

Cheque clearance

11 Mar 2015

The use of cheques for making payments is decreasing but we still get complaints, particularly around fund clearance.

Some bank customers don't realise it can take three to five working days for a cheque to clear after being deposited, and even longer for overseas cheques.

If you deposit a cheque into your account, it's important to check with your bank that the money has cleared before you consider it yours.

What happens when I deposit a cheque?

When you deposit a cheque issued in New Zealand, your bank will credit the cheque amount to your account. This doesn't mean the money is immediately available for use though, so you won't be able to withdraw it or transfer it to another account straight away.

On the same day you deposit your cheque, your bank will send the cheque details electronically to the bank that issued it (the paying bank). The paying bank then has until the end of the next working day to decide whether it will pay or dishonour the cheque.

If the cheque is honoured, you will be able to access the funds by the end of the next working day. The paying bank can't reverse or dishonour the payment after this time.

If the paying bank dishonours the cheque, however, the amount credited to your account will be reversed. This is why it is important not to consider the funds yours until they have been cleared. The paying bank will dishonour the cheque if, for example, it is stolen or there is not enough money in its customer's account to pay the cheque.

The clearance process for overseas cheques is different and takes longer than three working days.

How to contact us

What if I need the funds more quickly?

When you deposit a cheque, you can ask for the cheque to be cleared faster than the standard three working days. This is known as a “special answer”. If the paying bank gives a “special answer”, the funds are cleared and it cannot change its mind.

The downside to this option is the cost which varies between banks. It typically costs between \$12 to \$25 plus additional expenses (such as courier costs). Some banks charge more for a same-day “special answer”.

If you ask, your bank has to give you information about how you can get a special answer and its fees and charges.

Case note 1

Miss T sold her car privately. The buyer deposited a \$10,000 cheque into her bank account and gave her the deposit receipt as proof. Miss T let the buyer drive the car away.

The bank dishonoured the cheque the next day because it was stolen and the money credited to Miss T's account was reversed. Miss T and the police could not find the buyer so she was both out of pocket and without her car.

Miss T complained that her bank should not have accepted the cheque as she did not personally present it at the bank. She believed the cheque could only be properly deposited to her account if she presented it. She also believed the bank's decision to reverse the cheque was incorrect as the \$10,000 was credited to her account and the bank took on the risk of the cheque not clearing.

We did not agree Miss T's bank had acted wrongly. The cheque was made payable to “Miss T or bearer” and crossed with two parallel lines meaning it had to be banked into an account rather than cashed. The words “or bearer” had not been deleted meaning the cheque was a “bearer cheque”.

Given this, Miss T's bank could accept the cheque into an account of either the named payee, Miss T, or another bearer. There is no legal requirement for a payee to personally present a cheque for the bank to accept it into their account. It is common for people to pay cheques into other people's accounts. We therefore concluded Miss T bore the risk of the cheque not clearing, not her bank.

In Miss T's case, we could not identify any discrepancies with the dishonour of the cheque and it was dishonoured within the allowed time period. We sympathised with Miss T as a fraud victim, but we did not agree her bank was responsible for her loss. As we found no bank wrongdoing, we recommended she withdraw her complaint.

How to contact us

Case note 2

Mr and Mrs L wrote a \$3,000 cheque to their accountant. The cheque was presented on a Friday. Because of a dispute with the former accountant, Mrs L contacted the bank the following Monday to enquire about stopping cheques. She was informed she had three days from the cheque presentation date to stop it. The next day, Mr and Mrs L instructed the bank to stop the cheque.

Mr and Mrs L contacted the bank a week later querying why the funds were not credited to their account. The bank said it made a mistake, and the \$3,000 cheque cleared. Mr and Mrs L were unable to obtain records from their former accountants and had to instruct new accountants to reconstruct their accounts.

The bank said its advice about the timing for stopping cheques was incorrect. It told Mr and Mrs L:

- in exceptional circumstances only, the bank has 24 hours to stop cheques
- the bank would not have been able to stop the couple's cheque even if they had been correctly informed as Mrs L first contacted the bank outside the 24 hour period.

Mr and Mrs L were not satisfied with the bank's response and complained to our office.

The bank confirmed it gave Mrs L incorrect advice. Had Mrs L been correctly advised, she could have asked the bank to stop the cheque on the Monday and it would almost certainly have been stopped.

We considered it reasonable for the bank to reimburse Mr and Mrs L \$4,500. This included inconvenience compensation and the new accountants' fee. The complaint was resolved on this basis.

How to contact us