

1 March 2010

**MEMORANDUM FROM THE PAYMENTS COUNCIL TO THE TREASURY SELECT COMMITTEE'S
INQUIRY "THE END OF CHEQUES?"**

1 INTRODUCTION

- 1.1 The Payments Council welcomes this opportunity to submit written evidence to the Treasury Select Committee for its inquiry *The end of cheques?*. As the body responsible for initiating this debate and setting the target date for closure of the cheque clearing in eight years' time, we are keen to engage with all those affected by the announcement and believe that this inquiry will extend public engagement on the subject.
- 1.2 Our reason for contemplating the closure of the central cheque clearing is that use of the cheque is in terminal decline; it is better actively to manage that decline so that alternatives are available, accessible and being used by those groups which traditionally have relied on cheques, rather than leaving it to market forces and those least equipped to change being left disadvantaged. Our proposed closure date is subject to review in 2016 to ensure that those conditions are indeed being met; and until then we will be keeping a constant dialogue going with the groups most affected.
- 1.3 We believe that there are important efficiency gains for the UK economy as a whole, if users adopt the most efficient, usually electronic, methods for making payments. Cheques have long been criticised for the length of time it takes for them to clear; innovation in the payments market would deliver more efficient and acceptable alternatives for consumers and businesses alike.

2 BACKGROUND

- 2.1 The Payments Council is the organisation that sets strategy for UK payments. It was established in March 2007 to ensure that UK payment systems and services meet the needs of users, payment services providers and the wider economy. Whilst the Council is funded by its membership, which consists of banks and other bodies that provide payment services, the Board does have four Independent Directors who represent consumer and business interests and, whilst in a numerical minority, can collectively veto any decision of the Board. The current independent directors are: Professor Martin Cave, Stephen Locke, Moira Black and Michael Alexander. The first independent chair of the Council was Brian Pomeroy who stood down from



the Board in November on his appointment to the FSA Board. His successor is currently being recruited.

- 2.2 To enable the Payments Council to better understand user requirements of the payment system over a wide range of subjects, three User Forums were established covering large corporate users, small and medium sized businesses, and consumers. Each is chaired by one of the Payments Council Independent Directors who then takes the views of the Forum direct to the Board. We have also recently launched a new forum for vendors in conjunction with Intellect, the trade association for technology companies, and this will work on a similar basis.
- 2.3 The Council looks at the efficiency of the payment system; it identifies and seeks to understand changing user needs; it encourages innovation and it has regard to the system's overall integrity. The work of the Council in reviewing the future of central cheque clearing is relevant to every aspect of this remit.

3 WHY A TARGET DATE FOR CLOSURE WAS SET

- 3.1 Cheque use has been in sharp decline since 1990. There were 43% fewer cheques issued in 2009 than in 2003 and in 2009 alone cheque clearing volumes fell by 13%. Our projected forecast is that even if nothing is done to introduce new ways of making payments, there will be a further fall of 47% by 2018. The past and projected figures for cheques as a percentage of all and of all non-cash payments are:
 - 2003: 6% of all transactions, 16% of all non-cash
 - 2009: 3% of all transactions, 7% of all non-cash (*provisional figures*)
 - 2018: 2% of all transactions, 3% of all non-cash

It is generally accepted by all parties that this decline is irreversible.

- 3.2 So the Payments Council was faced with the choice of either managing this decline or leaving it to happen over time. On 16 December 2009, having consulted widely and assessed all the evidence, the Board decided that setting a target date for closing the cheque clearing in 2018 was the best way of ensuring that viable alternatives for those who use cheques would be available by that time. The Board felt that if cheque decline was not managed, not only could it result in confusion, if some institutions withdrew cheque facilities, but it could lead to increasing disadvantage for those consumers who are at present largely dependent upon cheques and are least equipped to change of their own volition.
- 3.3 The Board also took account of the impact on overall economic efficiency which a move from cheques to more efficient payment mechanisms would bring. We believe that there will also be substantial value delivered to users through the uptake of alternatives, not only in the provision of more efficient methods of payment but also that customers will benefit from cost savings to banks and businesses via competitive pressures. Our research has shown that users are amenable to cheque replacements provided that they are offered accessible alternatives which



meet their needs. There will also be significant on-going cost savings across the economy, especially for business and the public sector. Our broad estimate is that these could amount to £750 million in 2018. As for the banks, their saving is somewhat smaller and we estimate that it will be around £200 million in 2018.

4 REVIEW PROCESS

4.1 Closure in 2018 is by no means a foregone conclusion; there are several key milestones that must be achieved before a closure can be confirmed. There will be regular reviews of progress by the Board and major reviews will occur in 2014 and 2016:

- **2014:** there must be significant progress in reducing cheque use in areas where alternatives are already available; alternatives will need to be in place for all of the major areas where cheques continue to be used, and there will need to be widespread awareness of them; Payments Council members will have completed targeted replacement strategies for the cheque payments which they make and receive in their own right.
- **2016:** alternatives to cheques accessible to users for all significant types of payments where cheques continue to be used will need to be in place; the alternatives will have shown themselves to be acceptable to users and there will be widespread awareness and adoption of them; and Payments Council will have determined what measures to put in place to ensure that those users least equipped to change are not disadvantaged, including any requirements for the use of paper to continue.

We intend to make public the criteria against which we will measure progress and have already publicly indicated the need for alternatives to be:

- a) available;
- b) accessible;
- c) being used.

4.2 Concern has been expressed that we are setting a target end date before identifying all the alternatives in all the various situations in which cheques are currently used; however, a target date is essential to focus attention on the need to innovate and to adapt existing payment mechanisms, as well as to better inform consumers of services that currently exist. There has also been agreement that there will be no precipitate withdrawal of cheque facilities before those alternatives are available.



5 CONSULTATION WITH THOSE AFFECTED

- 5.1 The future of the cheque clearing was raised in the public consultation on the National Payments Plan, conducted in 2008. The future of cheques was an issue on which most of the 82 respondents commented and there was broad agreement that cheques were both in decline and that the decline should be managed. As a follow-up to the plan and before reaching any conclusion on the subject, we conducted further extensive research and we continued consultation with users through a variety of means. Our work involved large corporates, small and medium enterprises (SMEs), public sector bodies and organisations that represent those consumers that are dependent upon cheques and comprised workshops and bilateral meetings, as well as regular discussion in the User Forums.
- 5.2 As a first step, Payments Council commissioned the independent market research agency Andrew Irving Associates to conduct in-depth qualitative consumer and SME research on the reasons why cheques are used and the barriers to using alternatives. This research specifically targeted those businesses and consumers who may be reliant on cheques for particular reasons, including small locally-run clubs and charities, individuals who are housebound and individuals who have the power of attorney on behalf of someone else.
- 5.3 The meetings and workshops focused on identifying the barriers to cheque replacement and the main gaps in the provision of alternatives, and identification of how those should be addressed. We made especial effort to engage with those representing disadvantaged consumers who are dependent on cheques, including Scope, Toynbee Hall, HM Prison Service and a care home owner. These meetings particularly focussed on understanding the nature of dependencies on cheques and how the payment needs of those consumers identified are not being met by existing alternative payment methods.
- 5.4 Additionally, Leonard Cheshire Disability ran a workshop that discussed the dependencies on cheques and the problems experienced with alternatives directly with disabled people, the findings of which have contributed to the overall picture put together by the Council.
- 5.5 We have also engaged with those who issue significant numbers of cheques and are keen to move to more efficient methods of payments, including large corporate companies, public sector bodies and financial institutions. The challenges which these heavy users face in achieving this are significant and we will work with them to help identify solutions.



6 CONCLUSIONS

6.1 The key findings that came out of our research and discussion with stakeholders were:

- There needs to be an emphasis on education on different payment methods, particularly for SMEs and consumers;
- There need to be alternatives which meet the needs of users who do not use online or telephone banking or automated payments;
- Of key importance are the development of criteria that will be used to assess the situation in 2016 and the targets which will need to be met, particularly what is meant by “acceptable” alternatives;
- Those to whom we spoke were conscious that they were being asked to take on trust the statement by banks and the Payments Council that alternatives will be developed and that a closure will only go ahead if public targets are met; and
- There was agreement from all three User Forums with the managed decline approach.

6.2 All these findings are incorporated in our plans for the next stage and in the announcements which we have made on the subject. Since announcing our decision, we have continued and deepened our engagement with stakeholder groups to better understand the barriers that currently exist to using alternatives and to identify the gaps that will need to be filled by new innovations and to give them confidence in our commitment to take their concerns into account. We have had some particularly productive and helpful discussions with charities and those representing older people. We are committed to continuing this consultation process with all parties.

We have not been presented with unexpected evidence of the sort which would cause us to rethink the basis of our decision. As we anticipated, the main challenges lie in the areas of:

- a) Small business
- b) Charities
- c) Older people

These will be the focus of especial attention in the next phase of our work. Our current priorities within these areas are person-to-person payments, payments to and by sole traders and other small businesses, and the needs of charities both in terms of donation acceptance and also in the paying out of grants and other similar expenditures.



7 NEXT STEPS

- 7.1 We do not underestimate the level of work required to achieve the conditions necessary for closure of the central cheque clearing to be confirmed in 2016. We are developing a detailed plan.
- 7.2 One of our principal actions is to agree the targets for monitoring the success of the programme and the criteria for determining in 2016 whether to go head with a 2018 closure. Input from the User Forums and other user groups will be extremely important in developing the criteria.
- 7.3 We will be pursuing an agenda of education and communication. We will be undertaking a more detailed look at existing alternatives; how their accessibility can be improved and how we can increase awareness about those alternatives.
- 7.4 The development of new alternatives will not only happen within Payments Council and our members, but also through providers bringing new ideas to the marketplace. In developing new alternatives, the Payments Council is committed to applying our Financial Inclusion Policy, which provides criteria to ensure that financial inclusion is addressed against any payment innovation. Whilst we cannot mandate this policy on organisations outside of the Payments Council membership, we will be encouraging its use.
- 7.5 We are also considering the means by which we obtain the views and input of those most affected, to complement our existing channels. We have, for example, considered how to bring together those in the charitable sector with especial concerns about these proposals and are therefore in the process of setting up a working group devoted to their needs.