

Memo



01 February 2008

From Angela Thomas
Managing Director, C&CCC

NATIONAL PAYMENTS PLAN – CONSULTATION RESPONSE

We continue to welcome the development of a National Payments Plan and to work with the Payments Council in both its creation and implementation. Please find below our comments in respect of the individual sections and relevant specific questions.

Section 3 – Efficiency

We currently operate three paper clearings (Schemes):- Sterling Debit (Cheque) Clearing; Credit Clearing and Euro Debit Clearing. As we have stated before we believe paper processing is not the most efficient payment type and we should be looking as an industry to migrate to electronic payments. However, whilst paper payment cheques and credits exist we need to ensure that they are processed in the most efficient way and ensure that at all times integrity is maintained.

It should be noted that the Scheme clearing model to date has proven to be the most efficient way for paper payment processing. As such there would need to be either total or near total elimination of paper payment instruments before the paper clearings could be completely closed. Currently the core aspects of our clearing models include: provision of Exchange Centres; daily Multi-lateral Net Settlement; the Inter-Bank Data Exchange network (IBDE for the automated debit clearings); plus Scheme rules, standards and procedures. The table below illustrates the scale of volumes that use each of the current C&CCC Scheme clearings and also compares these to the US dollar clearing managed by the Currency Clearing Committee.

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Scheme	Average Daily Volume 000's		Average Daily Value £m	
	2005	2006	2005	2006
Sterling Debit Clearing	5261	4910	4573	4647
Credit Clearing	489	430	245	237
Euro Clearing	2.5	2.3	12.7	12.4
US Dollar clearing (not managed by C&CCC Ltd)	0.4	0.4	5	4

It is probably also worth highlighting the fact that the sterling debit clearing is used to process a wide range of both cheques and paper clearing articles, including:- personal cheques; business cheques; corporate cheques; bankers payments and drafts; dividends and interest warrants; government cheques and warrants, travellers cheques; postal orders and various interbank paper vouchers.

Whilst the consultation document is just referring to cheques, you may wish to consider the sterling debit (cheque) clearing separately to the euro debit (cheque) clearing. The volumes as shown are vastly different, but they all use the same core Scheme model with the actual clearings differing in some aspects to reflect the scale of volume. However, in terms of the consultation the more important difference for you to consider is that the actual usage and end users are likely to be very different and as such a different range of electronic alternatives may need to be promoted and / or developed for sterling and euro cheques.

Q1 The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?

Yes, but noting the points above that there should be separate plans for both sterling and euro cheques. Each of which need to consider all paper items being processed through the clearing Schemes and not just the personal and business cheques.

Q2 For which types of payment currently made by cheque do new alternatives need to be introduced?

Whilst there are already alternatives to cheques in many sectors of usage, two examples where further innovation is required are in terms of alternatives for Person to Business and Person to Person payments. Based on 2006 data, these two areas account for 28% of current personal cheque usage and on current assumptions would become an increasing percentage going forward as we continue to see migration from sectors such as retailers.

We would suggest that a full gap analysis be undertaken on current cheque usage, differentiating between cheque issuers and cheque receivers, across all sectors. In order to identify and quantify those sectors in which new alternatives need to be developed and those in which it is a case of the promotion and education on existing alternatives. Some areas where further alternatives may also need to be developed might include:- mobile tradesmen; payments to clubs & societies; school and education related expenditure by families for their children. From our research the existing alternative often perceived for these sectors by cheque users is cash, which might for improving overall efficiency reasons be something we would wish to avoid. These are all areas where we would be happy to share our existing research with you and continue to work with you and other Schemes to develop an overall cheque exit plan.

Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?

Yes, we could close the cheque clearing within that timescale.

We would need to develop a detailed closure plan to be in place, with agreed milestones and would suggest that consideration be given to setting targets for both migration to existing cheque alternatives, along with the development and migration to new alternatives to ensure key milestones were met. A critical issue in respect of both efficiency and integrity would be ensuring that volumes are minimal, as covered above, before undertaking a closure of the clearings.

Members would also need to develop their own plans for removing infrastructure.

Q4 What sort of education of users is needed to support the migration away from cheques?

Whilst overall a quarter of account holders never use or receive cheques, our market research has shown that many cheque users don't think there are convenient alternatives for some types of payments and see cash as the main alternative. The cheque is a very flexible payment instrument and there are still many situations where some customers perceive the use of a cheque as the most convenient option, as such it will require both the development of innovative new payment methods and a sustained education programme to change customer behaviour.

There are also a number of areas where cheque usage continues but there are already electronic alternatives. For example in 2006, 23% of personal cheques were in respect of regular bills even though direct debit and direct credit exist, and whilst card alternatives exist cheque usage in retailers and the travel & entertainment sectors still accounted for 24% of personal cheque usage, albeit we expect a much more dramatic fall in those sectors this year as larger retailers are moving to stop cheque acceptance. As such these would all be examples of areas where further customer education is required into the alternatives for cheques.

Business cheque usage is not declining at as fast a rate as personal usage and more work needs to be done in this sector, not only in terms of developing alternatives but also in the promotion and education of these alternatives. We will be undertaking some specific research into the area of business cheque usage during 2008 and would be happy to share these findings with you.

Q5 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the Cheque Guarantee Card Scheme?

Yes, whilst they do not account for large cheque volumes in the overall context of the sterling debit clearing it could be a very good place to start a cheque exit plan, as it is a sector where there are already a large number of alternatives.

Q6 What other actions, if any, should there be in the National Payments Plan in relation to cheques?

As we have said before, if we are serious about reducing cheque payments and releasing the benefits to UK Plc then the really big users of cheques including the banks, insurance companies, registrars and Government need to take the lead and move to electronic payments in the sectors where robust alternatives already exist.

It would also be useful to look at the issues from the perspective of the receivers of cheques as in some sectors such as retailers, where volumes fall by 21% in 2006, the initiative has been taken by them in no longer accepting cheques as a payment method. It may also worthwhile looking at the perceptions and issues in respect of reconciliation of electronic payments for receivers by sector.

We need to understand more about why migration isn't happening in those sectors where alternatives already exist. For example in 2006, 12% of personal cheques were for repayments to credit card bills and 23% where for regular bills. Are the barriers on the cheque issuers or receivers side ? It would be particularly useful to engage with the large users and receivers to understand what the barriers are to migrating to the existing electronic alternatives that already exist. If we can better understand the barriers we would be able to ascertain if existing alternatives need enhancement, if further alternatives need to be developed or if it is an issue that can be addressed by education.

Q7 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the paper credit clearing?

Yes. We had previously considered undertaking this exercise ourselves, six months after the launch of a full faster payments service. As a number of alternatives do already exist for the interbank credit clearing and not all of our Members offer this service, it is a clearing we would support developing alternatives for and closing. As in volume terms it is comprised mainly of bill payments, we had planned to await the results of the impact of the development and promotion of faster payments, instead we will now await the outcome of your consultation exercise.

The potential fraud risks associated with the credit clearing should also be considered within any review.

Section 4 – Innovation

We have successfully implemented new innovations in respect of transparency and consistency to the cheque clearing cycle through the introduction of T+2-4-6 in November 2007. Full details of which are available on our website www.chequeandcredit.co.uk.

We believe that there are opportunities for the Payments Council to innovate in developing new attractive electronic alternatives to paper for consumers and businesses, to enable us to migrate away from paper, rather than to innovate further in the existing paper clearing cycles.

Section 5 – Other issues: Education, Financial Inclusion, Integrity and Contingency, Fraud and Security, Standards, Costs

Many of these issues are key to us in managing the operation of our Schemes and as such would be happy to discuss any aspects with you that emerge from the consultation exercise as requiring cross-scheme work.

The only specific comments we would make here ourselves are in respect of fraud. In 2006 cheque fraud in the three categories of Counterfeit, Fraudulently Altered and Forged, was down to £30 million, but this is due to the very high detection rates our Members achieve on attempted cheque fraud cases and we would not support any initiatives that could increase cheque fraud levels or affect detection rates. We have very high industry security standards in respect of fraud control and manage this through our Cheque Printer Accreditation Scheme.

We look forward to working with the Payments Council in the creation of the National Payments Plan. If you require any further input at this stage please let me know. It should be noted that as our remit is GB, input from the Belfast Bankers Clearing Company, who manage the Northern Ireland clearings, should also be sought to gain a UK perspective.

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