



09 January 2015

Direct Line 020-3217-8363

nicky.wheeler@chequeandcredit.co.uk

Payment Systems Regulator
Consultation response team
25 The North Colonnade
Canary Wharf
London E14 5HS

Dear Sirs

C&CCC RESPONSE TO PSR CONSULTATION “A NEW REGULATORY FRAMEWORK FOR PAYMENT SYSTEMS IN THE UK”

The Cheque and Credit Clearing Company welcome the opportunity to respond to the Payment Systems Regulator’s consultation on “A new regulatory framework for payment systems in the UK”.

Background

The Cheque and Credit Clearing Company (C&CCC) was established in 1985 and from that time until the present day it is proud of its record in:

- Providing members with the central payment system services for the exchange and settlement of cheques and credits;
- Managing the operational processes of the central payment system services;
- Determining the rules, standards, and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings and ensuring compliance with those rules;
- Engaging with the full range of stakeholders which includes consumers and businesses that use cheques, banks that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes.

Our Objectives are to:

- ensure that cheques and credits remain a viable, secure and efficient choice of payment for all users, so we will:
 - promote innovation and competition in payment choice by driving improvements in processing, service and efficiency
 - provide a trusted centre of excellence for anyone with an interest in cheques or credits



Achievement

The Company has an excellent record of achievement; the most recent being the introduction in 2007 of the 2-4-6 customer promises and certainty for cheque beneficiaries. For this major project we worked closely with OFT Payments Systems Task Force to deliver, on time and within budget, a complex and innovative programme of changes to greatly improve the customer proposition. The Company enjoyed a positive relationship with the OFT Payments Systems Task Force in which we were able to use our unique position to inject detailed cheque and credit knowledge into the process to ensure that the Task Force successfully met its objectives whilst the Company continued to maintain its core objectives.

Since the formation of the Payments Council, the Company has demonstrated its ability to be flexible and has always engaged positively with them as they have worked to deliver their objectives. In 2011 the Payments Council rescinded its decision to close the cheque clearing by 2018. The Company understands the doubts and concerns that were raised by the Treasury Select Committee relating to their decision process and about the governance of payment systems more generally. As a result of the Payments Council's decision to implement their Cheque Replacement Programme in order to close the cheque clearing, the Company initiated a programme of work developing approaches to enable the efficient processing of significantly reducing volumes of cheques whilst continuing to maintain the integrity of the clearing until closure. This programme resulted in a proposal for a Single Utility infrastructure to enable simplified paper processing with much reduced volumes.

We are now actively developing a new clearing system based upon image transfer rather than the movement of paper for the UK and we have been liaising with the Belfast Bankers Clearing Company in Northern Ireland. With an image based approach we will be able to sustain ever reducing volumes of cheques for as long as they may be required. This initiative was commenced with no external influence from regulators or Payments Council and is purely driven by a desire to maintain service to customers using cheques. This proposal has similarities with Check 21 in the US and includes a series of changes directed at capturing and using an image of the cheque at the earliest opportunity. When implemented the industry clearing would be based on image exchange not paper. The use of images could allow a range of competitive image-based customer products to be developed by financial institutions. Key potential benefits include: enabling customers who wish to continue to write paper cheques to do so; providing new services such as enabling customers to pay cheques in remotely (e.g. via mobile phone apps or remote corporate image capture); and allowing an unpaid cheque to be returned to a customer electronically. Cheque imaging also provides the potential to reduce clearing timescales as the need to transport paper around the UK is eliminated.



The simplification of processing by moving to image will increase innovation in the market as well as competition between banks. As mentioned, the work to date has been progressed without direct external pressure, whilst other major innovations within payments schemes (e.g. FPS and account switching) have been the result of regulation or direction from regulators to improve customer offerings. Indeed there is a widely held view that final adoption of such innovation is only possible in today's market if it is mandated in this way.

A move away from the current cheque clearing model to an image model would be a major change including the changes in legislation, which is currently underway, as cheque clearing using images is currently not permissible. In this respect cheques are different from all other payment instruments in that their processing is governed by statute.

The current cheque processing model is a highly efficient process for paper clearing and already utilises image but, as highlighted in the Payments Council's Cheque replacement work, a paper based system is not as efficient as an electronic one. A move to image clearing could potentially release the efficiency benefits and deliver the flexibility of an electronic payments system whilst ensuring those customers who wish or need to can still continue to write cheques. Included within these potential benefits would be the ability enable a wider range of settlement risk reduction measures than is feasible within our current paper based clearing model. It could also enable those customers who receive cheques to use new image technology if they wish when depositing cheques, negating the need to visit a bank branch.

Whilst we continue to develop detailed proposals for a potential image model we will continue to engage further with stakeholders on the impacts it would have on them. From our current market research we know that not all users, for example, may want to see a shorter clearing cycle for cheques, although a reduction to a maximum of two working days is being envisaged. Our Members all have their own internal priorities and will need to evaluate the image model further themselves before a decision can be made.

Governance

There have been a number of regulatory changes since the C&CCC was established, but during all that time the Company has always been able to achieve its agreed objectives whilst working within those regulatory models. We do not envisage that changing, but acknowledge the challenges that we will face. The Company chose to have an independent Chairman in 2006, pre-empting the recent regulatory pressure for other schemes to do likewise. Last year we have introduced independent Directors to our Board. As a Company we are owned by the major UK banks and our Directors are currently nominee Directors from those same shareholding banks. We acknowledge that this structure brings with it a number of conflicts of interest for the Directors who nevertheless strive to ensure that they meet their fiduciary duties to the Company whilst at the same time acknowledging the difficulties that it brings in making decisions on issues, and in particular in agreeing to commence a significant move away from the current clearing model.



The Company would welcome any regulatory environment where our end users, including customers and the wider economy, are able to benefit to the fullest extent from an efficient cheque clearing system. It must be said, however, that the Company would prefer to work within a robust and effective governance structure geared to consider, and have the authority to sanction, for the benefit of customers and the wider industry, proposals which are supported by the highest quality subject matter expertise and as such we welcome the proposals for our direct involvement.

We would wish to ensure that any new governance arrangements support the Company in its efforts to maintain and improve cheque clearing. We believe that implementing a move to image could remove inefficiencies from paper processing, whilst reducing the challenges posed to new Member for entry and by current Members for exiting the paper clearing and ensuring that the payments industry is not restricted by our model (e.g. by issues such as the heavy reliance, under the current process, on sort code lead pairs for sorting cheque paper).

Conclusion

We recognise that the regulatory environment within which the Company works will continue to evolve and our main priority will be, as ever, to continue to maintain the integrity of the clearings. In order to achieve this, the Company will continue to provide a centre of excellence and thought leadership in respect of cheques.

It is essential that the correct regulatory balance is achieved so that any new regulatory structure is simple and effective. The Company will work within whatever structure is selected and will continue to deliver and develop an excellent cheque processing service, for as long as it is required by customers.

We would, of course, be happy to meet with the PSR to discuss this response.

Yours faithfully

Angela Thomas

Managing Director of Cheque & Credit Clearing Company Ltd



Autumn 2014 PSR Consultation Paper (CP14/1)

Name of respondent: **Angela Thomas**

Contact details/job title: **Managing Director**

Representing (self or organisation/s): **Cheque and Credit Clearing Company Ltd**

Email: nicky.wheeler@chequeandcredit.co.uk

Address: **Cheque and Credit Clearing Company Ltd
2 Thomas More Square
London
E1W 1YN**

Confidentiality

Please tick this box if you are making any claim of confidentiality:

Declaration

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that the PSR can publish. However, in supplying this response, I understand that the PSR may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations, in particular if they are asked to disclose a confidential response under the Freedom of Information Act 2000. I understand that any decision the PSR make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal. If I have sent my response by email, I understand that the PSR can disregard any standard e-mail text about not disclosing email contents and attachments. I confirm that this response only contains accurate, complete and non-misleading information.

Angela Thomas
Managing Director