community development. It plays an essential role in the growth of an economy of a country. Due to the banking system, countries become more industrialized and developed, because bank collects money from the depositor and provides a loan to others at fixed interest rate. By getting required loan from the bank, people can do business and earn a lot of profit which is facilitating them to become more independent. Subsequently, people can make an international trade like export and import and earn a lot of foreign currency which helps the country's economic condition to grow even more.

1.1 Background

Pubali Bank Limited is the largest commercialized bank situated in Bangladesh. This bank mostly performs the general banking activities not only through gaining profit but also through providing socio-economic, industrial and agricultural development. This study is conducted to find out the cheque clearing system of this bank is applying in the organization. All through the internship program, a close observation was made on different banking activities of Pubali Bank Limited. Its performance was reviewed and analysed through the annual reports, and internal records of the bank. I have tried my best to use this opportunity to enrich my knowledge on the banking system.

1.2 Objective

The aims of the study are to:

- obtain a clear understanding of the practical banking activities and relate them to theoretical knowledge that I gained through the academic learning in the university and from various documents of the bank.
- get an overall idea about Pubali Bank Limited.
- determine the evolution of cheque clearance in the organization
- emphasize those areas in the organization where improvement is necessary

1.3 Methodology

Both primary data and secondary data are used to prepare this report.

Primary Source

- Interviewing customers at Pubali Bank Ltd. (Kafrul Branch)
- Face to face conversations with the dealing officer and manager
- Observing clearing settlement of manual

Secondary Source

- From prior research report
- Journals and articles related to Pubali Bank
- Bank's annual report 2014 - 2015
- Website of Pubali Bank

1.4 Data Collection

Data were collected through in-depth interviews that were conducted with the dealing officers, manager, and customers of the bank. A structured questionnaire was designed to obtain more information, and it was considered as one of the important tools to make the report.

1.5 Limitation of the study

The report is presented on the basis of face to face conversation with the customers, employee and manager of the bank along with the practical experience in the bank. The management of the bank was very helpful while giving me information regarding the bank. In spite of this hard work, there were other barriers that existed while conducting the research report such as:

- large-scale research was not possible due to time constraints
- the study was conducted only within the Kafrul branch of the bank
- there were few relevant data that the management hesitated to disclose due to bank confidentiality.



Overview of Pubali Bank

2. History

The Bank was initially emerged in the Banking scenario of the then East Pakistan as Eastern Mercantile Bank Limited at the initiative of some Bengali entrepreneurs in the year 1959 under Bank Companies Act 1913 for providing credit to the Bengali entrepreneurs who had limited access to the credit in those days from other financial institutions. After independence of Bangladesh in 1972 this Bank was nationalized as per policy of the Government and renamed as Pubali Bank. Subsequently due to changed circumstances this Bank was denationalized in the year 1983 as a private bank and renamed as Pubali Bank Limited. Since inception this Bank has been playing a vital role in socio-economic, industrial and agricultural development as well as in the overall economic development of the country through savings mobilization and investment of funds

2.1. Business Growth

At Present, Pubali Bank is the largest private commercial bank having 445 branches and it has the largest real time centralized online banking network. Pubali Bank limited has achieved constantly about 20% growth for the last 6 (six) years.

Table I: Year Deposit Advance Import Export Profit Classified Advances Remittance NPL

Year	Deposit	Advance	Import	Export	Profit
2009	8846.64	7420.33	6049.38	2473.96	383.94
2010	9885.05	8910.62	8568.35	3390.97	548.50
2011	12380.95	10632.96	9857.9	4751.59	548.02
2012	15041.88	12206.85	10812.03	5900.48	613.58
2013	17787.82	13694.05	9738.04	6948.44	755.98
2014	19309.02	14997.45	9751.69	7707.13	708.14

2.2. Corporate Social Responsibility

Pubali Bank's response to corporate social responsibility is embodied by the concept of responsible banking, which is imbibed in the way we do business and drive the objectives of the Bank to be the best financial institution in Bangladesh. We recognize our obligations to the society, so we are committed to always making informed, reasonable and ethical decision in the manner we carry out our business, how we treat our employees, and how we relate to our customers.

Health care

Because we believe that good health is a critical condition for rapid socio-economic development of the country, the Bank has donated or funded large volumes to set up state of an art facility to various hospitals across the country to underline its commitment to ensure availability of health service to all at affordable cost and thus saving exodus of foreign currencies.

Other areas of Corporate Social Responsibility

- Regular donations to different educational institutions, disabled organizations
- Helping the distress people for treatment

- Financial and other supports have been provided for the complicated operation of the own employees
- Financial support for the educational purposes and good result of the children
- PBL has been providing magazines and supports for extra curricular activities to major universities
- Internship facilities to the students of the leading universities
- For the natural calamity and national tragedy PBL always extends its hand to help and provide financial support
- PBL always extends its support to distress people through government scheme/contribution to Government Fund etc.

2.3. Mission

- To be the most respected and preferred brand among all financial service providers in the nation
- Providing a superior value proposition to the customers by fulfilling their financial needs in the fastest and the most appropriate way.
- To provide world-class finance, capital and risk management product bundled with diversity and differentiation, delivered economically through the client's choice of distribution channel recognizing the unique lifetime financial needs of clients
- To build an empowering organization with the structure, career development, training and rewards to ensure the vision is achieved
- Using flexible technology, scale and risk management to ensure our services are of superior value

2.4 Vision

- Providing customer centric lifelong banking services.

2.5 Banking products of Pubali Bank Ltd:

Retail banking of PBL:

1. Chequing Accounts

- Savings deposit (SB)
- Current deposit (CD)
- Special notice deposit (SND)

2 Ancillary Services:

- Demand draft (DD)
- Telegraphic Transfer (TT)
- Payment order (PO)
- Teller (Cash Counter) Transaction
- Locker Services

3 Recurring Deposits:

- Pubali Pension Scheme (PPS)
- Pubali sanchaya Prakalpa (PSP)
- Shikkha Sanchaya Prakalpa (SSP)

4 Term Deposits:

- Fixed Deposits (FDR)
- Dwigun Sanchaya Prakalpa
- Monthly Profit Based Fixed Deposit
- Deposit Pension Scheme (DPS)
- Monthly Profit Based Small Deposit
- Target Based Small Deposit

Corporate Banking:

- Secured over Draft (OD)

- Cash Credit (CC)
- Demand Loan (DL)

Personal Loans:

- Car Loan
- Flat Purchase Loan
- Household Durable Loans
- Medical Equipment Loan
- Government primary School Teachers Loan

SME Financing:

- PBL Subarna
- PBL Karmo uddog
- PBL Sujan
- Pubali Prochesta

Trade Finance

- Export LC
- Import LC
- Back to Back L/C
- EDF LC
- Loan Against Trust Receipt
- Packing Credit
- Documents againsts payment
- Loan against imported Merchandise
- Foreign Bill Purchase

Islamic Banking

- Deposit schemes
- Investment schemes

3

My Job Responsibilities

I was assigned in General banking (GB) sector. GB is one of the most important departments as well core department of any branch where all kind of banking activity starts. During my internship, I was assigned to do these stuffs under my supervisor's supervision and the following tasks include:

- DPS account opening
- Handling the clients
- Facilitating the clients to fill up forms like:
 - a) FDR form
 - b) DPS form
 - c) Current Account Form
 - d) PPS form
- Provide assistance support according to the need of clients
- Updating client's data in through PBL's customized software PIBS (Pubali Integrated Banking System)
- Receiving Cheque
- Cheque book issue
- Registering all the pay orders manually
- Registering all the cash deposit manually
- Maintenance of the subsidiary register for receipt of cheques
- I observed how the bank officers used to do the clearing of the cheque PIBS

Analysis of Evaluation of Cheque Clearing System of PBL

4. Cheque

A cheque is a negotiable instrument having importance in the commercial world. It was originally spelt as 'check'. Later, the modern spelling 'cheque' was introduced by Gilbart. A cheque is a written order to the bank given by an account holder to pay money from his account. It is a popular mode of payment which can be passed from one hand to another hand easily. The Negotiable Instrument Act, 1881, Sec 06 defines Cheque as: "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. Thus, cheque is an unconditional instruction by the customer on a specified banker to pay certain sum of money to the specified person or persons or order or bearer of the instrument. All cheques are bill of exchange but all bills are not cheques.

4.1 Salient features of Cheques

1. Instrument in writing: A cheque must necessarily be an instrument in writing. Oral orders do not constitute a cheque. Bankers in their own interest and in the interest of the customers, allow the cheques to be drawn only in ink.
2. An unconditional order: A cheque is an order to pay and it is not a request. This order must be unconditional.
3. Drawn on a specified banker: A cheque is always drawn only on a particular banker.
4. Payee must be certain: A cheque must be made payable to the order of a certain specified person or his agent or bearer thereof.

5. A certain sum of money: A cheque is usually drawn for a certain sum of money.
6. Payable on demand: A cheque is payable only on demand.
7. Signed by the drawer: A cheque must be signed by the drawer i.e. customer as per specimen signature (in case of illiterate person, left thumb impression is required for male and right thumb impression for female).
8. Printed form: All banks follow more or less common standard printed form.
9. Date: A cheque must be properly dated. An undated cheque cannot be regarded as a valid instrument. A stale instrument and post-dated instrument cannot be paid. Ante-dated instrument may be paid if it has not become stale by that time.

The Branch Official has to identify the following before cancellation of the instrument:

1. Drawn on an ordinary piece of paper.
2. Stale/ post-dated instrument.
3. Mutilated.
4. Words and Figures differ.
5. Insufficient Funds.
6. Signature is forged.
7. Endorsement is irregular.
8. Crossed instrument presented at the counter.
9. Material alteration
10. Printed Forms etc.

4.2 Evolution of cheque clearing House in Bangladesh

In Bangladesh Bank, there is a large room, which has more tables for each bank that is called the clearing house. Every bank has an officer of clearing house who is work with Bangladesh Bank clearing house. Most of the major client deposit their account in different kinds of bank cheques. Clearing officer checks all the cheques and deposit slip very carefully and then he received the cheque. After that, the clearing agent is posting all the cheques in computer software which is recognized through Bangladesh bank computer department. Then clearing officer seal all the cheques in advance date after that the officer endorsement all the cheques and sign all the cheques. All the cheques are posted on the computer by branch wise, then

officer prints the entire document and staple all the cheques by branch wise this is called schedule of the clearing house.

According to the Article 37(2) of Bangladesh Bank Order 1972, the banks which are a member of the clearing house are called as Scheduled Banks. The Scheduled Banks clear the cheques drawn upon one another through the clearing house. In the central bank, every day the representative of the member banks sits to clear the cheques. For clearing, there is a department in every bank. This unit receives cheques, drafts and like instruments from its customer for the purpose of the collection with a deposit slip over the counter crediting their accounts. Clearing of cheque is done through the clearing house in Bangladesh Bank. Every day the first hour starts at 10.30am and returns house at 5:00 pm.

4.3 Cheque clearing system in PBL

What is clearing?

Clearing is the process of collection of proceeds of instruments of different banks by a collecting bank through some systematic procedures with the involvement of Central Bank.

Member of clearing house

Pubali Bank Ltd (PBL) is a scheduled Bank. According to the Article of Bangladesh Bank Order, 1972, the banks, which are the member of the clearinghouse, are called as Scheduled Banks. The scheduled banks clear the cheque drawn upon one another through the clearinghouse. The cheque clearing section of PBL principal office branch sends inter branch debit advice (IBDA) to the head office on the receiving day of the instruments. The main branch takes those instruments to the clearing house on the following day. If the instrument is dishonoured, head office of PBL, sends IBDA to the PBL, principal office branch. The total procedure takes three days if everything goes orderly. The cheque clearing section of PBL, principal office branch send outward bills for collection (OBC) to the concerned paying

bank to get inter branch credit advice (IBCA) from the paying Bank. If the instruments are dishonoured by the Paying Bank

Types of clearing session

1. High value session (Amt \geq 500000)
2. Regular value session (Amt = Any)

Types of clearing Instrument

1. High value first presentment
2. High value second presentment
3. High value third presentment
4. Regular value first presentment
5. Regular value second presentment
6. Regular value third presentment

Types of clearing process

- 1) Inward processing
- 2) Outward processing

Inward cheque

On receipt of the inward clearing, the cheques are posted to the various accounts on which they are drawn meaning the accounts of the cheque issuer or drawer with the bank is debited to the account and the payment is made to the bank presenting.

Inward cheque processing in PBL

- Please monitor all inward cheques all the time as they come time to time
- Please check the core Banking system and ensure funds are available for passed cheques and deduct funds from accounts
- Please reject all cheques in the Flora system on time. That mean you must finish your job at least 45 minutes before settlement time for high value and 1 hour and 30 minutes before regular value.

- If you do not give enough time to the central BACH unit for delivery the cheques could miss deadline.
- Always keep watching the settlement reports.

Outward cheque

Outward clearing refer to instruments that are deposited by customers that are drawn on other banks that need to be presented at clearing.

Outward cheque processing in PBL

- Please make sure no cheques have any foreign objects like staples, pins, tapes attached
- Please make sure depositor's account number is written on the back of every cheque
- Please make sure fill up Batch control vouchers, sign and deliver to scanning location with all the cheques on time.
- Follow up with the cheques from outward list.

Settlement time of clearing cheque

Clearing window	presentment	Return	Settlement
High value	12:00pm	15:00pm	15:01pm
Regular value	12:30pm	17:00pm	17:01pm

Function of main branch clearing

- Receiving images of inward clearing instruments and transfer to different branches.
- Scanning of clearing instruments for outward clearing and transfer to Bangladesh Bank end.
- Preparing voucher for inward, outward and return house and matching with Bangladesh Bank settlement.

- Ensure branches claims through issuing IBCA & IBDA.
- Corresponding with Bangladesh Bank
- Corresponding with other banks
- Preservation of clearing instruments
- Rectification of various dispute
- Over all supervision

Transaction point activity

- Scan
- Data Entry
- Checking

Scan man activity

- Creates a batch with BCV data
- Scans cheques for that batch
- Ensures number of cheques matches with BCV
- Ensures MICR was extracted correctly

Data entry operator

- Opens one batch at a time
- Enter cheque amount, depositors account number
- Ensures batch total and count matches

Central admin activity

- All sending and receiving between PBM and CPS.
- Continuously monitors PBM and CPS for activities ready to receive or send
- Receive reports from Bangladesh Bank and match with the CPS and PBM generated reports.
- If any discrepancy occurs then try to solve the problem.
- Manage user activities and day end process.

4.4 Advantages of cheque clearing system

Branch view

- Do not need to go any Messengers with cheques in Bangladesh Bank.
- No possibilities to loss the cheque.
- Increasing high value cheques because daily payment possible to party.
- Duration of cheque clearance reduced as well as volume increased significantly

Customer view

- Quickly cheque deposit.
- No possibilities to loss the customers cheque which submitted in Bank.
- Timely and efficient bill payment.
- All liabilities of Bank , no need to worry of customers.

Return of the Cheque in PBL

A cheque may be returned by the following reason:

- Account Closed.
- Insufficient funds / not arranged for.
- Payment stopped.
- Refer to drawer.
- Drawn against uncollected funds. May be presented again.
- Amount in words and figure differ.
- Drawer's signature differs.
- Alternation requires drawer's full signature.
- Mutilation required drawer's confirmation.
- Cheque postdated /out of date.
- Date incomplete/ missing.
- Payee's endorsement required / irregular.
- Payee's endorsement requires bank confirmation.
- Remittance house stamp missing.

- Not drawn on us.
- Present through banker.
- Effects not cleared Present Again.

Common Problems in clearing

- Less claim by other bank
- Excess claim by other bank
- Less claim by our bank
- Excess claim by our bank
- Fail to attend the clearing session
- Specially fail to attend the return session

4.5 Bangladesh automated clearing house (BACH)

BACH, the first ever electronic clearing house of Bangladesh, has two components - the Automated Cheque Processing System (ACPS) and the Electronic Funds Transfer (EFT). Both the systems operate in batch processing mode- transactions received from the banks during the day are processed at a pre-fixed time and settled through a single multilateral netting figure on each individual bank's respective books maintained with the Bangladesh Bank. A state-of-the-art Data Center (DC) and a Disaster Recovery Site (DRS) have been established comprising of most modern software and hardware for dealing with the operations of BACH. A Virtual Private Network (VPN) has been created between the participating commercial banks and Data Center (DC) & Disaster Recovery Site (DRS) for communicating necessary information related to BACH. Digital Certificate has been formulated for the first time in Bangladesh for secured data communication.

Important features of BACH

- Images of clearing instruments are considered for clearing process.
- Settlement made through wave
- Physical movement of officers not required (continued)

- PBM : Presenting Bank Module
- CPS : Cheque Processing System
- Work Station
- Batch & Run
- Routing number
- Scanner
- BACH Program manager

4.6 BACH enables BB to increase cheque clearing speed

The high value cheque clearing has doubled and the duration of clearing time has reduced significantly maximizing speedy payments as Bangladesh Bank is clearing high value cheques and regular value cheques with an automated cheque processing system, mentioned in BB news room in their website. According to BB, of the total 85,000 are high value cheques, 80,000 are regular value (below Tk. 5 lac) and the remaining 5,000 are high value (worth Tk. 5 Lac and above) cheques. "Currently all regional clearing houses of BB have been brought under one central clearing system and clears items within a day". Nazneen Sultana, deputy governor of Bangladesh Bank. The number of high value cheques rose to 5,000 in the automated system from 2,000 in the manual system, and the number of regular value cheques also increased to 85,000 from 70,000 in the previous system. With the initiative, duration of cheque clearance reduced and its volume increased significantly, said BB officials. Under the automated system, Tk. 5,000 crore on average is cleared and transferred through the BACPS and BEFTN per day.

Rules for creating batch control voucher (BCV) in PBL

- Fill up at least two BCV for each Batch (one for clearing House and one for Branch).
- At first fill up a Batch number with the format “yyymmdd-sequence number”.
- Then enter the ledger date and Branch name.

- Number of cheques should be fill up with special care and with the total amount, total number of cheques within a batch should not exceed 50.
- Fill up branch routing number and depositor's name.
- Clearing type should be normal and high value and for different clearing type batch must be different.
- Presentment should be 1,2 or 3 and for different presentment type batch must be different.
- Depositor must sign during deposited the cheque and receiver must count the cheque and sign in BCV during receive the cheque.
- Sender delivers one copy of BCV to the receiver and takes another signed copy of BCV to the branch.
- Cheque should be sent to the clearing house on due time.



Finding of the study

- Sometimes Flora system does not work properly.
- Customers present their cheque not in proper time.
- In flora system there have three different Id and three password so its time consuming.
- Customer's funds are not available.
- Sometimes mismatched with cheques.
- Give enough time to Central BACH unit for delivery the cheques.
- Sometimes required time is not enough like (45 minutes) to place the cheque in flora system.

Recommendation

As Pubali Bank Limited follows the automated cheque clearing system, they offer the service that the bank has, so they should change this way of thinking and make service schemes according to the customer preferences

- They should do more research regarding the customer's choice and preferences for the cheque clearing service.
- There might be an available date when anyone can cheque it as well debited the cash from bank account they should improve the system so that the customer does not face any problem while doing cheque clearing system.
- Flora system must improve more.
- They need a cheque clearing system online or over phone which will be available 24/7 within customer's need.

Conclusion

Pubali Bank Limited is serving the mass market in the country. It is the biggest commercialized bank in Bangladesh. It is increasing its branches and its services as well for the customer's convenience. The bank is following the automated cheque clearing system, and it is doing very well and gaining profit. The management of the bank always gives the effort to uphold the loyalty of the customers toward the bank. From the customer's side, they are more satisfied than before by the service the bank is providing them now. The customers and the employee of the bank maintain an excellent relationship, through which the loyalty of the bank is increasing day by day. The bank should bring the new upgraded version of their product to compete with its competitor in the industry. The cheque clearing system that they introduced in 2012, they should focus more on the Flora system so that their clearing system would be very easier. If the bank can improve the system it maintains now, then in near future, it will perform even better.

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