



## The demise of the cheque

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Cheques are an old and familiar form of payment, although their usage has dramatically declined in recent years. This note sets out the decision of the Payments Council (who set the strategy for UK payment systems) to set a date of 31 October 2018 to end universal cheque clearing, and so effectively end cheque-usage in the UK, and the reaction to that decision and its subsequent eventual reversal.

Following the Payment Council's decision in December 2009, further work was undertaken on usable alternatives with a view to a final decision to be made in 2016 on whether to end cheque clearing on the intended date; the Payments Council has set out the basis upon which this decision will be taken.

In addition, the Payments Council agreed that the cheque guarantee card scheme (CGCS) would end, and in September 2009 the 24 bank and building society members of the UK CGCS announced that it would end on 30 June 2011, which it duly did.

On 12 July 2011, however, the Payments Council announced that it was ending its search for a replacement for cheques and therefore they would continue to be part for the payments system for the foreseeable future.

A possible technical enhancement of cheque usage was announced by the government in January 2014 which would combine smartphone technology with one of the earliest forms of paper money transfers. This is now part of the [Small Business, Enterprise and Employment Bill 2014](#) currently before the House.

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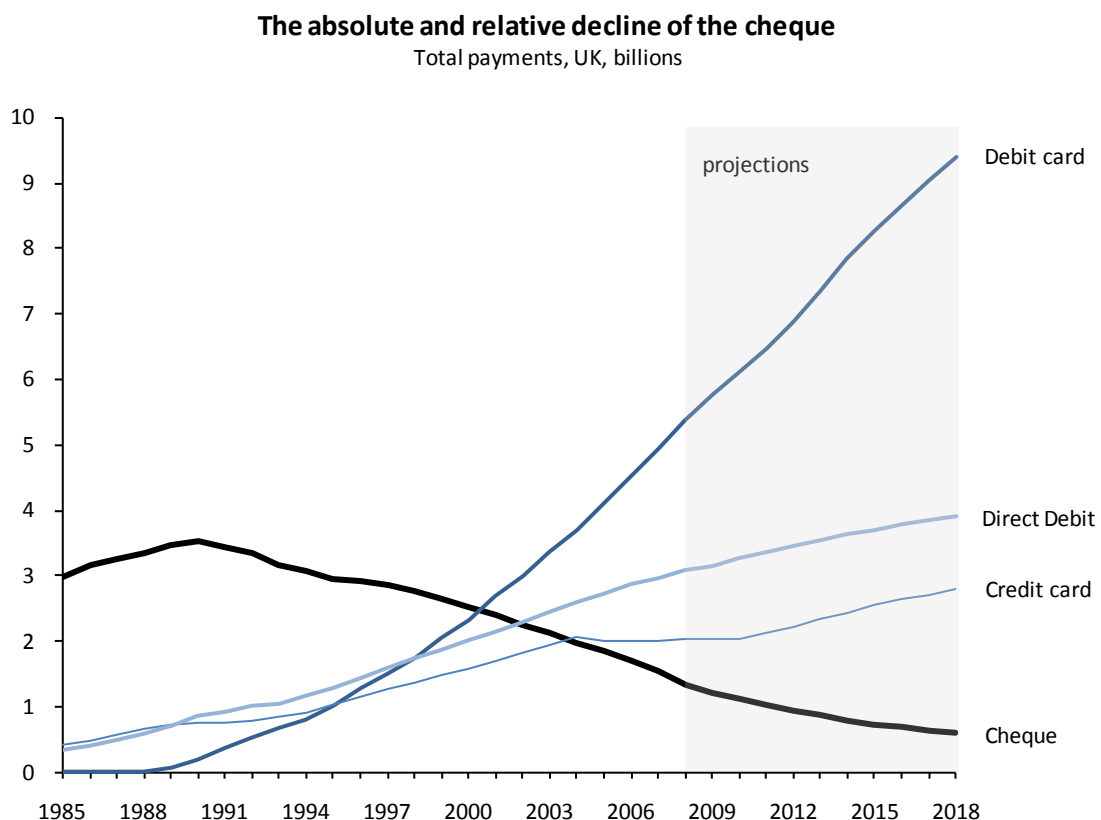
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# 1 The rise and fall of cheques

The earliest handwritten cheque known to be in existence in the UK was written in 1659. Cheques are legal documents, and their use is governed by the *Bills of Exchange Act 1882*, and the *Cheques Acts* of 1957 and 1992.<sup>1</sup>

A cheque is a special form of bill of exchange, namely one payable on demand and drawn on a banker ... A cheque is not money ... It is a claim to money. When a payee receives a cheque from the drawer, he is no better off in cash terms until he has paid the cheque into his bank, and his bank has obtained the money from the drawer's bank and credited the payee's account ... [A cheque] is an instruction from a customer to the bank, instructing it to pay some of his money away.<sup>2</sup>

Cheque usage peaked in 1990, when 4 billion payments were made by cheque. The decline in the use of cheques appears to have accelerated even faster than relatively recent forecasts. In 2009, the Payments Council, the body overseeing most form of payments in the UK, forecast that there would be 1.1 billion cheque payments in 2010. Latest (Q3, 2014) statistics however show the actual total at 776 million.<sup>3</sup> This decline is expected to continue as technology advances. The chart below shows the decline of cheque usage and future projections, and how it has been overtaken by other means of payment:<sup>4</sup>



<sup>1</sup> Payments Council [Quarterly Statistical Report; Q3 2014](#)

<sup>2</sup> Perry, F.E., *The Elements of Banking*, 1989, p189

<sup>3</sup> Payments Council, *UK Payment Statistics 2009*, table 27.1

<sup>4</sup> As above and Payments Council personal communication

- The 718 million payments by cheque in 2013 contrasts with 20 billion in cash, 8.4 billion by debit card, 2.5 billion by credit card, 3.5 billion by Direct Debit and 4.5 billion by automated credits such as BACS, Faster Payments and standing orders.<sup>5</sup>
- In 2013 the cheque had fallen to the third largest means of payment by value of after standing orders and direct debits. Cheques accounted for £535.5 billion worth of payments in 2013, behind automated credits (£3.1 trillion and direct debits (£1.1 trillion).<sup>6</sup>
- Business cheque volumes have been decreasing at a faster rate than consumer volumes in 2013, as a surge of businesses migrated to electronic methods to pay employees.<sup>7</sup>
- Cheque usage has declined at an annual rate of about 12% a year since 2008.

In addition to the current statistics, research of a representative cross-section of the public and 500 large and small retailers was undertaken for Visa Europe by the Centre for Retail Research. Its findings, published in July 2007, included that:

- Cheques accounted for little more than 2% of UK retail turnover in 2006
- Only around 6% of consumers said they preferred to pay by cheque, compared with 57% who preferred credit or debit cards
- Reasons given for never using cheques include the time involved (62.4%), a perception that they are a 'hassle' (54.5%) and fears over safety and security (44.3%)
- In 2005/6, the cost of accepting cheques for UK retailers totalled over £104 million - including extra transaction times, extra queue costs, back office handling costs and fraud
- Over one sixth of consumers questioned claimed to make no use of cheques at all while consumers generally estimated they had reduced their use of cheques by one third over the past year with the greatest fall noted among women
- Twenty percent (20%) of respondents said they never bother to carry a cheque book. Women are more likely to carry a cheque book than men (47% of women said they always carry a cheque book when they go shopping compared to only 19% of men). Cheques are most popular with people aged 50 and over".<sup>8</sup>

### 1.1 Electronic alternatives to the cheque

The main reasons for the decline in the use of cheques has been the rise of electronic alternative payments. There are now a number of different ways in which payments can be made that have become increasingly popular with both businesses and consumers:

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<sup>5</sup> Payments Council; [Annual Payment Clearing Statistics, 2013](#)

<sup>6</sup> Ibid

<sup>7</sup> [Cheque & Credit Clearing Company Statistics, Table B](#)

<sup>8</sup> Visa, [Visa comments on Sainsbury's cheque ban](#), 31 July 2007, and Centre for Retail Research, [Cheque Use and Payment Systems in UK Retailing](#)

- Credit and debit cards — the introduction of “Chip and PIN” sought to enhance security and so broaden the appeal of such cards; after 14 February 2006 consumers had to enter their PIN (Personal Identity Number) rather than sign a receipt;<sup>9</sup>
- Automated payments through BACS, including standing orders, direct debt, direct credit and internet and phone payment systems. The new “Faster Payments” scheme (launched in 2008) enabled phone, internet and standing order payments to move between accounts within a few hours for customers of those banks and building societies (10 members have joined) that joined the scheme;<sup>10</sup>
- CHAPS, a system that allows same-day automated payment system for processing sterling payments made within the UK between its member banks. As well as banks, CHAPS is used for business to business payments, and also by individuals purchasing or selling high-value goods (such as a car) who need a secure, urgent, same-day guaranteed payment.<sup>11</sup>

## 1.2 Changing attitudes in business

During the second part of the last decade, business attitudes turned decisively against the use of cheques by customers, in response to declining cheque usage by customer. In September 2005, Shell UK was the first major retailer to stop accepting payment by cheque. BBC news reported that Shell:

said the time and cost involved in processing cheques was now disproportionate to the number it receives. It added that less than 1% of its customers now ask to pay by cheque, due to an increase in the use of debit cards and the introduction of Chip and Pin.<sup>12</sup>

Shell’s move was followed by other retailers, including London Underground (LU) who, when they stopped customers using cheques in July 2007, explained “Payment by personal cheque now represents less than one per cent of *all* transactions at LU ticket offices, compared with around 87 per cent of *non-cash* transactions in 1990.<sup>13</sup> In 2007, other retailers banned the use of personal cheques including Asda, Boots, Morrisons and Sainsbury’s, followed in 2008 by John Lewis, Marks and Spencer, and Tesco among others. By the middle of 2009, it was reported that “most major high street retailers no longer accept cheques as a form of payment”.<sup>14</sup>

While not banning the use of cheques, other businesses, typically utility companies, have imposed charges on customers who pay by cheque (or cash), or give incentives to customers to pay by other means, such as direct debit. In September 2009, Consumer Focus, a consumer group, reported it had found that customers who pay energy bills by cash or cheque were being charged more than those paying by direct debit by five out of six energy suppliers in the UK.<sup>15</sup>

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<sup>9</sup> APACS, [The Chip and Pin guide](#),

<sup>10</sup> UK Payments Administration, [Types of Payments: Automated Payments](#)

<sup>11</sup> UK Payments Administration, [Types of Payments: CHAPS](#), website

<sup>12</sup> BBC News, [Shell bans payment by cheque](#), 10 September 2005

<sup>13</sup> Transport for London, [Cash or cards accepted](#), 12 July 2007

<sup>14</sup> Payments Council, [Payments Council sets a time frame for withdrawing the guarantee scheme for cheques](#), 25 June 2009

<sup>15</sup> Which? Magazine, [Higher energy bills for cash and cheque customers](#), 25 September 2009

## 2 Proposal to end cheque usage in 2018

Rather than somehow banning cheques, the Council proposed to close the cheque clearing system in October 2018, thereby meaning that cheques could no longer be paid after that date so making them obsolete.

### 2.1 Background to the decision

The Payments Council<sup>16</sup> (“the Council”) originally stated in 2007 its intention to manage the decline of cheques by 2018, as part of its public consultation on a National Payments Plan.<sup>17</sup> The consultation took place between 26 November 2007 and 4 February 2008, and 82 responses were received.<sup>18</sup>

The Council reported that respondents were in “broad agreement” over the need to actively manage the decline. They added that views on setting an end date were “more divided”, but “no evidence was received that the target was not attainable”.<sup>19</sup>

In May 2008, the Council gave the following assessment of the responses to the consultation:

The one area of significant disagreement was whether it is 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). Even here, though, disagreements are not as stark as they might first appear. A number of respondents who would like a target end date acknowledged that it is only viable if it commands broad support. Conversely, a number of respondents who oppose setting an end date believe that it may well be appropriate, after further work has been undertaken on alternatives to cheques. We support the principle of setting a target date for closing the Cheque Clearing and did not receive any indication that 2018 was an unrealistic aspiration, provided acceptable alternatives are shown to be available. However, we recognise that further work is required on gaps and alternatives before a firm date can be set.<sup>20</sup>

Following the consultation, during 2008 the Council undertook research with users on the barriers to cheque replacement and the main gaps in the provision of alternatives, and identification of how those should be addressed.

During 2009, the Council developed its plans through further consultation with users, public sector bodies and organisations that represent consumers that are dependent on cheques, culminating in the publication of its report in December 2009.

### 2.2 The proposed abolition of cheque clearing

In December 2009, the Council announced that it had set a target date of 31 October 2018 to close the central cheque clearing system.<sup>21</sup> It said that, given “cheque use is continuing to

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<sup>16</sup> [The Payments Council](#) “is the organisation that sets strategy for UK payments. It has been established to ensure that UK payment systems and services meet the need of users, payment service providers and the wider economy”

<sup>17</sup> Payments Council, [The Future of Cheques in the UK](#), December 2009, p4

<sup>18</sup> Payments Council, [National Payments Plan Consultation](#)

<sup>19</sup> Payments Council, [The Future of Cheques in the UK](#), December 2009, p4

<sup>20</sup> Payments Council, [National Payments Plan — Setting the strategic vision for UK payments](#), May 2008, p23,

<sup>21</sup> Payments Council, [2018 target date set for closure of central cheque clearing](#), 16 December 2009

fall and has been since 1990”, it had to make a choice between “managing this decline or standing on the sidelines and leaving developments to market forces”.<sup>22</sup>

In deciding to manage the decline, the Council said it

believes that setting a target date for closing the cheque clearing in 2018 is the best way of guiding events so that the inevitable change, which is implicit in the ongoing decline in cheque usage, occurs in a way which delivers viable alternatives for those who use cheques. If cheque decline is not managed, not only could it result in confusion but it could lead to increasing disadvantage for those consumers who are at present largely dependent upon cheques and are least equipped to change.<sup>23</sup>

They added:

The vision for 2018 is that innovation in the payments market has delivered acceptable alternatives to cheques so that personal customers and business users have migrated away from cheques by choice, thereby enabling the benefits to be realised.<sup>24</sup>

The date of 2018 is dependent on having in place such “acceptable alternatives” (see section 2.5): the Council noted “the final decision on closure will be taken in 2016, when the final go/no-go decision on the end date of 31 October 2018 will be taken”.<sup>25</sup>

The high-level targets that need to be met in order for a “final go” decision to be made to abolish cheques are:

- there will be alternatives to cheques accessible to users for all significant types of payment where cheques continue to be used;
- these alternatives will have shown themselves to be acceptable to users, in particular there will be widespread awareness and adoption of these alternatives;
- the 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.<sup>26</sup>

Explaining the decision to close cheque clearing in the October, the Council explained that “October is a quiet period for payment and overall economic activity, and leaves sufficient time in advance for the communications messages to be delivered, and after for residual uses of cheques to be picked up”.<sup>27</sup>

The Council noted that managing the decline “will result in a much more rapid fall in cheque use than the current trend”.

It also calculated by the Council that the withdrawal of cheques would create ongoing annual cost savings to banks of the order of £200 million in 2018, and around £750 million to large companies and the public sector. It added that there would be “substantial value delivered to

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<sup>22</sup> Payments Council, , [The Future of Cheques in the UK](#), p2,

<sup>23</sup> See above, p2

<sup>24</sup> See above, p6

<sup>25</sup> See above, p9

<sup>26</sup> See above, p9

<sup>27</sup> See above, p10

users through the uptake of alternatives”.<sup>28</sup> In addition, the Council said that some 45,000 trees were cut down to make cheques in 2008.<sup>29</sup>

### **2.3 The timetable to abolition**

The Council’s proposed timetable for ending the cheque clearing process is shown below:

- 2010 to 2014: the focus during this period would be on “delivering alternatives to cheques, on communicating the message of change to users and encouraging migration”. A number of high level targets to be achieved by 2014 have been set, which will be translated into detailed numerical targets in 2010;
- 2014 to 2016: developments in this period “will largely be shaped” by what has happened over the previous four year period. The Council said that there will be “ongoing innovation” to provide a “complete range of alternatives to cheques” and they expect users to increasingly adopt those alternatives. The Council will also continue to seek to consult and liaise with cheque users, particularly on any new or emerging innovations. The Council states: “The final decision on closure [in 2018] will be taken in 2016, when the final go/no-go decision on the end date of 31 October 2018 will be taken”;
- 2016 to 2018: if the decision is made in 2016 to end cheque clearing, then the Council expects there to be an “intensive programme of activity leading to the closure” during this period. This will include an extensive communications campaign explaining the closure decision and supporting users in the adoption of alternatives methods. The Council said that a two year period will be required to “enable those users who have remained heavy users of cheques to adjust their behaviour, and to implement the closure of the clearings and any revised processing arrangements”.<sup>30</sup>

### **2.4 Reaction to the proposed abolition of cheques**

Age Concern and Help the Aged (now jointly renamed “Age UK”) noted that many older people rely on cheques, and are unfamiliar with new technology such as “Chip and Pin” and internet banking, adding that without cheques older people might respond by prefer keeping more cash at home, so “leaving them vulnerable to theft and financial abuse”.

It added that setting a date for the withdrawal of cheques “will give the green light to banks and retailers to start phasing them out even sooner ... The Payments Council needs to urgently come up with some practical alternatives to replace cheques or it will be condemning thousands of older people to extra worry, cost and financial insecurity”.<sup>31</sup>

A survey on payments to retailers undertaken by the Payments Council (formerly known as APACS) in 2005 found that 46 per cent of cheque use was by users aged 55 and over, despite this age group accounting for only 34 per cent of the adult population.<sup>32</sup>

The Federation for Small Businesses was reported as saying that cheques were “a mark of trust and confidence”, adding that their decline should be allowed to happen “organically”. They added that small businesses benefitted from cheques, explaining that they give small

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<sup>28</sup> See above, p6

<sup>29</sup> Payments Council, [2018 target date set for closure of central cheque clearing](#), 16 December 2009

<sup>30</sup> Payments Council, [The Future of Cheques in the UK](#), pp8-10

<sup>31</sup> Age Concern, [Age Concern and Help the Aged response to cheque decision](#), 16 December 2009

<sup>32</sup> Office of Fair Trading, [Cheques Working Group Report](#), November 2006 p23, para 4.21



firms “an advantage over bigger businesses that sometimes do not accept them – particularly in the case of supermarkets – and that they must remain in place to offer firms as many options as possible”.<sup>33</sup>

The British Retail Consortium argued that cheques are “a very expensive way to do business”: “It’s a slow method of transaction - it holds up queues; it causes a lot of extra staff training”.<sup>34</sup>

The Office of Fair Trading (OFT), in its submission to the Council’s consultation, noted that “there remains a question as to whether a decision by the Payments Council to plan an end to cheque clearing could infringe competition law, and we strongly suggest that appropriate legal advice is sought before any decision is taken”.<sup>35</sup>

Following the publication of the Council’s decision to end cheque clearing in 2018, the OFT told the *Mail on Sunday* that “when details for ending cheques were produced, it would scrutinise them to see if they were anti-competitive”. In response, the Council said that it had taken legal advice and “believed it was not acting as a monopoly”, adding that member banks could set up a “smaller cheque-clearing service among themselves if they wished”.<sup>36</sup>

The Cheque and Credit Clearing Company (C&CCC) responded by saying its “main priority” was unchanged: “we want to ensure that, despite substantial falls in cheque volumes year on year, we continue to manage the central clearing so that high standards of operational integrity and efficiency are maintained, taking advantage of technological improvements where possible”. It added that “customer’s faith in the central cheque clearing process needs to be maintained up until the time that they are no longer using cheques and the clearing can be closed”.<sup>37</sup>

## 2.5 Proposed alternatives to the cheque

If cheque clearing was closed, the Council said that “Council Members and other banks will offer a wide range of plastic card and automated methods as alternatives to cheques”. On substitutes for the cheque, the Council said that “it will be a competitive matter for individual banks to decide if they also wish to continue to offer paper-based payments to their customers beyond 2018”, adding:

There will be a need for some interbank processing arrangements to support any residual use of paper items, but these are likely to be very different to current arrangements in the cheque clearings in Great Britain and Northern Ireland, which will be closed by 2018.<sup>38</sup>

One area where cheques are currently used is for small gifts and personal payments; the Council have said that “an alternative will need to exist if the proposal to close the cheque

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<sup>33</sup> More Than Business, *'Demise of cheques' will affect small firms, warns FSB*, 16 December 2009

<sup>34</sup> See above

<sup>35</sup> Payments Council, [The Office of Fair Trading's Response to the Payments Council National Payments Plan Consultation](#)

<sup>36</sup> Mail on Sunday, [Cheques could yet be saved from extinction after watchdog sounds the alarm](#), 10 January 2010

<sup>37</sup> Cheque and Credit Clearing Company, *C&CCC responds to the Payments Council's decision on setting a target date to close the cheque clearing*, 16 December 2009

<sup>38</sup> Payments Council, *The Future of Cheques in the UK*, December 2009, p7

clearing is to go ahead”, adding “one option that will be reviewed is whether a paper voucher – that can be electronically processed – would be practicable”.<sup>39</sup>

Another is the payment of sole tradesmen by cheque, but the Council says that there are “alternatives already and with some additional work, these issues can be tackled by banks”:

Mobile card machines are easily available although they may not be priced as attractively as they need to be to encourage their use, but they are increasingly used by very small outlets. One of the problems with cheques for small tradesmen is that they have to pay them in to the bank and wait for them to clear so they can get their money. In all cases, electronic transfers and card payments are quicker; and we expect to see more use of direct electronic transfers not just between individuals but between small businesses too. Increasingly people use the Faster Payments service to transfer money between individuals or to pay small service providers.<sup>40</sup>

Following the publication of its report in December 2009, the Council said that it was “committed to working more closely with a wide range of groups as we do more work in this area” of phasing out cheques and introducing alternatives.<sup>41</sup> Indeed, the publication of the report in December 2009 proposing that cheque clearing end in 2018, and the accompanying publicity, has led to people contacting the Council:

One aspect that has proven useful over the last month is that a number of people have got in touch to highlight the key areas where alternatives to cheques will be really required.

[...]

Since the publicity over the decision, a number of representative groups that we have not discussed this with so far have got in touch to refer their specific issues to us. These range from the impact that stopping cheques will have on the level of donations amongst the myriad of small clubs and societies that exist to the need to provide dual signature authorisation for existing transactions. In the latter case, there are online solutions available and we would expect banks to explore other alternatives to those functions that cheques currently offer. This year we want to concentrate on this area and we will be arranging a series of workshops to explore issues with the voluntary sector.<sup>42</sup>

## **2.6 Impacts on other forms of payment that use cheque clearing**

As well as cheques, other forms of payment are processed through the cheque clearing system run by the C&CCC, including bankers’ drafts, building society cheques, postal orders, warrants, government payable orders and travellers’ cheques.

The Council has said that “it’s too early to say exactly what will happen” to these other forms of payment (if and) when cheque clearing closes, but said that “if the clearing is closed, then other options for processing them will have to be agreed if those transactions still exist”. The Council added “since in practically all instances, those other paper instruments are issued by financial institutions, it is incumbent upon those institutions to ensure viable alternatives to building society cheques et al exist”.<sup>43</sup>

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<sup>39</sup> Email to the Library, 2 February 2010

<sup>40</sup> See above

<sup>41</sup> See above

<sup>42</sup> See above

<sup>43</sup> See above

### 3 Treasury Committee inquiry

At this point, reacting in part to increased public disquiet about the proposals the Treasury Committee announced it would look at the matter. On 11 February 2010, the Treasury Committee launched an inquiry and, in advance of oral evidence sessions (planned for March 2010), sought written submissions on:

- trends over time in the use of cheques as a payment mechanism, including estimates of likely usage over the next five to ten years;
- the advantages and disadvantages of abolition, including the impact of abolition on particular groups in society; and
- the development of alternative payment mechanisms.<sup>44</sup>

In the event the Committee held an [evidence session](#) on 16 March 2010 and held a further [oral evidence session](#) when it re-opened its enquiry in June 2011.

Its subsequent report – the [Future of Cheques](#) was published in July 2011. The Report (and public outcry) produced a significant turnaround in policy which is summarised in the follow up report - [The future of cheques: Government and Payments Council Responses to the Eighteenth Report from the Committee](#).<sup>45</sup> Since it is short, the report is shown in full below:

1. On 15 June 2011 we took evidence from the Payments Council as part of our inquiry on cheques. Subsequently, on 12 July 2011, the Payments Council withdrew its plans for the abolition of cheques and undertook to maintain the cheque system indefinitely.
2. On 24 August 2011 we published our Report on *The future of cheques*. In the Report we argued that cheques should not be withdrawn until an alternative was widely available and accepted by members of the public. On 24 and 25 October 2011 respectively, the Payments Council and HM Treasury responded to our Report.
3. Our Report, whilst welcoming the Payments Council's decision in this area, expressed a concern that the long-term future of cheques was not yet secured. First, we noted that "although the plans to abolish cheques have been abandoned, it may still be in banks' own interest to discourage customers from using the cheque facility". As a result we argued that the Payments Council "must ensure that the banks do not attempt to abandon cheques by stealth, or deter customers from using cheques". Secondly, we noted that the abolition of the cheque guarantee card scheme had "directly led to more businesses refusing to accept cheques" and was likely to have contributed to declining cheque usage. We called on the Payments Council "to examine reintroducing the cheque guarantee card".
4. We welcome the fact that the Payments Council is now undertaking research—the results of which will be available by the end of 2011—on the impact of the closure of the card scheme, and has promised that "if so indicated by the research, we will revisit the business case for the closure of the scheme". **The Payments Council must provide further details of the research it is undertaking on the guarantee card as well as the decision-making process it will undertake once the research is complete.**

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<sup>44</sup> Treasury Committee, [Treasury Committee Launches Inquiry: The End Of Cheques?](#), press notice, 11 February 2010

<sup>45</sup> Treasury Committee, 23<sup>rd</sup> Report of 2010-12, [HC 1645](#)

5. **There is a case for reintroducing either the cheque guarantee card scheme or an alternative mechanism to ensure cheque acceptors have confidence when accepting cheques. Without such a scheme there is a risk that more and more shops and other bodies will refuse to accept cheques; the cheque would wither on the vine. An increasing number of shops and other organisations are refusing to accept cheques as a result of the abolition of the guarantee card. The Government threatened to legislate to preserve cheques prior to the Payments Council's change of heart. When the Payment Council's report is to hand, the Government may wish to consider whether intervention on the guarantee card is also warranted.**

6. The Government in its response to our Report accepted the case we made for bringing the Payments Council within the scope of financial regulation and has committed itself to consult on this issue in early 2012. Whilst we did not reach a conclusion in our Report on who should be responsible for oversight of the Payments Council, there may be a case for the new FCA to take on this responsibility. We will no doubt look more closely at the issue upon publication of the Government's consultation paper. **Bringing the Payments Council within the scope of financial regulation is needed to ensure there is never again a repetition of the cheques debacle. The Payments Council was able to take decisions affecting millions of people at its own initiative without any effective scrutiny by a regulatory body.**

On 12 July 2011, the Payments Council effectively abandoned its attempt to phase out cheques. Its statement is shown below:

The Payments Council is today (12 July 2011) announcing that cheques will continue for as long as customers need them and the target for possible closure of the cheque clearing in 2018 has been cancelled. The Payments Council Board will continue to focus on security, efficiency and encouraging innovation in all types of payments to ensure customers have options best suited to the 21st century.

Richard North, the Chairman of the Payments Council said:

*"It's in the DNA of the Payments Council to consult and listen to all those people who actually make payments and use cheques. Listening to over 600 stakeholder groups, working with the banks and following our appearance before the Treasury Select Committee, we have concluded we should reassure customers that the cheque is staying.*

*"Over the last two years we have learnt a great deal about what is important to our many stakeholders and we are really grateful to all of those groups and individuals who took the time to talk to us and help us reach this decision. We will use what we've learnt to keep improving existing systems, as well as introducing innovation, so that customers benefit from 21st century ways to pay. Innovation must be at the heart of what we do."*

Commenting on this development the Financial Services Consumer Panel said:

The Financial Services Consumer Panel has welcomed the decision by the UK Payments Council to ensure consumers can use cheques for as long as they need.

In its original submission to the Council the Panel felt that it was premature to set a 2018 deadline for abolishing cheque payments. The Panel raised objections on the basis that there was a lack of an effective alternative for person to person and consumer to small business payments.

Moreover, with a large proportion of the population regularly using cheques and over a billion cheque payments being made every year, cheques were clearly still the preferred method of payment for a large number of consumers.

**Kay Blair, Vice Chair of the Consumer Panel, commented:**

"We welcome this common sense move by the UK Payments Council. With over a billion payments by cheque made every year many consumers still consider the cheque their preferred form of payment.

Consumers are entitled to choose the payment method they favour when spending their own money. Three years down the line from the original inquiry there is still a lack of effective alternatives to cheques.

More work needs to be done by the financial services industry to introduce credible alternatives to cheques. If retailers and banks want consumers to use other means of payment they should make available easy and safe alternatives rather than simply trying to penalise cheque users."

#### **4 Abolition of the cheque guarantee card**

A cheque guarantee card, when presented with a cheque, allows businesses to accept cheques from consumers with complete confidence that it will be honoured, as payment is guaranteed by the bank or building society (who issued both the card and the cheque).

Cheque guarantee cards (currently with limits of £50, £100 and £250) have been in general use since 1969.

In June 2009, the Council took the decision to close the Cheque Guarantee Card Scheme (CGCS) as it judged guaranteed cheque use to be in "terminal decline". Evidence cited included that, of the 1.4 billion cheques written in 2008, only 95 million (7%) were guaranteed, which represented a decline of one-third on the previous year and a fall of 70% in the number of guaranteed cheques over the past five years.



The Council said that:

following a full stakeholder review and detailed research, it believes that use of the Cheque Guarantee Card Scheme is in terminal decline and that this needs to be managed to provide clarity and certainty for users and acceptors. It has therefore taken the decision to set a timescale for managing the decline of guaranteed cheques and ultimately to close the Scheme. The Council's review has determined that a realistic timescale for withdrawing the Scheme is two years: this is to ensure that the remaining users and acceptors have full information about the available alternatives. This means that the earliest the Scheme will close is mid-2011.<sup>46</sup>

It added that it "believes that alternatives to the guaranteed cheque exist and are widely available" and that "a well-planned withdrawal of the Scheme will not cause any significant

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<sup>46</sup> Payments Council, [Payments Council sets a time frame for withdrawing the guarantee scheme for cheques](#), 25 June 2009

problems for users or acceptors”.<sup>47</sup> The decision of the Payments Council was binding on its member banks and building societies.<sup>48</sup>

Notwithstanding the decision, the Council noted that any issuer will be at liberty to issue their own proprietary cheque guarantee cards irrespective of any decisions about the future of the CGCS.<sup>49</sup>

On 29 September 2009, the 24 bank and building society members of the UK domestic CGCS acknowledged this decision and announced that it would close the Scheme on 30 June 2011. This will mean that it will no longer be possible to guarantee a cheque under the Scheme after this date.<sup>50</sup>

At the time of the announcement, the CGCS said:

Now an industry-wide date has been set we can look to support customers through the change by providing information on what this will mean. The alternative was to let the Scheme wither on the vine - which was more likely to have led to confusion, mixed messages and potentially exposing more customers to the risk of fraud.<sup>51</sup>

To help consumers and businesses with transition, UK Payments Administration has published two fact sheets [for cheque acceptors](#) and for [consumers](#)

Clearly, the cessation of the CGCS will contribute to the demise of cheque usage. It has been observed that “in Austria, for example, the elimination of the bank guarantee function effectively made cheques a less secure method of payment, and therefore an undesirable one from the merchant’s point of view”, citing this example in the context of moving towards “achieving a cheque-free society”.<sup>52</sup>

From 1 July 2011 the cheque guarantee card system ceased to operate in the UK.

## 5 New tech – old tech

In something of a turnaround in the fortunes of the cheque, in January 2014 the government announced a consultation on proposals to marry the connectivity of smartphone technology with the traditional reassurance of the cheque. The press release outlines the idea:

From next year you may not have to queue up in a bank branch to pay-in the cheque you get for Christmas.

You might not even have to wait for the bank to open.

Instead you’ll be able to use your smartphone to send a picture of the cheque to your bank, and new technology could mean that your cheque is processed in 2 days in future rather than the 6 days it currently takes. You would also still be able to go into a branch to pay cheques in – banks will have the same technology.

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<sup>47</sup> See above

<sup>48</sup> The UK Domestic Cheque Guarantee Card Scheme is one of seven UK payment schemes that has a contract with the Payments Council. This means that the Payments Council can make a decision which is binding on Scheme members. (UK Payments Administration, [The Cheque Guarantee Card Scheme announces closure date of 30th June 2011](#), 25 September 2009

<sup>49</sup> Payments Council, [Review of the UK Domestic Cheque Guarantee Card Scheme](#), June 2009, p6

<sup>50</sup> UK Payments Administration, [The Cheque Guarantee Card Scheme announces closure date of 30th June 2011](#), 25 September 2009

<sup>51</sup> See above

<sup>52</sup> Lafferty Retail Banking Insider, *The cheque’s exaggerated demise*, 16 March 2009

[...]

So in 2014, the government will consult on introducing legislation to speed up cheque payments and make it easier for businesses and consumers to use this important payment method in the 21st century. Consumers could see a real difference. No longer will customers have to wait 6 days before knowing that the money is theirs to spend.

These changes will boost the status of the cheque, reinforcing its relevance and trustworthiness in 21st century Britain.

These changes are not just about making it easier to cash gifts from family and friends. They are also designed to help businesses – who accounted for over 370 million cheque transactions in 2012. 25 per cent of payments made by small businesses were by cheque in 2012.

One option is to bring forward legislation to speed up cheque processing, enabling banks to process images rather than paper as they do today. This technology is already widely used in the United States. Consumers may also be able to take a picture of their cheque on their smartphone and send it to their bank with Barclays planning to introduce mobile cheque deposit next year.<sup>53</sup>

#### The Cheque and Credit Clearing Company preferred way forward:

Clearing cheques via a 'cheque imaging' model appears to offer the most benefits for consumers and businesses. This system would mean that images of cheques are exchanged between the relevant banks, removing the need for the actual paper cheque to be transported physically around the country. One of the main benefits is that the cheque clearing process could be speeded up.

The new process could also see customers being able to send their bank a photo of a cheque by using a secure online banking app on their smart phone or tablet rather than having to go to the bank itself to pay it in. Although this is likely to be a more convenient method for most, cheque imaging is about providing more choice for customers, so they would still have the option of paying in cheques at a bank branch in exactly the same way as they do today.

The introduction of cheque imaging requires changes to primary legislation and, following on from a consultation into speeding up cheque payments that ran from 6 March to 7 April 2014, the Government published its conclusions on 25 June, along with the draft enabling legislation. This legislative development enables the C&CCC to begin work on agreeing an implementation plan with all relevant parties, to make industry-wide cheque imaging a reality in the UK.<sup>54</sup>

The legislation referred to in the above quote appeared in the [Small Business, Enterprise and Employment Bill 2014](#) currently before the House.

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<sup>53</sup> [HM Treasury website](#) 7 January 2014

<sup>54</sup> [C&CCC Response to HMT](#)

## Annex 1: Total UK payment volumes by method: 1985-2018

### Total payment volumes - 1985-2008 and projections 2009-2018

Millions of payments, UK

	Cash	Cheque <sup>(a)</sup>	Debit card	Credit card <sup>(b)</sup>	Direct Debit	Automated credits <sup>(c)</sup>
1985	29,100	2,974	0	411	346	618
1986	29,270	3,151	0	481	412	665
1987	29,429	3,262	0	556	486	721
1988	29,555	3,359	10	671	595	783
1989	28,122	3,453	68	706	700	850
1990	28,023	3,538	192	738	846	888
1991	28,022	3,450	359	745	916	924
1992	27,845	3,333	522	794	1,001	954
1993	27,273	3,163	659	830	1,046	995
1994	26,179	3,074	808	915	1,148	1,037
1995	26,270	2,938	1,004	1,017	1,299	1,090
1996	26,318	2,906	1,270	1,143	1,443	1,161
1997	25,540	2,855	1,504	1,255	1,584	1,225
1998	25,309	2,768	1,736	1,358	1,736	1,301
1999	25,600	2,654	2,062	1,475	1,863	1,368
2000	27,910	2,526	2,337	1,577	2,010	1,438
2001	27,575	2,401	2,696	1,695	2,152	1,530
2002	26,459	2,247	2,994	1,825	2,289	1,616
2003	25,678	2,110	3,364	1,952	2,430	1,809
2004	24,667	1,966	3,690	2,049	2,590	2,201
2005	23,968	1,845	4,084	2,007	2,722	2,612
2006	23,069	1,702	4,512	1,996	2,858	2,714
2007	22,408	1,538	4,939	2,011	2,963	2,805
2008	22,569	1,343	5,384	2,041	3,077	2,900
2009	21,933	1,214	5,755	2,022	3,161	2,930
2010	21,346	1,119	6,103	2,033	3,255	3,018
2011	20,823	1,019	6,484	2,114	3,364	3,118
2012	20,266	931	6,882	2,212	3,466	3,199
2013	19,579	859	7,364	2,325	3,551	3,275
2014	18,894	792	7,847	2,439	3,632	3,350
2015	18,268	732	8,283	2,541	3,708	3,423
2016	17,701	677	8,672	2,630	3,774	3,502
2017	17,158	628	9,038	2,714	3,837	3,586
2018	16,609	583	9,406	2,801	3,896	3,689

<sup>(a)</sup> Includes inter-bank, inter-branch and in-house items, but excludes cash acquisition.

<sup>(b)</sup> Includes credit, charge, purchasing and store cards.

<sup>(c)</sup> Includes Bacs Direct Credits, standing orders, FPS (the Faster Payments Service for Internet and telephone banking payments, introduced in May 2008) and in-house standing orders and remote banking payments.

Source: The Payments Council, The UK Cards Association