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BANKING

EXECUTION OF PAYMENT ORDER BY BANKS

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Strategic Diligence for Sustainability

Execution of Payment Orders by Banks in Cambodia

Banks in Cambodia have the important job of handling payment orders. To support smooth and secure transactions, Cambodian law provides banks with a legal framework on how to handle these orders, including the actions they must take, the rules they are expected to follow, and the specific situations where they may refuse a payment order.

The Law on Negotiable Instruments and Payment Transactions (LNIPT), passed in 2005, along with certain regulations issued by the National Bank of Cambodia (NBC), is part of a broader legal framework that, among other purposes, aims to streamline bank practices for processing payment orders. These laws outline obligations for banks to act with care and diligence, aiming to protect both the bank and its customers.

Form of a Payment Order

The LNIPT provides basic guidance on payment orders which can be either verbal or written (including electronic forms) and should clearly indicate the recipient and the destination bank.

In 2010, the NBC introduced the Prakas on the Introduction of Payment Order Format for Credit Remittance, which standardizes the necessary information for credit remittance orders. This regulation ensures that banks have a clear format for processing payment orders, enhancing consistency and accuracy.

Obligation to Be Careful When Executing a Payment Order

Although the LNIPT does not specify the exact requirements for a bank's obligation of diligence, it is understood that banks must exercise diligence by verifying at least all details such as the names, bank details, bank accounts, and references for both the payor and payee, as well as the amount to be transferred, required by the 2010 Prakas.

Standard banking practice involves cross-checking customer-provided information with the bank's records. Banks also typically authenticate that the payment order genuinely originates from the account holder, using methods such as multi-factor authentication, biometric verification, and secure passwords to confirm the customer's identity.

Circumstances When Banks Can Refuse a Payment Order

Article 219 of the LNIPT outlines these events, suggesting that banks generally must follow payment orders unless any of these situations arises:

- **Not Enough Money in the Accou**nt: If the customer's account doesn't have enough funds for the payment order, the bank must reject it in its entirety. At their discretion, banks may combine funds from the customer's other accounts and select any account with available funds, provided those funds are immediately accessible.

- **Claims, Seizures, or Lawsuits on the Account**: If the customer's account is subject to a lawsuit, claim, or seizure by a creditor, the bank has the right to refuse to process the payment order. This helps avoid potential legal complications.
- **Account Problems**: If the customer's account has been closed, blocked, or frozen, the bank can refuse the order, ensuring that transactions are not processed from accounts that are not in good standing.
- Legal Restrictions: If processing the payment order would result in a violation of laws (such as anti-money laundering regulations), the bank can refuse it to remain compliant with legal requirements.

Conclusion

The law does not strictly require banks to honor every payment order without exception, but the LNIPT implies that banks should generally do so unless they have a valid reason to refuse. By following these rules, banks can meet their responsibilities to customers while staying within the law.

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