

**20- CENTRAL REGISTRATION SYSTEM FOR
CUSTOMERS OF BOUNCED CHEQUES**

- A) Instructions concerning the central registration system for customers whose accounts with local banks have been closed due to bounced cheques, and the applicable rules and procedures .

GOVERNOR

*Ramadhan 15, 1424 H
November 10, 2003*

Circular No. (2/IBS/137/2003) to All Islamic Banks

THE CHAIRMAN,

**" Instructions Concerning the Central Registration System for
Customers of Bounced Cheques and the Applicable Rules and Procedures "**

I would like to inform you that the Board of Directors of the Central Bank of Kuwait had previously issued at its meeting held on 9/5/1999, "special instructions for the central registration system concerning the customers whose accounts with the local banks were closed because of bounced cheques, and the rules and procedure that should be followed". These instructions provided that all local banks, Kuwait Finance House and any other banks to be licensed in the future, shall participate in this system.

Attached is a copy of these instructions which your bank has to implement from the date of commencing your operations.

With my best wishes,

SALEM ABDUL AZIZ AL SABAHA

Special instructions for the central registration system concerning the customers whose accounts at the local banks were closed because of bounced cheques, and the rules and procedure to be followed

In order to ensure the proper use of bank cheques and limit the increase in the number of cheques that are returned for lack of balance, and in order to underline confidence in the cheque as a payment instrument and avoid the negative impact of the abuse of cheques on dealings, and within the framework of developing the system followed at present by the banks and by the Kuwait Finance House, and in order to achieve an appropriate level of standardization and organization among the banks in this regard, the Board of Directors of the Central Bank of Kuwait has decided to establish an automated central information system in respect of the customers whose accounts at the local banks and Kuwait Finance House were closed because of cheques returned for lack of balance (bounced cheques), and the rules and procedure that should be followed by the local banks and by the Kuwait Finance House in dealing with the customers whose cheques are returned because of insufficient balance, as follows:

First: Central Registration System

- 1- There shall be established at the Central Bank of Kuwait a central registration system for the customers whose accounts were closed because of bounced cheques. The system shall be referred to herein as "the System". The local banks, the Kuwait Finance House and any other banks that may be licensed in the future, shall participate in this system here in after referred to as "the Banks".
- 2- The System shall perform the function of preparing a list of the customers who accounts were closed because of the return of cheques for lack of balance "The list".
- 3- The banks shall supply the system "online" with the following information about the customers whose accounts have been closed because of the return of cheques for insufficient balance, on the same day on which the account was closed:
 - The name of the customer and his civil card number for individuals, and the commercial registration number in the case of companies and establishments.

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- The number of the account that has been closed.
 - The code of the branch concerned.
 - The number of bounced cheques and on the basis of which the account was closed, as well as the date of each of them.
 - The date the account was closed.
 - The reason the account was closed.
- 4- The on-line system shall be used for the entry of information or for viewing the list provided by the system in accordance with the procedure and controls listed below:
- A) The banks shall provide the Supervision Department at the Central Bank of Kuwait with a list of the names, job titles and specimen signatures of the persons who are authorized to use the "on-line" connection for entering data to the system or for viewing the list provided by the system. This authorization shall be limited to four of the executives of the competent department at each bank.
 - B) The Supervision Department at the Central Bank of Kuwait shall give authority to the employees authorized by the banks to use the System, including the following:
 - Screen identification and numbering.
 - Allocating a password and giving each authorized employee a "password" to use "on-line" system.

Second: Rules and Procedure to be Implemented

- 1- All the (checking accounts) of the customer shall be closed and his name shall be placed on the list if, within one year, a maximum three cheques are returned for him for lack of balance, or if the bank determines that there is a certain amount of maleintention on the part of the customer to prevent the cheque from being honored. The name of the customer shall remain on the list for one year then removed therefrom.

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The banks shall request the customers whose accounts are closed to return to them the unused cheques that are still in their possession.

- 2- No bank may open new checking accounts or issue new cheque books for the customers who are enrolled on the list, whether they were placed on the list by that bank or by any other bank.
- 3- Each bank shall close the account of any customer who was placed on the list by other banks, in the event where one cheque drawn on the customer's account with that bank is returned unpaid for lack of balance.
- 4- The banks shall send to the customer a warning notice upon the return for him of a cheque. The notice should state the penalties in respect of cheques returned for lack of balance. The bounced cheque will be calculated within the cheques returned under Item No. (1) of these rules and procedure, regardless of whether the status of the returned cheque has been settled or not.
- 5- The banks shall print a sheet fixed to the cheque book carrying the phrases necessary to remind the customer of the penalty of the return of the cheque unpaid under the Kuwait Penal Law, and the actions that will be taken under the present system.
- 6- Each bank which opens a checking account for a customer, shall obtain from him a written and unconditional consent to the application of these instructions, in addition to any other actions pursuant to the policy of the bank, in the event of bounced cheques drawn by him. The banks should obtain a similar consent in respect of the checking accounts already opened with them, within six months from the effective date of this System.

The rules and procedure mentioned above shall be the minimum that shall be applied by the banks in dealing with the customers whose cheques are returned for lack of balance. Any bank shall have the right to take such additional actions as it may deem appropriate and that may be stricter, according to the bank's own policy in this regard and in the light of the nature of its customers dealing with cheques.

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Third: General Instructions

- 1- The banks shall lay down the internal regulations that ensure the maintenance of the secrecy of the data and information contained in this System and prevent the abuse thereof, in addition to advising the authorized employees that they will be penalized as provided in the applicable laws, in the event where they divulge information or abuse the same.

- 2- The Central Bank shall be provided with regular information on the form attached hereto about the cheques that are returned for lack of balance, once every six months (end of June and December each year), provided that the data be extracted from the System "on-line" and duly approved by the Bank's management. The information shall reach the Central Bank of Kuwait within one week from the end of the period in respect of which the statement is prepared. The first such statement shall be accompanied by a detailed statement of the policy followed by the bank with regard to the customers whose cheques are returned for insufficient balance.

The Banks shall set up an appropriate data base within their organization to provide all necessary information about the customers of bounced cheques, so that it would be possible to identify the status of these customers at any time, and in order to provide the Central Bank of Kuwait with information in this regard.

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Statement of the Cheques Submitted to the Bank ^(*) And Those Bounced for Lack of Balance During the Period _____

Name of the Bank : -----

(Value in thousand KD)

Description	Total cheques presented to the bank (**)			Total Bounced cheques returned unpaid for lack of balance			Accounts closed because of bounced cheques	
	Amount	Number	Number of Customers (***)	Amount	Number	Number of Customers (***)	Number of customers	Number of accounts
Total								

(*) Includes the head office and branches inside Kuwait.

(**) Whether presented (at the counter) or through the clearing room.

(***) Duplication should be avoided in the listing of customers.