



## Advice NI Social Policy Briefing Paper

### The Future of Cheques?

Summer 2011



## **Executive Summary**

In December 2009 the Payments Council announced that a target date of October 2018 was set to end the cheque. In making this announcement the Payments Council argued that the cheque was in long term, “terminal” decline. However the situation has changed dramatically in 2 years to the extent that the situation was described at a Treasury Committee meeting in June 2011 as “*rank incompetence*”, “*an appalling mess*” and “*a scandal*”. As one member of the Treasury Committee put it “*The paper-based alternative to cheques will ultimately be a cheque ... If it feels exactly like a cheque and it looks like a cheque, why then have you not got this message out that potentially what it amounts to is a cheque.*”

In an unprecedented turn of events, Government Minister Mark Hoban MP, Financial Secretary to the Treasury also wrote to the Treasury Committee stating:

*“... I do not believe that there is a credible and coherent case for abolishing cheques. The Government is keenly monitoring the progress of the replacement programme and is considering whether it may need to intervene to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place for all.”*

Richard North (Chairman, Payments Council) sought to provide clarification:

*“The timetable is not set in stone ... We have not made the decision to abolish cheques ... That decision will not be made until 2016 at the very earliest, and it will only be made in 2016 if two tests are met: first and foremost, that there are alternative payment systems in place that are acceptable and have been widely adopted by all user groups, and by “user groups” I mean charities or schools or the elderly. That test has to be met. If that test is met, we then look to see if there is a cost-benefit analysis case also for abolishing cheques. Those two tests have to be met. The decision is not going to be looked at until 2016.”*

Therefore the situation as it now stands appears to be that cheques, in one form or another, are here to stay. Advice NI backs this position given that the cheque remains a vital payment mechanism for many individuals and organisations.

## **Background**

Advice NI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. Advice NI exists to provide its members with the capacity and tools to ensure effective advice services delivery. This includes: advice and information management systems, funding and planning, quality assurance support, NVQs in advice and guidance, social policy co-ordination and ICT development.

Membership of Advice NI is normally for organisations that provide significant advice and information services to the public. Advice NI has over 65 member organisations operating throughout Northern Ireland and providing information and advocacy services to over 117,000 people each year dealing with almost 250,000 enquiries on an extensive range of matters including: social security, housing, debt, consumer and employment issues. For further information, please visit [www.adviceni.net](http://www.adviceni.net).

Advice NI advisers and clients have become increasingly concerned and confused about the future of the cheque payment system. This concern and confusion stemmed from the public announcement made by the Payments Council<sup>1</sup> in December 2009 stating that a target date of 31st October 2018 had been set to close the central cheque clearing system, effectively thereby signalling the end of cheques. Making this announcement the Payment Council stated<sup>2</sup>:

*“Today (16th December 2009) the Payments Council Board has agreed to set a target date of 31st October 2018 to close the central cheque clearing. Cheque use is in long-term, terminal decline. The Payments Council was faced with the choice of either managing the decline to ensure that personal and business cheque users have alternatives easily available to them; or to stand back and let the decline take its course. It has decided that its active involvement can help prevent confusion and deliver cheque alternatives that are acceptable to cheque users. The Payments Council wants to ensure that consumers and businesses are not left high and dry when the closure of the clearing occurs.”*

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<sup>1</sup> <http://www.paymentscouncil.org.uk>

<sup>2</sup> [http://www.paymentscouncil.org.uk/media\\_centre/press\\_releases/-/page/855](http://www.paymentscouncil.org.uk/media_centre/press_releases/-/page/855)

This announcement however presented a number of problems as expressed by a range of organisations including which included:

1. Many small businesses, charities and consumers still prefer using cheques, in particular elderly and vulnerable people who may be less confident using debit cards and internet banking;
2. It was felt to be wrong that an announcement was made before the banking industry had come up with an alternative payment method for those people who relied on cheques;
3. For many people the cheque book is the only means of paying for goods and services delivered to the home;
4. The scale of the usage of cheques also presented a problem, there were still over 3.5m cheques issued each day in 2009;
5. For people living in rural areas with reduced access to banks and cash point machines, it was felt that cheques were convenient and safer than using cash;
6. Why should this kind of decision be taken by an unelected body that is overwhelmingly dominated by the industry that has the most to gain from abolishing cheques?

The issue has been precipitated by the decline in cheque usage, with the Payments Council highlighting that in 1990 11 million cheques were written per day; with this declining to the point that now 3.5 million cheques are written per day.

### **The Payments Council**

The Payments Council can trace its origins back to Sir Donald Cruickshank's report on Competition in UK Banking in March 2000. After a series of reviews, culminating in the OFT-led Payment Systems Task Force, it was agreed by the members of that Task Force and the previous Labour Government that a new body be created to govern the UK payments systems. This led to the establishment of the Payments Council in 2007, with a Board which comprises industry directors and four independents who collectively wield a veto, plus an independent non-voting chair.

Interestingly the Board of the Payments Council has 11 banking representatives and four independent Directors as well as the chairman.

## **Frequently Asked Questions** (produced by HM Treasury<sup>3</sup>)

### **Are cheques being phased out? When?**

The Payments Council has provisionally decided to set a target date for closing the Cheque and Credit Clearing System, the system that settles accounts between banks, by 31 October 2018. It will not, however, take a final decision until 2016. The final decision will depend on whether adequate alternatives to the cheque are in place.

### **What is the Payments Council?**

The Payments Council is independent of Government. It was created in 2007 to set the strategy for payments in the UK, including cheques.

### **What is the Government doing?**

The Government believes that it will be necessary to have suitable alternatives in place for all users of cheques before the system can be phased out. This is particularly important for those who are dependent on cheques - like the elderly, small businesses and the Third Sector.

The Government is engaging with the Payments Council and other groups to ensure this happens. It will be necessary for the banks to implement a strategy to develop, and make users aware of, alternative payment methods, and to help them to switch to the alternatives. The Payments Council will report on this and the Government is monitoring progress.

### **Why are cheques being phased out?**

The Payments Council believes that the cheque clearing system is becoming unsustainable, and that it is better to manage its decline than to risk it collapsing.

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<sup>3</sup> [http://www.hm-treasury.gov.uk/cheque\\_closure\\_faq.htm](http://www.hm-treasury.gov.uk/cheque_closure_faq.htm)

This could happen if individual banks decided that it was no longer viable for them to participate. However, banks have now committed to maintain the service until there are adequate alternatives in place.

Cheque use has been falling for many years. It fell by 40% over the five years to 1999. Cheque use has fallen from a peak of 4 billion in 1990 to less than 1 billion in 2009. It is expected to fall to 0.5bn by 2018. The Government is aware that, although there are declining numbers, 54% of adults still write cheques. This is why suitable alternatives need to be in place before a final decision is taken to close the system.

### What does this mean for cheque clearing times?

There are no changes to clearing times. Customers and business can be sure that:

- they start earning interest on a cheque two working days after paying it in;
- they can withdraw funds against a cheque four working days after paying it in or six working days after paying it into a savings account; and
- the cheque will not bounce six working days after it has been deposited unless the customer or business was a knowing party to fraud.

### Treasury Select Committee<sup>4</sup>

The then-Treasury Committee launched an inquiry in February 2010 on the future of cheques and took evidence from a range of organisations<sup>5</sup>. At that time the Committee was unconvinced by the Payment Council's argument that cheques were in 'terminal decline' and expressed concern about the rigour of the cost–benefit analysis undertaken by the Council.

Re-opening it's enquiry on the future of cheques, Treasury Committee Chairman, Andrew Tyrie MP, said:

*"The Payments Council had seemingly forgotten about the millions of people who remain less at ease with the latest technology.*

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<sup>4</sup> <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/cheques/>

<sup>5</sup> <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmtreasy/477/477we01.htm>

*Since our last inquiry we have been inundated by letters from the public telling us that they rely on cheques. Many charities, small business and vulnerable people - including pensioners - depend on cheques. Their needs must be considered. They should not be forced into shredding their cheque books.*

*We will also want to examine whether it is in the public interest that apparently competition, can and should, be set aside on this. I was shocked, when the Payments Council last gave evidence, that they had not conducted a rigorous cost benefit analysis.*

*We asked them to go away and do some number crunching. In this new inquiry we can now examine their latest conclusions and work."*

The inquiry ran from 14<sup>th</sup> April 2011 to 6<sup>th</sup> May 2011. A range of responses were submitted<sup>6</sup> Age UK in particular commented that:

*"Research we have carried out since the Committee's previous Inquiry in 2010 has confirmed that cheques remain an important payment mechanism for older people ... [quoting one older person] Although I am 90 I have a PC and use bank transfer facilities to pay off credit accounts and also one-off bills to firms which give the necessary details. I use credit cards for convenience and I sometimes use a debit card and cash back facility at a supermarket. None of this, however, alters the fact that there are still many transactions where a cheque is the only really convenient method of payment ..."*

Other issues raised included: less control over spending, increased use of cash, problems paying for services at home, increased risk of abuse, damage to small traders / clubs and societies, and cost shifting from banks to customers.

Which? Commented that:

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<sup>6</sup> <http://www.parliament.uk/documents/commons-committees/treasury/Cheques%20written%20evidence.pdf>

*“Some societal groups however are still reliant on cheques - this includes the elderly, the housebound, those living in rural areas, those that are not computer-literate and individuals that are self-employed ... The decline in the use of cheques is likely to continue but we expect the rate of decline to slow down as certain services that traditionally rely on cheques for payments will continue to do so in the absence of viable, acceptable and affordable alternative payment methods ... Disabled, housebound and elderly people will be particularly affected by the phasing out of cheques. These groups rely heavily on cheques to pay their bills, make donations or send money as a gift.”*

The Treasury Committee received a letter<sup>7</sup> dated 14<sup>th</sup> June 2011 from Government Minister Mark Hoban MP, Financial Secretary to the Treasury which stated that the Payments Council’s announcement had *“created a great deal of uncertainty and alarm across the country”* and went on to say *“... I do not believe that there is a credible and coherent case for abolishing cheques. The Government is keenly monitoring the progress of the replacement programme and is considering whether it may need to intervene to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place for all.”*

On Wednesday 5<sup>th</sup> June Richard North, Independent Chairman; Gary Hocking, Acting Chief Executive; Sandra Quinn, Director of Communications, The Payments Council gave evidence to the Committee. In a particularly robust session<sup>8</sup>, the Payments Council Chair Richard North sought to provide clarification. He regretted that the Council had failed to get it’s message across; the decision had not been taken to abolish cheques; and he gave a guarantee that no decision would even be considered over the next five years.

He went on to say:

*“The timetable is not set in stone ... We have not made the decision to abolish cheques ... That decision will not be made until 2016 at the very earliest, and it will*

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<sup>7</sup> <http://www.parliament.uk/documents/commons-committees/treasury/110614%20-%20FST%20to%20Chair.pdf>

<sup>8</sup> <http://www.parliamentlive.tv/Main/Player.aspx?meetingId=8609>



*only be made in 2016 if two tests are met: first and foremost, that there are alternative payment systems in place that are acceptable and have been widely adopted by all user groups, and by "user groups" I mean charities or schools or the elderly. That test has to be met. If that test is met, we then look to see if there is a cost-benefit analysis case also for abolishing cheques. Those two tests have to be met. The decision is not going to be looked at until 2016."*

Therefore to summarise, the situation as it now stands appears to be that cheques, in one form or another, are here to stay. Advice NI backs this position given that the cheque remains a vital payment mechanism for many individuals and organisations.

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