

*Advice for*

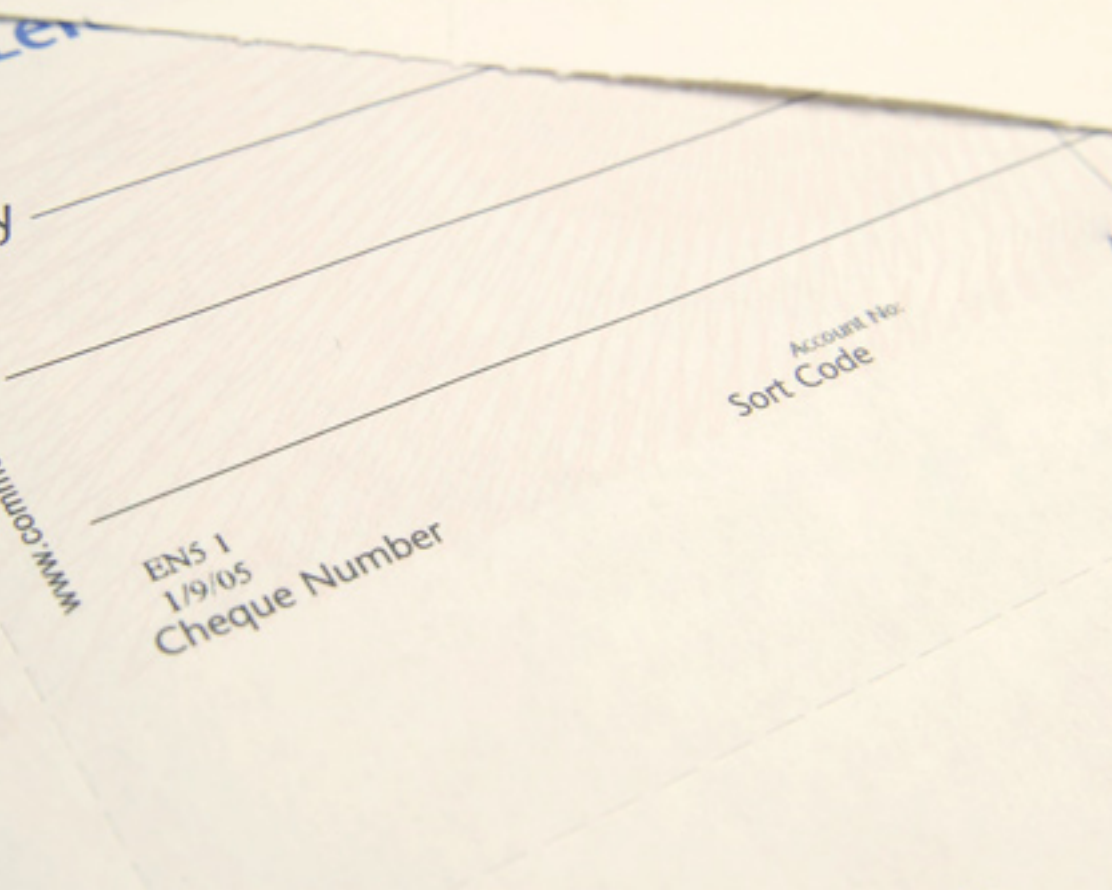
**business owners on**

# CHEQUE CLEARING TIMES

# Important changes that benefit businesses who pay in cheques

When you pay in a cheque these changes now help provide clarity on:

- 1) When your current or business account will start to earn interest on money paid in by cheque.
- 2) When the balance on which overdraft interest is charged will be reduced, if your account is overdrawn.
- 3) When you will be able to withdraw the money paid in by cheque from your current or business account.
- 4) When money has safely cleared with no chance of it being reclaimed without your consent, unless you are knowing party to fraud.



# The 2-4-6 changes

At the end of November 2007, changes known as 2-4-6 came into force. These have increased clarity and certainty when you are paying in cheques to a bank or building society account.

These industry-wide changes set a maximum time limit of two, four and six working days for each of the stages after paying in a cheque to a current or basic bank account.

For the first time, after paying in a cheque, you can be sure that at the end of six working days, the money is cleared. You and your business are protected from any loss if the cheque is subsequently found to be fraudulent, unless you are a knowing party to the fraud.

The changes also set maximum times when customers start earning interest on money paid in and when it will be available for withdrawal.

## Day

e.g. Monday

**The process starts when your bank receives the cheque<sup>1</sup>**

# 0

## Day

e.g. no later than Wednesday

**You start to receive interest on the money from today<sup>2</sup>**

# 2

## Example

Daniel runs a window cleaning business and he only accepts cash or cheques as payment. Daniel collects all cheques made out to his company from the previous week and takes them into his bank to pay in on Monday morning.

His company account starts to earn interest on the money on Wednesday (+2 days), and by Friday morning (+4 days) his bank will enable him to withdraw the money from the deposited cheques from the account, even though the cheques could still bounce.

By the end of the following Tuesday (+6 days), he can be certain that the cheques will not bounce, and the money from them cannot be reclaimed from the company account without his consent.

Banks and building societies still compete to offer services that beat these guaranteed time limits for interest and withdrawal. If you are a business that accepts a large number of cheques you should make sure you have a company account best suited to your needs.

Alternatively it may be advantageous to review other options for accepting

payments from suppliers and customers – such as internet and phone payments or card payments.

Businesses which accept cheques with cheque guarantee cards are protected from losses against cheques being returned unpaid up to the limit on the card, provided they have followed the scheme's conditions of use.

# Day

**e.g. no later than Friday**

**Your bank will allow you to withdraw the money today<sup>3</sup>**

# 4

# Day

**e.g. no later than Tuesday**

**You can be sure the money is yours by the end of today<sup>4</sup>**

# 6

Footnotes:

<sup>1</sup> You can pay in a cheque in a number of ways – across a branch counter, at a cash machine, by post or at a post office. This may affect when your bank actually receives the cheque. You may also need to deposit a cheque before a certain cut-off time, so if certainty is important to you, you should check with your bank or building society.

<sup>2</sup> If your account pays interest on credit balances. It is also the point at which this money will reduce the balance on which overdraft interest is charged.

<sup>3</sup> Not necessarily for savings accounts.

<sup>4</sup> You will be able to withdraw this money from your savings account if the account allows withdrawals.

# Q+A

## **What are the main benefits of these changes?**

For the first time, after paying in a cheque you can be sure that at the end of six working days, the money is yours. You're also protected from any loss if the cheque is subsequently found to be fraudulent, unless you are a knowing party to the fraud.

These changes do not affect businesses accepting cheques with a cheque guarantee card. They continue to be protected against cheques being returned unpaid up to the limit on the card, provided they have followed all the scheme's conditions of use.

## **Do these changes mean that cheques are safer from fraud?**

No, you should always be wary of accepting high-value cheques or bankers' drafts. If you want to ensure that payments made to your business are safe, you should speak to your bank for advice on accepting cards or insist on cash or automated payments from your customers.

Any business owner who has a company cheque book stolen should report the loss to their bank immediately.

## **Are bankers' drafts or building society or bankers' cheques covered?**

Yes.

## **Why doesn't the banking industry speed up the cheque clearing process?**

Market research, undertaken in 2005 and endorsed by the Office of Fair Trading, confirmed that there is no case for speeding up the central cycle. Only 13% of customers placed any value on faster withdrawal. Some customers also use the current cycle to their benefit to delay money being taken from their accounts.

## **How do I know when the sixth day after deposit has been reached (when the cheque can no longer bounce)? Do the six days exclude non-working days?**

If you pay a cheque in on a Monday (before your bank's or building society's advertised cut-off times) you can be sure it will not be reclaimed (without your consent) after the end of Tuesday of the following week. If you are uncertain, you should check with your bank or building society. Saturdays, Sundays and bank holidays are not included when calculating the six day period.

## **What is the best way for a company to receive or make payments?**

There are a number of payment options, and it is important to consider your company's needs when choosing how to accept or make a payment. Chip and PIN has made plastic cards even more popular, and many businesses increasingly prefer to accept card payments to cash or cheques. You could also consider automated payments such as direct debit, phone and internet banking. Speak to your business adviser at your bank to find out what your options are.

## **Do these changes impact when I can or should release goods or services to my customers?**

They may do - as these changes give you certainty on cheque funds and clarify when you can be sure the cheque funds are yours and when you can release goods or services with confidence.

### **How can I make sure my bank receives my cheque as quickly as possible?**

The simplest way is to ensure the cheque is paid in at your bank or building society before their advertised cut-off times. You can pay in a cheque in a number of other ways – such as at a cash machine, by post or at a post office. However, these may all affect when your bank actually receives the cheque and the timescale starts. If you are not sure when day 6 has passed you should check with your bank or building society.

It is also worth verifying the details of the cheques you accept from customers. Any part of the cheque that is unclear or incorrect may result in the cheque being returned unpaid so it is important to ensure that your customers fill out cheques clearly and correctly.

### **What happens if I am not happy with the service I get from my bank or building society?**

You should speak to your bank or building society to try to resolve your issue. If they do not resolve it, The Business Banking Code sets out how to make a formal complaint. Ultimately you can refer a dispute to the Financial Ombudsman Service.

### **Does this affect the charges I pay on my business overdraft?**

You should check with your own bank or building society. Each bank and building society continues to compete on when it gives interest on cheque funds or, if the account is overdrawn, when cheque funds will reduce the balance on which overdraft interest is charged. The latest time you can expect this to happen is two days after you have paid in your cheque.

### **What happens if I don't wait until the end of day 6 and I withdraw and spend cheque funds before this?**

You must be aware that you do so at your own risk. If the cheque subsequently bounces you may have to return funds to your bank or building society.

### **How many cheques bounce?**

It is very rare for a cheque to bounce/be returned unpaid. Only around 0.5% of all cheques are returned unpaid each day.

### **Do these changes affect my business deposit account?**

For deposit and saving accounts the maximum time limit for withdrawal is longer but otherwise the timescales are the same. Deposit and savings accounts are designed to pay interest on funds deposited for a length of time so withdrawal timescales shouldn't be important. If you want faster access to cheque funds you should consider paying a cheque into a business or current account.

### **Do these changes affect cheques paid into personal accounts?**

Yes. You can follow the same guidelines when paying in cheques to a personal account. You should check with your bank or building society.

**For more information visit [www.chequeandcredit.co.uk](http://www.chequeandcredit.co.uk) or speak to your bank directly.**