Quick Guide

Foreign cheques

14 December 2016

Can I deposit a foreign cheque in my bank account in New Zealand?

Banks can accept a deposit of a foreign cheque drawn on an overseas bank. However, they don't have to, and they may not accept foreign cheques from all countries. You should check with your bank before accepting a foreign cheque as means of payment.

What happens to the foreign cheque?

Foreign cheques don't clear through the New Zealand cheque clearance system, and processing times might be longer.

There are two ways a bank deals with foreign currency cheques:

1. *By negotiation*

The bank converts the foreign cheque into New Zealand dollars (using that day's exchange rate), and deposits the money into the customer's account.

The cheque can, however, be dishonoured later by the overseas bank, if for instance there are insufficient funds in the overseas bank account or the cheque has been stolen.

When it deposits money into the customer's account, the New Zealand bank is lending money to the customer while it waits for payment from the overseas bank. The New Zealand bank may allow the customer immediate access to the money, but will reverse the amount if the foreign cheque is dishonoured.

Alternatively, a bank may place a hold on the money for a certain period, which means the customer cannot access the funds immediately. The hold period allows time for the overseas bank to advise the New Zealand one if the cheque is to be dishonoured. Once the hold period expires, the customer can access the funds. It's important to note a foreign cheque can still be dishonoured after any hold period ends.

If a cheque is dishonoured, the cheque's value will be converted back into the foreign currency (using the exchange rate when the bank is advised the cheque is dishonoured) and the amount deducted from the customer's account. If the exchange rate has changed since the original deposit, the customer's account may be debited for an amount greater than the original cheque. If the dishonour causes the customer's account to be overdrawn, the customer will have to pay the bank back.

2. On collection

The bank sends the foreign cheque overseas to the issuing bank to be processed. When the New Zealand bank receives the money from the overseas bank, it converts the money into New Zealand dollars and deposits the money into the customer's account.

This method is usually used for higher-value cheques. Banks will also use this method when they are not prepared to advance funds to their customer while they wait for payment from the overseas bank. This may be because the customer does not meet their credit criteria or because of the nature of the cheque e.g. a personal cheque.

For a customer, the collection process gives certainty of payment and removes exchange risk should the cheque not be paid. This process may also be appropriate where the customer receives a cheque from someone they do not know well and wants to be certain that the cheque will not be dishonoured at a later date.

Common complaints about foreign cheques

The clearance process is a cause of some complaints to the scheme. For example, customers may not know about the hold period and are concerned about the delay in accessing the money. Customers may also not know a foreign cheque can be dishonoured after the money has been accessed. Some complaints relate to exchange rate changes when a foreign cheque has been dishonoured.

A bank's terms and conditions for accepting foreign cheques should clearly explain that:

- a cheque can still be dishonoured after the hold period ends
- the bank can require the customer to repay the cheque amount if that happens
- the customer may incur additional costs due to adverse exchange rate movement.

If a customer asks about clearance times and/or the process if a foreign cheque is dishonoured, the bank response must be accurate and complete.

Foreign cheque scams

These scams often rely on a person selling goods online and accepting a foreign cheque as payment. The seller banks the cheque and either sends the goods straight away or waits until the hold period ends, thinking the cheque has cleared. The cheque is subsequently dishonoured and the seller's bank will debit their account to cover the cheque amount. If the customer has insufficient credit funds in their account, the account will be overdrawn.

Case note 1

Ms M regularly received cheques of around £1,000 from her UK family. When she received a cheque, she would visit her local bank. The bank would charge a small fee and immediately deposit the value of the cheque into her bank account, applying the exchange rate available that day.

Ms M had recently received a cheque for £50,000. She went to deposit it, thinking the process would be the same. However, the bank told her it would be a different process and the fee much higher because it would need to physically send the cheque on collection back to the UK issuing bank. That bank would then electronically transfer the funds into her New Zealand bank account.

She also wouldn't be able to access the money until it was received into her account and the applicable exchange rate would be from the day the funds were received, not the day her bank sent the cheque away. Although unhappy about this, Ms M agreed to go ahead with the cheque collection.

But once the transfer was complete, Ms M made a complaint to the bank unhappy it:

- had not applied the exchange rate available on the day she approached the bank
- charged her a higher fee for depositing the cheque
- had not allowed her to access the money from the cheque immediately.

She sought $6,500 compensation – most of which was the exchange rate difference from when she asked the bank to deposit the cheque and when the funds were received. The bank explained its policy was to either negotiate a cheque, as it usually did for her, or send the cheque for collection, as it had done in this instance. The bank wasn't prepared to accept the risk associated with negotiating a £50,000 cheque and considered this a credit decision it was entitled to make.

Ms M then complained to our office and we sought information about the circumstances in which the bank would negotiate or collect a cheque. We don't have the ability to consider complaints about bank practices, but can investigate where customers allege bank policy has been incorrectly applied or improperly administered, or where policy breaches any obligation the bank owes the customer.

For the cheque negotiation process, the bank effectively buys the cheque from the customer and allows the customer immediate access to the money. The cheque is sent to the paying bank for clearance and the bank reserves the right to require the customer to repay the money if the cheque is dishonoured. Most banks won't run the risk of a high-value cheque being dishonoured, because of the potential to leave a customer with a large debt to repay, so opt for the cheque collection process instead. This involves sending the cheque to the paying bank, which will then electronically send the funds to the customer's bank account.

The bank's policy was that it wouldn't negotiate cheques over a certain amount. The cheque Ms M presented was significantly higher than that. While the bank had discretion to submit an application to its credit team to give the customer access to the money before the cheque cleared, it wasn't obliged to do this.

We didn't consider the bank's policy breached any obligation the bank owed Ms M and so didn't uphold her complaint.

Case note 2

Mr A began corresponding online with Ms X, who claimed to live in Malaysia. Mr A believed they were in a romantic relationship. Ms X told him she was selling her Dubai house and needed money to pay sales taxes. She asked Mr A if she could send him a cheque to deposit into his account and send her some of the money, and retain the rest for himself. Ms X explained that she was unable to bank the cheque herself because she was living in a hotel and had no proof of residential address to give her bank.

Mr A received a £30,000 cheque, and deposited it into his bank account. The bank told him it would hold the money for 21 days. On hearing this, Ms X told Mr A to apply for a loan for half of the amount. He applied for a $10,000 personal loan, which the bank approved. Mr A sent Ms X the money via Western Union. The foreign cheque was dishonoured 10 days later, and the amount deducted from Mr A's account, leaving a large debt.

He complained that the bank had not made it sufficiently clear the foreign cheque could be dishonoured, although he accepted he was advised verbally the bank would hold the cheque funds to confirm the payment's validity. We reviewed the terms and conditions given to Mr A when he deposited the cheque. They stated that a 21-day hold would apply and that the cheque could still be dishonoured after the hold period ended. The receipt Mr A signed also contained the same information.

He also complained that the bank had not acted responsibly approving his personal loan application because he was relying on the cheque clearing to repay it.

We reviewed the bank's loan application assessment. The bank had applied its standard loan affordability assessment process, taking into account Mr A's income and expenses. The foreign cheque wasn't taken into account in this assessment and we were satisfied that the personal loan was affordable given Mr A's financial situation.

While it was unfortunate Mr A had been scammed, we were unable to say the bank was responsible for Mr A's losses.

We have more information in our Quick Guide on Common scams targeting bank customers.