Cheques and cheque clearing: An historical perspective
Contents

1. The advent of the cheque
2. From handwritten to printed cheques
3. Standardisation
4. Taxes and Stamp Duty
5. The clearings - early days
6. Emergence of technology
7. The law relating to cheques
8. Cheque clearing since 1985
9. The Cheque and Credit Clearing Company
10. The cheques market
11. The central infrastructure
12. Members’ cheque processing
13. Cheque printer accreditation scheme
14. Bank giro credits and the credit clearing process
15. Euro cheques and the euro cheque clearing
16. The Cheque and Credit Clearing Company website
17. The cheque timeline
18. Sources
The cheque has its origins in the ancient banking system, in which customers would issue orders to their bankers to pay money to identified payees. Over the past 350 years the cheque has evolved from a basic ‘bill of exchange’ to the form we know today.


**Bills of exchange**

The history of the cheque dates back to the 13th century in Venice when the bill of exchange was developed as a legal device to allow international trade without the need to carry around large amounts of gold and silver. Their use was subsequently adopted in France, and from there the practice was brought to England.

The first known reference to these bills in English law is in a 14th century statute, which states that they could be used to carry funds out of the country. Back then bills were for international business use and were not used for trades within England or by individuals. The bills were usually payable abroad at a future date and in a currency other than that of the drawer’s home country.
The first cheques

By the 17th century, bills of exchange were being used for domestic payments as well as international trades. Cheques, a type of bill of exchange, then began to evolve. They were initially known as ‘drawn notes’ as they enabled a customer to draw on the funds they held on account with their banker and required immediate payment. One of the earliest handwritten cheques known to be in existence was drawn on Messrs Morris and Clayton, scriveners and bankers based in the City of London, and dated 16 February 1659. It was for £400 (about £42,000 today) made payable to a Mr Delboe and signed by Nicholas Vanacker (below).

One of the earliest handwritten cheques known to be in existence in the UK

The cheque is in The Royal Bank of Scotland Group’s archive. Although the date written on the cheque reads 16 February 1659, its date is actually 16 February 1660 by today’s calendar. This is because of the switch from the Julian to the Gregorian calendar and the fact that until 1751 the legal year in England began on 25 March rather than 1 January.

Reproduced by kind permission of The Royal Bank of Scotland Group © 2009
At the very first meeting of the Court of the Bank of England on 27 June 1694, it was decided that customers who deposited money would have the choice of three types of account. One of these allowed customers to draw notes on the Bank up to the extent of their deposits.

These ‘drawn notes’ had themselves evolved from the ‘transfer in bank’, an authority to a banker to pay money to a named person, and took some time to become popular, being overshadowed by the use of bills, bearer notes, and later, Bank of England notes.

**First printed cheques**

The earliest drawn notes, such as the Vanacker cheque, were all written in letter form such as “Mr Speed [the Chief Cashier], please pay,...” but the Bank of England pioneered the use of printed forms, the first of which were produced in 1717 at Grocers’ Hall, London. The customer had to attend the Bank of England in person and obtain a numbered form from the cashier. Once completed, the form had to be authorised by the cashier before being taken to a teller for payment. These forms were printed on ‘cheque’ paper to prevent fraud. Only customers with a credit balance could get the special paper and the printed forms served as a check that the drawer was a bona fide customer of the Bank of England. The printed slips had scrollwork at the left-hand edge which could be cut through, leaving part on the cheque and part on the counterfoil – the real “check” – which is how the cheque got its name.

Examples of these early forms of security printing are shown below. The Boldero, Carter, Barnston & Snaith items show both black and white and one of the earliest uses of colour.

The Oxford English Dictionary says the earliest use of the term cheque (as opposed to ‘drawn note’) dates to an Act of 1706 which provides for Exchequer Bills to have two counterfoils instead of one and that “the Governor & Company [of the Bank of England] shall have the use and custody of the one part of all and every the cheques, indents or counterfoyles of all such Exchequer Bills, from which the same Exchequer Bills shall be cut”.

---

**Top**: Boldero, Carter, Barnston & Snaith items, showing both black and white and one of the earliest uses of colour. © Trustees of the British Museum

**Left**: An example of a printed item showing the scroll pattern.
The earliest known surviving cheque printed with the name of the issuing bank (below) is dated 1759 and drawn on Messrs Vere Glyn & Hallifax. It is held by the Bank of England.

The Commercial Bank of Scotland is thought to have been the first bank to personalise its customers’ cheques, with the earliest example reported from 1811, although the practice may have been introduced from the bank’s inception in 1810. The bank printed the name of the account holder vertically along the left-hand edge (The example below shows a personalised cheque for a ‘John Thom’). Both of these companies eventually became part of The Royal Bank of Scotland Group.

By 1830, sufficient cheque payments were being made by the Bank of England’s customers to justify issuing books of 50, 100 or 200 forms and counterparts, which were either bound or stitched.
In 1782 the first Act to impose a tax on all cheques made out to “order” was passed. Cheques payable to “bearer” were exempt as they were deemed to be payable on demand, rather than at a future date (implied by “or order”) and fell within existing legislation relating to Bills of Exchange. Items drawn on certain accounts such as Government departments, the Army and the Navy were also exempt. The first tax was an “ad valorem” (depending on value) stamp duty, which hampered the widespread use of cheques and led to them only being used by the wealthy.

Until 1853, cheques were illegal if dated or negotiated more than 10 miles from the bank on which they were drawn, but in that year an Act was passed legalising such cheques if they bore an impressed or adhesive penny postage stamp. The reduction in duty to one penny made it far more attractive for small businesses to use cheques. By 1856 the 1d (one penny) duty was often ‘forgotten’ and it was common for cheques to be made payable to bearer specifically to avoid the duty.

In 1858 all restrictions regarding distance were removed and a fixed duty of 1d per cheque was imposed on all cheques drawn by private individuals. After 1881 adhesive stamps inscribed “postage & revenue” could be used to show the duty had been paid.

Some of the original stamps used in the UK
1. 1868 - An impressed stamp
2. 1900 - An adhesive stamp
3. 1910 - An embossed stamp
4. 1949 - An embossed stamp
5. 1960 - A printed stamp
In 1918 stamp duty on cheques was doubled to 2d and by 1929 the Government was earning about £3.5 million a year from this tax. The payment of stamp duty was indicated by means of an impressed stamp, until an amendment to the Act in 1956 which allowed banks to issue chequebooks with the stamp duty mark already in place. The duty was abolished on 1 February 1971, shortly before decimalisation on 15 February 1971.
The cheque clearing is an operational arrangement or system which enables cheques to be exchanged in bulk and settled between banks or branches in order to transfer funds from one customer’s account to another. Settlement is effected on the net difference between cheques exchanged (i.e. sent to and received from the other banks) rather than on the gross value of the cheques, transaction by transaction. The ‘clearing cycle’ results in a credit to the account of the beneficiary at the bank of deposit, and an equivalent debit to the account of the payer at the bank on which the cheque was drawn.

Today, cheques in the UK are cleared according to a 2-4-6 timescale and the process is largely automated. However, it has not always been this way.

Up until around 1770 an informal exchange of cheques took place. Clerks of each bank visited all of the other banks to exchange cheques, whilst keeping a tally of balances between them until they settled with each other. After this date the practice of clearing was officially recognised by the private bankers in the City and gradually evolved into the process we recognise today.

The City

Daily cheque clearings began around 1770 when the bank clerks met at the Five Bells, a tavern in Lombard Street in the City of London, to exchange all their cheques in one place and settle the balances in cash. We do not know how many cheques were in circulation at that time but as demonstrated by today’s currency clearing - managed by the Cheque and Credit Clearing Company - banks consider it worthwhile to operate a clearing even if there are only a few hundred items a day.

By 1773 a separate room in the Five Bells had been set aside for exchanging cheques. However, this room soon became too small and the clearing process moved to a larger room in a private house next door. In 1805 clearing took place next door to the offices of Messrs Smith, Payne & Smith in Lombard Street but it was not until 1821 that a permanent committee was formed to regulate the clearings. The group of private bankers involved later became known as the Committee of London Clearing Bankers. The first Bankers’ Clearing House was built in Lombard Street in 1833, with money subscribed by the 39 founding bankers, which included Barclays, Glyn, Martin and Williams. Apart from when the
clearing was transferred to Stoke-on-Trent during World War II, cheques were exchanged in Lombard Street for over 220 years.

During the same year, legislation was introduced which permitted joint-stock banks - those owned by a corporate body rather than one or more individuals - to be established in London, provided they did not issue notes.

Some joint-stock banks were admitted as members of the Bankers’ Clearing House in 1854. In the same year settlement in cash was replaced by settlement across accounts held at the Bank of England, using cheques drawn on the Bank – an arrangement that continues today, albeit by electronic means. The Bank of England itself was admitted as a member in 1864.

It was the joint-stock banks, along with the development of the branch banking system, that were responsible for popularising and encouraging the banking habit amongst the population generally. During the first 30 years or so of its existence, there was a fivefold increase in the turnover of the clearing house. In the mid-1850s the owners of the clearing house bought the premises next door at 3 Abchurch Lane. The basement of the building was let to a wine merchant whose cellars extended underneath the clearing house to Post Office Court (right), and the upper floors were let out as offices. By the late nineteenth century cheques had become more widely used, so more space was needed and in 1892 the clearing house took over all of the upper floors as well (although the wine merchant retained use of the cellars until 1915).

By 1895, the original founding bankers of the Bankers’ Clearing House had reduced from 39 to 4, either through bankruptcy or sale. A new ownership arrangement was needed so, that year, a private company, limited by shares, was formed under the name of the Bankers’ Clearing House Limited. Shares in the company were issued to the clearing bankers on favourable terms so that all members of the Bankers’ Clearing House would have equal shares in the company and premises. It was also agreed that such equality was to be maintained in the future and this agreement persists today – the Cheque and Credit Clearing Company is owned in equal shares by its members.
In 1902 the clearing house acquired additional space at 84 and 85 King William Street, which enabled a Burroughs adding machine to be installed and amendments to be made to the clearing system.

The clearing rules allowed the same day settlement of cheques exchanged within the City of London, which was originally defined as within walking distance of the clearing house. These cheques were called “walks” items.

The town clearing process evolved directly from this system and continued, with a few variations to its boundaries, until it ceased operation in 1995. High value, same-day payments were then made via CHAPS, as they are now.

Meanwhile, outside the City of London, many towns and cities in England and Wales operated their own clearing arrangements, which eventually became recognised provincial clearings. However, it wasn’t until 1858 that there was a formal mechanism for clearing transactions outside London. From 1858 the country cheque clearing, which operated outside a radius of 65 miles around London, allowed for provincial banks to effect settlement for items on the second business day after exchange. The country cheque clearing was open to all provincial banks in England and Wales, which only needed to appoint a London clearing bank as their agent and print the agent’s details on the bottom of their cheques.

All cheques drawn on other country banks could then be despatched in one parcel to their London agents, and the provincial banks received in turn the majority of items payable by themselves. Branches that were not covered by the “walks” or the mail collections, received parcels that were sent by the regular post, with payment made by return of post by an order on the bank’s head office. Over the years there was sufficient growth in transactions falling between the country clearing area and the City of London “walks” area (and enough confusion between the boundary lines which applied) to warrant the establishment of the metropolitan clearing in February 1907.

**Provincial clearings**

The area defined as being ‘within walking distance of the clearing house’ - 1963.
Scottish clearings

Just as in England and Wales, cheque clearing in Scotland started with bank clerks being dispatched to other banks to exchange cheques, eventually leading to having one central place of exchange. The first Scottish cheque clearing house was founded in Glasgow in 1856. The Edinburgh Clearing House opened in 1865. Following the clearing houses established in Glasgow and Edinburgh other towns followed suit and, by the 1880s, there were local clearing houses in Aberdeen, Dundee, Dumfries, Greenock, Paisley and Perth.

World War Two

By 1936, when the District Bank joined the clearings, there were 11 banks participating as well as the Bank of England. The others were: Barclays Bank, Coutts & Co, Glyn, Mills & Co, Lloyds Bank, Martin’s Bank, Midland Bank, National Bank, National Provincial Bank, Westminster Bank and William Deacon’s Bank.

Reliability and continuity have been two of the guiding principles of protecting the integrity of the clearings and this was never more important than with the threat of war. Clearing operations were moved to Stoke-on-Trent under the War Emergency Clearing Scheme. Planning for the move began in 1938, in anticipation of war breaking out.

Trentham Gardens, three miles south of Stoke-on-Trent, was identified by the Committee of London Clearing Bankers during these planning stages. The public pleasure gardens at Trentham had been developed on the estate of the Dukes of Sutherland and a dance hall was built there just after the First World War. An agreement was signed in February 1939 to ensure that the clearing would be able to relocate to Trentham Gardens immediately if war broke out.

General clearing came about as a direct result of the move. Before the war, there were three separate clearings sorted through the Bankers’ Clearing House: the country, metropolitan and town clearings.

Rather than leave any part of the clearing exposed to the risks of war it was decided that, with the exception of a small part of the former town clearing, all items would pass through the new Central Clearing House. Before the war, inter-branch items did not pass through the Bankers’ Clearing House but during this time most banks took up the option of relocating their own branch clearing to Trentham as well.

The collection of any London sundries (items drawn on non-clearing banks, money orders etc) was dealt with by dividing the London area into 12 ‘walks’. Each one was assigned to one of the 11 clearing banks and the Bank of England, who then undertook the collection of these articles from its designated area and responsibility for their delivery to the Central Clearing House.
Before the move to Trentham, the daily settlement consisted of: the balances of the country clearing, exchanged two days previously; the metropolitan clearing, exchanged the previous day; and the town clearing of the same day. Once the Central Clearing House was in operation, the daily settlement consisted of all items passing through the house the previous day.

Another change was concerned with letters lost in the post. Previously, the presenting banker would have to obtain duplicate cheques if a letter was lost between the clearing department and the branch, and would be charged accordingly by the paying banker. At Trentham, however, each item was photographed prior to despatch using Recordak microfilm apparatus (made by Eastman Kodak). This allowed duplicate prints of any missing items to be made and the drawer’s consent obtained to apply the debit. Today, banks use sophisticated imaging equipment to create computer images of cheques for use throughout the clearing process.

Space in the new site was divided up according to the number of clearing articles handled by each bank. The big five (Barclays Bank, Lloyds Bank, Midland Bank, National Provincial Bank and Westminster Bank) found themselves on the dance floor, one of the smaller members took the stage, another was based in an outbuilding and the Bank of England was above the kitchen.

The clearing function officially started at Trentham on Monday 28 August 1939 just days before the Second World War began and, as the staff and operations had moved over the weekend, there was continuity of clearing services as normal. Once the war was over, the clearings moved back to the City premises in 1946.
As volumes increased in the 1950s and 60s, automation of the sorting process became more of a necessity. In the very early days of computer processing, teams of punch card operators typed cheque details onto punch cards. Machines that processed the punched cards updated customers’ accounts, thus automating what bank clerks had previously recorded in ledgers. Sorting, however, was still done by hand.

By 1960, a newspaper review in The Times of the “Potentialities of Automatic Reading Devices” stated that investment in reading machines was worthwhile if data could be analysed from more than 100 remote points or “if the encoding or sorting of documents would call for a staff of 10 or more girls”. By this point inter-bank clearing volumes had already reached 2.5 million items per day and a reading machine, running at 10 per cent of its full capacity for an eight-hour day, would be cheaper than a staff of punch card operators.

In 1959 the American banks, in collaboration with US business machinery manufacturers and printers, produced and patented the E13B standard MICR (Magnetic Ink Character Recognition) code. This is a standard font, which is used in conjunction with magnetic ink – ink with a high iron content which becomes magnetised when passing through high-speed sorters. Each character has its own unique magnetic signature which is read by the MICR read head, a device similar to the playback head in an audio tape recorder.

The first American reader/sorters produced by Burroughs, NCR and IBM had a throughput rate of approximately 1,500 documents per minute (DPM), whilst their European equivalents made by EMI (named FRED, the Figure Reading Electronic Device) and De La Rue Bull offered speeds of between 300 and 750 DPM.
These early reader/sorters set the pace and this throughput rate has not been improved upon very much, probably because there is a finite limit to the speed at which paper can be passed through a reader. Current machines still process at approximately 1,000 to 1,800 items per minute.

The London clearing banks carried out their own studies and attended various demonstrations of the different automatic cheque sorting machines available, both in the UK and abroad, to decide on the most suitable system for Britain. In 1960 the world’s first fully operational electronic cheque and document sorter, using the American MICR system, was demonstrated to the Committee of London Clearing Bankers at the London head office of NCR. Mainly as a result of the greater speeds achieved by the American system, the Committee settled on that system as being the most appropriate. At the same time, the banks also agreed to reserve the area at the bottom of the cheque specifically for encoding the branch and account details. The use of MICR encoding on a cheque in conjunction with high-speed reader/sorters revolutionised cheque processing.

Lloyds and Barclays Banks both installed automatic cheque sorting machines in 1960/61 and began testing their systems around that time. It was Westminster Bank (which later merged with National Provincial Bank to form National Westminster Bank), however, that stole the march. On 5 September 1962, Europe’s first MICR cheque reader/sorter system – capable of reading and recording cheque codelines - was opened at its Lothbury head office by Reginald Maudling, the then Chancellor of the Exchequer.

**Electric vans**

With the arrival of reader/sorters, bundling up cheques into mailbags for delivery to the Bankers’ Clearing House was no longer viable as automation dictated that cheques be fed in a strict regular order. Cheques had to be sent in boxes, which then had to be moved on trolleys and the trolleys could only be moved in vans. However, because of access restrictions into Lombard Street, special vehicles were needed. Electric vans, rather like milkfloats, were commissioned because they were quiet (there was concern that vans going in and out of the clearing house would be too noisy and at one stage, the street was even paved with rubber blocks to keep noise to a minimum).
Standard format

With automation, cheques also needed to be made of much stronger paper and, in anticipation of this move, the Banking Information Service reported in February 1962 that cheques would, in future, be printed on thicker, stiffer paper. This meant that items could be processed more effectively using these automatic sorters.

All cheques must nowadays: conform to C&CCC Standard 3 - the industry standard detailing layout and font; be printed on a specific weight of paper (CBS1); and contain explicitly defined security features.

Since 1995, all cheque printers must be members of the Cheque Printer Accreditation Scheme (CPAS). The Scheme is managed by the Cheque and Credit Clearing Company and requires that all cheques for use in the British clearing process are produced by accredited printers who have adopted stringent security standards.

The Lloyds Bank hand-drawn cheque

Over the centuries, cheques have come in all shapes and sizes and even in the modern era it has proved impossible to drive out all forms of non-standard paper. Printed cheques have been in use since the early 18th century so this image of a hand drawn cheque is an interesting one. In 1926, AL Mabey, a member of staff at Lloyds Bank in Temple Bar, London had a bet that a hand-drawn cheque was as valid as the printed form of a cheque. Mr Mabey painstakingly hand-drew a cheque for the sum of £2 and deposited it. To his delight it did in fact pass through clearing in the normal way.

Upon hearing that a hand-drawn cheque had passed through clearing without a problem, the Chief Accountant at the Lloyds Bank Head Office requested the Temple Bar manager ask his customers to use the standard printed cheque rather than draw their own - he had not realised that it came from a member of staff. It did show, however, that in those days it was not essential to use the standard printed cheque; and Mr Mabey won his bet!
Cheque guarantee cards

To encourage retailers to accept cheques as payment for goods and services, the first cheque guarantee card was issued by National Provincial Bank in October 1965. Initially these cards enabled encashment of cheques in branches up to a total value of £20 per day. From 1966 cards were issued that guaranteed encashments by cheque, and payments by cheque for goods and services, up to a value of £30.

The UK Domestic Cheque Guarantee Card Scheme was established in 1969 to create common, easily-identifiable design features to simplify acceptance procedures for retailers and other acceptors of cheques. The Scheme’s initial guarantee limit was £30, increasing to £50 in 1977 and two additional limits of £100 and £250 were introduced in 1989. Since 1 October 1990, the common identifier on all cards with cheque guarantee functionality has been William Shakespeare, and his image is used within the cheque guarantee hologram or logo on all cheque guarantee cards.

1990 was also the year that cheque payments peaked, with 4 billion being written. However, cheque usage has been declining since then and most major retailers no longer accept cheque payments at all, so the use of guaranteed cheques is in steep decline. In September 2009 the members of the Cheque Guarantee Card Scheme announced that the Scheme will close on 30th June 2011, meaning that it will no longer be possible to guarantee a cheque under the Scheme after this date. This decision followed on from the announcement to close the Scheme made by the Payments Council earlier in 2009. The Payments Council had concluded that it was in all parties’ interests to manage the Scheme’s demise in a co-ordinated fashion following extensive consultation with guaranteed cheque users and acceptors.

Keeping things going


The mining crisis of 1973 led to the three-day week and restrictions on power consumption. Crisis planning was as important then as it is now. The Committee of London Clearing Bankers held an emergency meeting in December of that year to seek clarification from the...
Government over the position of the banks during the crisis. The upshot of the meeting was that while banks were exempt from the restrictions on the use of office machinery for cheque sorting, the use of heating and lighting was not covered and, as a result, the banks withdrew evening opening facilities for the duration of the crisis.

Representatives of the clearing banks continue to meet on a regular basis to discuss how to manage the clearings in the event of a crisis, whether as a result of a natural or a man-made disaster. Major exercises are carried out on a regular basis to play out possible scenarios and ensure that normal service will continue.

Cheque and Credit Clearing Company established

The publication of the Child Report in 1984 brought about the establishment of the Cheque and Credit Clearing Company (C&CCC) in the following year. The ten member banks of the Bankers’ Clearing House (Bank of England, Barclays Bank, Central Trustee Savings Bank, the Co-operative Bank, Coutts & Co, Lloyds Bank, Midland Bank, National Girobank, National Westminster Bank, and Williams & Glyn’s Bank) had participated in a major review of the “Organisation, Membership and Control of the Payment Clearing Systems”. The resulting report (known by the name of the author, DM Child) led to the formation of the Association for Payment Clearing Services (APACS), a new umbrella organisation which would oversee the development of the clearings and the payment industry as a whole.

The C&CCC was established in 1985, under the APACS umbrella, as the new membership-based industry body to manage the general clearing - which was renamed the “cheque clearing” - and the credit clearing, which processes bank giro credits. The company took over the business of the Bankers’ Clearing House with a remit covering England and Wales. All members of the clearings were to be shareholders in the new company and would also be required to become members of APACS.
The definition and use of cheques are covered by The Bills of Exchange Act 1882, and the Cheques Acts of 1957 and 1992. The Bills of Exchange Act 1882 defines a cheque as a written order from an account holder instructing their bank to pay a specified sum of money to one or more named beneficiaries.

Ever since their inception it has been the case that cheques are not a promise to pay by the bank, but a request to the bank that it pays, out of the funds deposited by the customer, an amount to a third party. This means that the bank will only honour the cheque if the account holder has sufficient funds to meet it or it can be covered by an agreed overdraft or other line of credit. Cheques are not legal tender and never have been. Even today, if you owe someone money they are not obliged to accept a cheque. Instead a creditor is entitled to be paid in legal tender and can refuse payment in any other form.

**Crossed cheques**

The rules concerning crossed cheques are set out in Section 1 of the Cheques Act of 1992 and prevent cheques being cashed by or paid into the accounts of third parties. On a crossed cheque the words “account payee only” (or similar) are printed between two parallel vertical lines in the centre of the cheque. This makes the cheque non-transferable and is to avoid cheques being endorsed and paid into an account other than that of the named payee. Crossing cheques basically ensures that the money is paid into an account of the intended beneficiary of the cheque.
When the C&CCC was established in 1985, cheque payments were still increasing and banks still wanted to join the clearings. Although the merger with the Scottish clearing was still over a decade away, two Scottish banks joined the C&CCC at this time. The Royal Bank of Scotland took over Williams & Glyn’s membership of the clearings when the two banks merged fully in 1985, and the Bank of Scotland joined in 1986 as it had some branches in England. Abbey National Building Society became a member of the clearings in 1988 - a year before it demutualised, became a public limited company and floated on the London stock exchange - and the Nationwide Building Society joined in 1991.

Cheque volumes peaked in 1990 when 4 billion cheque payments were made. Of these, 2.5 billion were cleared through the inter-bank clearing managed by the C&CCC, the remaining 1.5 billion being in-house cheques which were either paid into the branch on which they were drawn or processed intra-bank without going through the clearings. As volumes started to fall, the challenges faced by the clearing banks were then of a different nature: how to benefit from technology improvements in a declining business environment.
Outsourcing

The bulk of the processing of cheques and credits is undertaken either prior to the exchange process (known as out-clearing) or afterwards (in-clearing), but not during the exchange process itself.

Until the mid 1990s, keying the cheque value in magnetic ink took place at the banks’ encoding stations, supplementing the codeline details. The introduction of image technology was set to reduce this manual intervention, by capturing the information directly from the amount box on the cheque and placing it into databases.

However, this new image technology was expensive. As volumes were falling and attention was turning to the development of systems for automated payments, the clearing banks wanted to be able to outsource their processing, either to specialist cheque processing organisations or to another member. So, in 1994, the C&CCC amended the clearing rules to enable members to do exactly this. The rules also allow them to use the same outsourcing company, which a number of them do.

The economies of scale offered by outsourcing has meant that members can reduce their processing costs whilst benefitting from a more efficient system and the latest technological innovations.

Cheque Printer Accreditation Scheme (CPAS)

CPAS was set up in 1995 with the aim of tackling fraud involving company cheques. The scheme requires that all cheques for use in the clearing process in Great Britain are produced by C&CCC accredited printers. It means there is much greater quality control in the paper, ink, and security features used in cheque production and it has helped reduce some types of cheque fraud, namely fraudulent alteration and counterfeit.

CPAS members are also formally accredited to print bank giro credits (BGCs). Businesses do not have to be a CPAS member to print BGCs - a compulsory scheme was thought to be impractical due to the number of firms that print BGCs. However, the voluntary scheme has led to improvements in the quality of BGCs and reduced processing errors.
The IBDE network

In the early 90s banks were keen to reduce their reliance on the physical cheque for information processing and also move away from other manual paper processes, thus saving on costs. They had the ability to create data files from machine-read codelines for use in members’ out-clearing departments, and realised that if the collecting banks could send this information across a network to the paying banks, the paying banks could use this cheque data for their in-clearing process. The result would be that the paying banks would not have to recreate the same data files for their own use. All that was needed was a common application standard for the cheque data files and a network standard for the transmission of the data files.

The passing of the Deregulation, Bills of Exchange Order 1996, enabled banks to exchange cheque data only and not paper at all (known as collecting bank truncation). The IBDE (Inter-Bank Data Exchange) network was implemented the same year, following a two-year phased implementation project. The legislation and the network were enablers for collecting bank truncation but this system has never been implemented, even though it was the C&CCC’s long-term vision for a number of years. One of the reasons for this is because the physical cheque still has to be exchanged as there is no reliable way of detecting some types of fraud other than by examining the paper, which only the paying bank can do. Another reason was the high cost of implementation, which became increasingly unattractive in a declining market.

The IBDE network was the first network for the exchange of bulk clearing data between the major high street banks and building societies. The network enables member banks to transmit digital files of cheque data between each other across a secure system to which only they have access; all data has been encrypted as of 2009.

The cheque clearing process is more efficient as a result of IBDE. The immediate benefit was that collecting banks no longer had to get staff manually to encode the amounts of the cheque for the paying bank as the reader/sorter machines, with new image technology, read both the codeline and the amount of the cheque automatically as the digital files were created. Over time, banks (or more likely their outsourced processors) have been able to streamline their in-clearing processes with considerable staff savings and most are now able to use the information from the data files to debit their customers’ accounts.

Example of the cheque codeline

Cheque clearing since 1985
Establishment of the Company Office

The Company Office was set up in April 1996 as a separate unit dedicated to the work of the C&CCC. The office is the hub for operational oversight, project management, audit control, and change control management. It monitors 'live incidents' through to resolution and calculates the daily settlement amounts. The office is also responsible for all stakeholder management and communication and relationships with the Payments Council, the Bank of England and other regulators.

Settlement used to take place daily at a central location in London where Bank of England and members’ representatives would agree their settlement totals. However, many banks wanted to relocate their clearing operation outside of London, which would make this approach impractical if the agreed timescales for exchange and settlement were to continue. In 1997 it was agreed that a settlement facility would be established and managed by the Company Office and this is where the daily settlement amounts are calculated.

Merger with the Scottish clearing

Cheques paid in to banks in Scotland are exchanged in Scotland and historically the exchange was managed by the Committee of Scottish Clearing Bankers. However, to enable the Scottish banks to capitalise on the benefits of the IBDE network, the Committee of Scottish Clearing Bankers agreed that from December 1996 responsibility for the management of the Scottish clearing should be passed to the C&CCC. Another benefit of the merger was a reduction by one day in the amount of time it took to clear “cross border” cheques between Scotland on the one hand and England and Wales on the other. The Royal Bank of Scotland and the Bank of Scotland were already members of the C&CCC as they had branches in England but Clydesdale Bank, whose branches were all within Scotland, were required to join the C&CCC, which they did in 1998.

In 1998 membership of the clearings comprised Abbey National, Bank of Scotland, Barclays Bank, Clydesdale Bank, the Co-operative Bank, National Girobank, Lloyds Bank, Midland
Bank, National Westminster Bank, Nationwide Building Society, Royal Bank of Scotland, TSB and the Bank of England. There were never to be so many members again. The C&CCC was responsible for managing the exchange of paper in both London and Edinburgh and, in 1998, the IBDE network was extended to Scotland.

Non-standard paper clearing

Automated debit clearing by the IBDE network only works if the full codeline is present on the cheque. Paper items where a codeline is not present are exchanged as ‘non-standard paper’ and require significant manual effort to process. The only items which consistently fail to meet the codeline requirements laid down in C&CCC Standard 3 are cheques issued abroad, but payable in London. The C&CCC has no control over the quality or issue of such paper in the way that it does over domestic cheque printing. In 1997 it was agreed that these cheques should be processed in a separate low-volume clearing, called the non-standard paper clearing - so as not to hamper or slow down the main clearing process via IBDE, whilst still affording a practical bulk processing method.

Euro cheque clearing

Although the UK did not adopt the euro as its national currency when other European countries did in 1999, many banks began offering euro denominated accounts with chequebooks, principally to business customers. The cheques can be used to pay for certain goods and services in the UK. The same year, the C&CCC set up the euro cheque clearing system to process euro denominated cheques separately from sterling cheques in Great Britain.

A euro cheque
Independence from APACS

The governance structure established as a result of the Child Report remained largely unchanged for 15 years until the Cruickshank Report, ‘Competition in UK Banking’, was published in March 2000. The report included a number of criticisms about the UK money transmission industry, many of which were re-iterated in HM Treasury’s subsequent consultation document in the following year. Cruickshank concluded from his review of the markets and network features that UK payment systems were failing in terms of delivering price transparency, good governance, non-discriminatory access and efficient wholesale pricing. The Cruickshank Report and the public consultation by HM Treasury both recommended the establishment of a payment systems’ regulator.

In response to the report and the public consultation, APACS reviewed the link between membership of APACS and ownership of the principal clearing systems. It was decided that it should no longer be a requirement that members of the clearing companies should be members of APACS, that the clearing companies should be in complete control of admission to their clearings and that their eligibility criteria should be published.

So, in September 2002, the C&CCC became fully independent of APACS, taking control of its admissions process and publishing its eligibility criteria. This led in time to the creation of a full brand identity, the launch of www.chequeandcredit.co.uk in 2007 and greater engagement with stakeholders than ever before.

Moving the London exchange centre to Milton Keynes

The Lombard Street Exchange Centre (the old Bankers’ Clearing House) had been built prior to the advent of motorised vehicles so, due to size restrictions, was only really accessible by special electric vans that the banks had commissioned in the 1960s. When the banks started to move their processing centres out of London, an exchange centre was sought that could take deliveries from larger, fuel driven vans (though the final trip by an electric van was made on 3 February 1995).

The Lombard Street Exchange Centre closed in 1994. From 1994 until 2003, English and Welsh items were exchanged at the premises of the National Westminster Bank in Goodman’s Fields in the East End of London.

In 2003 the London exchange centre was moved again, as a depot that could take lorries heavier than three tons was needed. So, for the first time in its history and after more than 230 years, the London exchange centre moved permanently outside London, to Milton Keynes. Those members whose processing centres were now based in the Midlands avoided the need for the time-consuming journey by road to London. The exchange was re-named the English Exchange.
Settlement agreements and liquidity funding arrangement

The cheque and credit clearing systems are deferred multilateral net settlement systems. This means there is a significant delay between the exchange of the cheques and credits for payment and the actual settlement of those payments, which takes place on the day after exchange. In such a system, if one of the members is unable to settle, the consequences for the other members are potentially complex and create unexpected credit or liquidity risks.

Between 2003 and 2005 the C&CCC created a legal framework, including liquidity funding and collateralisation arrangements, that would enable settlement to complete in a variety of bank financial failure scenarios. The aim is to ensure that the clearing systems continue to operate with just the surviving banks if a bank were to collapse.

2-4-6 changes to UK cheque clearing timescales

In an electronic age, people have always asked why it still takes three days to clear a cheque. The fact is, cheques still have to be returned physically to the bank on which they are drawn to be examined for fraud. In addition, many businesses and consumers actually take advantage of the cash flow benefits of the three-day cycle. These and other issues were addressed by the Cheques Working Group, which was set up in October 2005 by the OFT-led Payment Systems Task Force (which has since been wound up). The aim of the group was to consider what improvements, if any, were needed to the cheque and credit clearing systems across the UK. The recommendations of the working group were published in the Cheques Working Group Report in November 2006.

For the report, the Cheques Working Group conducted research to determine consumer and small business use of, and attitudes towards, cheques. The main findings were that customers did not understand the cheque clearing cycle and there was a demand for greater transparency and certainty of payment. There was, however, no business case for speeding up the cycle. The conclusions drawn from the research resulted in recommendations for the settlement members of both the C&CCC and the Belfast Bankers Clearing Company to make changes to the clearing cycle by the end of November 2007, and for all subscribers to The Banking Code to adopt these changes when the new Code came into force in 2008.

The changes, implemented at the end of November 2007, are known as the 2-4-6 and 2-6-6 cheque clearing timescales. The changes have increased clarity and provided certainty for all elements of the cheque clearing process for customers paying in cheques to a UK current or basic bank account (2-4-6), or UK savings account (2-6-6).

The changes mean that customers start earning interest on money paid into their current, basic or savings accounts no later than two days after paying in a cheque. After no later than four days the money becomes available for withdrawal (six days for savings accounts).
The changes also mean that for the first time customers can be sure that, at the end of six working days after paying in a cheque, the money is theirs. The beneficiary customer is protected from loss if the cheque subsequently bounces, and the money cannot be reclaimed without their consent, unless they are a knowing party to fraud.

However, these are only the maximum timescales – individual banks may and do compete on when they pay interest or allow funds from paid-in cheques to be withdrawn by offering these earlier than two and four days respectively.

**Unpaid programme**

To achieve the 2-4-6 timescales, the system for processing unpaid cheques had to be streamlined so that the pay/no pay decision is always made on the day following exchange. Instead of relying on the postal system, the banks use a dedicated courier service so that notification of an unpaid is always received by the collecting bank on the day after the pay/no pay decision is made.

Unpaid programme

The courier service is provided by a third party supplier to settlement banks in Britain and Northern Ireland, and is managed by the C&CCC. This was the first time that the C&CCC had worked with the Belfast Bankers Clearing Company to implement a new service for banks across the UK and it helped ensure that the clearing banks could deliver the new clearing timescales.

**The Payments Council and the National Payments Plan**

The Payments Council was established in March 2007. Its role is to set the strategy for payments in the UK and to ensure that services provided by the UK payment systems, such as the cheque clearing system, meet the needs of users, payment service providers and the wider economy. It is a membership organisation funded by its members. It has a Board of 16 directors and, to ensure that the needs of all users of payment systems are met, four of the Board’s directors and its chairman are independent. For more information visit www.paymentscouncil.org.uk.

The Payments Council is responsible for delivering innovation, ensuring that payment systems are open and accountable, and maintaining the integrity of the payment systems. The Payments Council works closely with a number of contracted payments schemes for the benefit of the UK payments industry. These include the C&CCC, together with Bacs Payment Schemes Limited, CHAPS Clearing Company Limited, LINK ATM Scheme and the Belfast Bankers Clearing Company.

Cheque clearing since 1985
The Payments Council’s first task was to develop the National Payments Plan after an extensive public consultation process. Launched on 14 May 2008, the Plan sets out a 10-year vision for UK payments together with the practical steps needed to put the vision into practice. The vision includes the potential for closing the cheque clearing.

Up-to-date information on developments on the National Payments Plan can be found at www.paymentscouncil.org.uk

What next in cheque clearing?

Cheque use peaked in 1990 when 11 million cheques were written each day. However, in December 2009, the year that the cheque celebrated its 350th anniversary, the Payments Council set a target date for 31 October 2018 to close the central cheque clearing as part of the National Payments Plan (see The cheques market, section 10).

Over the next few years the payments industry has to rise to the challenge of finding easy-to-use, efficient alternatives for various payments and to ensure that they are easily accessible, acceptable and well understood by cheque users. A full review will be undertaken in 2016 before any final decision is taken. The goal is to ensure that by 2018 there is no scenario where customers, individuals or businesses, still need to use a cheque though there may be a need for a paper-based payment method to continue for those who are highly-dependent upon cheques. To find out more on the Payments Council’s plans go to www.paymentscouncil.org.uk/cheque_replacement

2009 saw the C&CCC celebrating the 350th anniversary of the cheque but cheques will not be around in another 350 years. However, whilst the cheque clearing remains open, the C&CCC continues to work towards improving efficiency, maintaining the operational integrity of the clearings and taking advantage of technological improvements where possible.

350TH anniversary
of the British Cheque
The Cheque and Credit Clearing Company is a non-profit making, membership-based industry body, which has managed the cheque clearing system in England and Wales since 1985, and in all of Great Britain since 1996 when it took over responsibility for managing the Scottish cheque clearing as well.

As well as clearing cheques, the system processes the following forms of payment: bankers’ drafts, building society cheques, postal orders, warrants, Government payable orders and travellers’ cheques.

The C&CCC also manages the systems for the clearing of paper bank giro credits (the credit clearing), euro cheques (the euro clearing) and US dollar cheques (the currency clearing for US dollar cheques drawn on GB banks).

The team in the Company Office provides a range of professional services to its members including operational management, project management, risk and compliance management, secretariat, regulatory consultation and communications expertise, which reaches out beyond the members to all our stakeholders through a programme of seminars, forums, newsletters and via the website.
The role of the C&CCC is to:

- Provide members with the central infrastructure for the exchange and settlement of cheques and credits (i.e. the exchange centres, the network for the transfer of electronic cheque data, an automated settlement system), and the courier service for the return of unpaid cheques to the collecting banks;
- Manage the operational processes of the central infrastructure;
- Determine the rules, standards, and procedures required to maintain the integrity of the clearings, including the criteria for joining the clearings;
- Ensure that members comply with the rules, standards and procedures.
- Provide thought leadership in non-competitive matters relating to cheques and cheque clearing.
- Engage with the full range of stakeholders: from cheque users, to banks that offer cheque clearing services, to the cheque processors, to cheque printers and suppliers of all kinds, and to regulators, trade associations and other payment schemes.
- Manage the Cheque Printer Accreditation Scheme.
Membership of the clearings

Banks and building societies that are C&CCC members are individually responsible for processing cheques drawn on or credited to accounts of their customers.

There are certain eligibility criteria to join the C&CCC and these criteria must be objective, fair and open. The criteria are published on the C&CCC’s website (www.chequeandcredit.co.uk) together with a list of current members.

Members do not have to participate in all three clearing systems but, in practice, they all do with the exception of the Bank of England, which is not a member of the euro cheque clearing system.

Application for membership

Any bank or building society wishing to become a member needs to apply in writing to the Managing Director. An organisation may apply to be admitted to participate in one or more of the cheque clearing system, the credit clearing system and the euro cheque clearing system. The application must set out sufficient detail for the C&CCC to satisfy itself of the prospective member’s compliance with, and its ability to continue to comply with, the eligibility criteria. There is an annual charge for being a member of the C&CCC and there is an initial joining charge.

Further details on how to become a member and details about the various charges can be obtained by contacting the company at info@chequeandcredit.co.uk.

Agency banks or indirect clearing

Around 400 banks and building societies provide cheque clearing services for their customers, obtaining indirect access to the cheque and credit clearing mechanism by means of agency arrangements with one of the settlement members.

These arrangements are separate from the C&CCC and are commercial agreements between the bank or building society concerned and the C&CCC member. Once the arrangement is in place the entity becomes an ‘indirect clearer’.
The cheques market

Since the number of cheques written peaked at 4 billion in 1990, the cheques market has been in decline and, in 2009, 1.3 billion cheques were used for payments and to acquire cash. However, in value terms, the cheque is still an important payment method: in 2009 cheques were the second largest retail payment system in value terms (£1,255 billion in 2009) after Bacs automated payments (£3,860 billion).

The rate of decline in personal cheque transactions has accelerated in recent years and between 2004 and 2009 volumes fell by 44% to 683 million. The decisions by many merchants to stop accepting personal cheques, particularly in the retail sector, have been a major factor driving this change. Consumers are also using cheques less for regular bill payment, preferring instead to pay by Direct Debit and internet and telephone banking. In 2009 cheques accounted for 5% of personal non-cash payments, down from 12% in 2004.

Total business cheque transaction volumes peaked in 1997 and, mainly due to migration to automated methods, have fallen by 32% over the last five years to 598 million transactions in 2009. Almost all businesses still use cheques to a greater or lesser extent and, for around half of businesses, cheques comprise the same or a higher proportion of the payments they make now as they did three years ago.

A key development with regard to future cheque usage is the Payments Council’s decision to set a target end date for the cheque clearings in the UK of 31 October 2018. With cheque use in long-term 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. The Payments Council decided that its active involvement can help prevent confusion and deliver cheque alternatives that are acceptable to cheque users.

The cheques market
The Payments Council’s vision for 2018 is of a payment market where there is no need for any consumer or business to make or receive payments by cheque as there are accessible and acceptable alternatives. The critical areas where users require acceptable alternatives include sole traders and other small businesses, charities, schools, clubs and societies, and those consumers that are highly dependent upon cheques and least equipped to change. Person-to-person payments and bulk payments from businesses to individuals also present major challenges.

Facts and figures

- Between 1985 (the year the C&CCC was established) and 2009, the company cleared 46.7 billion cheques to a value of £38,351 billion.

- If all the cheques processed in 2009 were laid end-to-end, they would stretch almost 3.5 times round the world. This compares with 9 times around in 2000 and in 1990, the peak year for the number of cheques processed, 12 times.

- In 2009, 3.5 million business and personal cheques were written each day, ranging in value from 1p to more than £10 million.

- The average value of each personal cheque written in 2009 was £268.

- Only one in 30 regular payments is paid by cheque, compared with one in 12 as recently as 2000.

- Only 2% of retail spending by value is still by cheque, compared with over 65% by debit or credit card.

- Business cheque use peaked in 1997 at 1.2 billion transactions and, mainly due to migration to automated methods, have fallen by 32% over the last five years to 598 million transactions in 2009.

- Credit clearing volumes peaked in 1998 when 178 million bank giro credits were cleared. In 2009, 74 million were cleared, less than half the volume in 1998.

- 92% of the items going through the credit clearing are for bill payments.

- Euro clearing volumes peaked in 2003 when 729,000 euro cheques were cleared. By 2009, only six years later, this volume had dropped by more than 50% to 351,000.

- US dollar cheques passing through the currency clearings in 2009 amounted to 57,000, a decline of over 25% in 12 months.
The central infrastructure

The C&CCC provides a centrally managed, distributed payment system infrastructure through third party suppliers. The company’s primary concern is to ensure that the infrastructure is secure, reliable and robust, and there are several layers of contingency within the central infrastructure to ensure that exchange and settlement take place on every clearing day.

**Exchange centres**

C&CCC contracts with third party service providers for the provision of a daily cheque and credit paper clearing exchange service for normal banking business days at secure premises. There are two exchange centres, one in central England and one in Scotland. The exchange centres are used by all three clearing systems: cheque clearing, credit clearing and euro clearing.
Data transfer network

The C&CCC’s central network infrastructure is called the Inter-Bank Data (IBDE) Exchange network. It allows the transfer of digital data on cheques and is provided by a telecoms supplier. It is a secure network to which only members of the cheque clearing system have access. Continuity of service is of paramount importance and, to ensure this, the network service provider monitors the performance of the network to each member’s end-point at intervals of a few minutes throughout the whole day. There is also a proactive fault management service.

All cheque data passing across the IBDE network or between members using the same outsourced processor must be encrypted. It must also be signed with a digital signature for authentication purposes so that the receiving bank can verify that the data has not been tampered with as it passed across the network. The encryption and authentication security sub-system is provided by a third party software supplier and is managed by the C&CCC.
**Settlement sub-system**

Members input their bilateral pay and charge figures onto a secure browser-based application, which is hosted by a third-party supplier, using internet connectivity. Reconciliation of the figures, to eliminate any discrepancies between the members’ calculations, is automated and after all the figures are agreed, the software calculates the multilateral net figures that must be paid to or received from each member bank.

The Settlement Service Provider (SSP) for the sterling clearings is the Bank of England and SWIFT messaging is used to transmit advice of the multilateral net settlement figures directly into RTGS (Real Time Gross Settlement System) at the Bank of England for final settlement.

The Bank of England pre-notifies the settlement obligation to the treasury department of each member bank so that they can make sure sufficient funds are available for settlement purposes.

The C&CCC is the SSP for the euro clearings, and SWIFT messaging is used to transmit advice of the multilateral net settlement figures to members’ treasury departments. An account at a commercial bank is used for the related settlement payments.

**Unpaid courier service**

The C&CCC provides, through a third party supplier, a dedicated courier service for the collection and delivery of unpaid cheques to members of the C&CCC and to members of the Belfast Bankers Clearing Company. Items to be returned are placed in uniquely numbered plastic bags, called polylopes. Bar code scanning of the polylopes takes place at each of the collection and delivery points around the UK and at the central hub. This enables the banks to track the progress of the unpaid cheques, rather like a recorded letter or parcel, as they are couriered, via the central hub, to their intended destination the next day.

The implementation of this service in November 2007 has meant that banks across the UK can be sure that they get back unpaid cheques on a timely basis so that they can meet the 2-4-6 cheque clearing timescales. Previously banks relied on the delivery of unpaid cheques by post.

*Scanning the polylopes at the central hub*

*Courtesy of TNT (UK) Ltd*
The bulk of the processing of cheques and credits is undertaken either prior to the exchange process (known as out-clearing) or afterwards (in-clearing), but not during the exchange process itself.

Since 1994, when the C&CCC amended its clearing rules, more and more members have outsourced their processing, either to specialist cheque processing organisations or to another member. The economies of scale offered by outsourcing has meant that members can reduce their processing costs and benefit from a more efficient system and the latest innovations using image technology.

One of the C&CCC’s priorities is making sure the clearing system is robust, reliable and secure. Its work on payments integrity examines any factors that might threaten the system’s reliability and the company has developed checks and controls that are designed to eliminate risk and prevent disruptions.

The C&CCC does not have a direct relationship with any outsourcers used by its members, so members have responsibility for managing the outsourcing firms they use and must ensure that these firms comply with the C&CCC’s checks and controls.

The only function outsourcers cannot do is to put up the funds for settlement. Settlement is a core banking function and only members are able to settle through the settlement service providers.

As with the central infrastructure, there are several layers of contingency within the cheque processing environment to ensure that exchange and settlement take place on every clearing day.
The Cheque Printer Accreditation Scheme (CPAS) was introduced in 1995 with the aim of tackling fraud involving company cheques. The scheme requires that all cheques for use in the clearing process in Great Britain are produced by accredited printers who have adopted stringent security standards. These measures have increased the security of cheque production by enabling these standards to be introduced more swiftly and economically across the industry. Members of CPAS are also accredited to print bank giro credits.

Members of CPAS receive a regular newsletter, ChequeMate, which keeps them up-to-date with the latest facts and figures, including fraud trends and technology developments. The C&CCC also produces a series of best practice guidelines for cheque printers and business users of cheques, which contain advice to help protect cheques from fraud and ensure the security and print quality of cheques. The newsletters and the guidelines can be downloaded from the cheque printers area of the C&CCC website.

CPAS members are also invited to attend the C&CCC’s seminars, which keep all stakeholders in touch with what is going on in the world of cheques and cheque clearing.
Membership of CPAS

Any security printing business may apply to become accredited under the scheme, provided it meets the membership criteria which are as follows:

- Certification to ISO27001 IEC27001-2005 (ISO27001). This is the only auditable international standard which defines the requirements for an Information Security Management System (ISMS). The standard is designed to ensure the selection of adequate and proportionate security controls. This certificate must be obtained prior to application to CPAS and the audit must be carried out by one of the certification bodies listed in Standard 55.

- Certification to C&CCC Standard 55. Used in conjunction with ISO 27001, this standard addresses the specific additional information security requirements of CPAS. Standard 55 can be purchased from the cheque printers area of the C&CCC website. The certification process for Standard 55 involves the printer’s premises and production methods being inspected by one of the certification bodies listed in the standard. During the inspection the printer must demonstrate at least one of the cheque printing processes listed in the CPAS rules.

Once accredited, the printer must enter into a legal agreement with the C&CCC and abide by the rules of the scheme.

Application for membership

Printing firms that want to apply for membership of CPAS can obtain an application form by emailing cpashelpdesk@chequeandcredit.co.uk. The application form contains details of the membership fee.

More information is available at www.chequeandcredit.co.uk/chequeprinters or by emailing cpashelpdesk@chequeandcredit.co.uk

Example of the Standard 55 Accreditation Certificate
Bank giro credits and the credit clearing process

Bank Giro Credits

Bank giro credits (BGCs) are used by customers to pay cash or cheques into a bank account. They are commonly found in the form of tear-off strips at the bottom of utility, telephone and other regular bills. A bank giro credit is basically a paper slip addressed to a bank branch instructing it to credit a specified sum of money to a named account at that branch. It bears the money mark logo next to the words “bank giro credit.”

A bank giro credit is not a payment instrument, i.e. it cannot be used on its own to make a payment, and must be accompanied by cash and/or cheque - so the use of bank giro credits tends to follow any trends in the use of cheques and cash as a method of payment.

You can use a bank giro credit to pay a bill in two ways:

- by post with a cheque;
- by paying the amount into a branch of the paying customer’s own bank with cash or cheque.
Bank giro credits can also be found in the back of chequebooks and are used by customers to pay cash or cheques into their own bank accounts. In addition, they are used by banks to collect donations for charity appeals such as Children in Need.

A joint giro credit is one that has been issued by a biller and it can be used to pay a bill either at a bank, in which case it will be cleared through the inter-bank credit clearing, or at a branch of the Post Office. The joint giro credit on the right is addressed to the Alliance & Leicester Commercial Bank and has the words “TRANSCASH” printed on it, as well as the words “bank giro credit” and the money mark logo.

History of the credit clearing

The credit transfer scheme was introduced by the clearing banks in 1961 and meant that, for the first time, it was possible for both customers and non-customers to make payments to an account at any bank. This was almost a decade before automated payments were introduced by the Bankers’ Automated Payments Service (now called Bacs) in 1969.

National Girobank had introduced an internal credit clearing system, which emulated the continental giro credit system, and the Committee of London Clearing Bankers implemented the credit clearing to match that innovation. In the early days of credit clearing, the principle credit clearing items were traders’ credits, dividend payments and mail order payments from catalogue agents. Dividend payouts peaked at the end of each financial quarter and extra staff were drafted in for adding machine listing duties in the credit clearing departments.

Clearing volumes grew rapidly during the 1970s, as mail order catalogues grew in popularity and agents would regularly pay in bank giro credits with cheques or cash as they processed the catalogue orders. The BGCS were returned to the billers by the banks, as they were needed for the account reconciliation process. These slips of paper also became conveyors of non-payment information, such as change of address details.

A major drawback in the early years was the lack of uniform paper credit clearing vouchers issued by the various banks. Each voucher was hand-written by the customer, which led to significant numbers of errors. These errors threatened the accuracy of the data (amount and account details) passing between the banks. It was much later that the format for bank giro credits was agreed by the banks, leading to the development and adoption of C&CCC standard 3.2. It took many years to rid the system entirely of handwritten vouchers and it was not until 1998 that they were finally banned. Since then all bank giro credits passing through the credit clearing must comply with design, layout and printing requirements of C&CCC standard 3.2.
As well as managing the cheque clearing after its establishment in 1985, the C&CCC also assumed responsibility for the credit clearing from this time.

Credit clearing volumes peaked in 1998 when the C&CCC cleared 178 million items. Volumes started declining in the following year, as a result of banks banning hand-written BGCs and no longer accepting non-customer transactions, i.e. those where the bank has no relationship with either the beneficiary of the bank giro credit payment or the paying customer.

Over ninety per cent of the items now going through the credit clearing process are for bill payments. Bank giro credits are generally paid in at the payer’s bank but, as more and more consumers move from cheques and cash to automated payments to settle their regular bills, we expect the decline in credit clearing to accelerate further. Since 2006 volumes have been declining at a rate of over 10 per cent per year.

The BGC standard

The C&CCC requires that all bank giro credits passing through the credit clearing system comply with the design, layout and printing requirements of C&CCC standard 3.2. CPAS accredited cheque printers can also print bank giro credits, and a number of companies who are members of the Bank Giro Credit Certification Scheme are certified to print the vouchers. This has led to improvements in the quality of the vouchers and has reduced processing errors. In practice, however, any company can print bank giro credits, provided they comply with the requirements of C&CCC standard 3.2. As a result many companies print them, which means that the quality of bank giro credits is much more difficult to control.

The credit clearing process

Bank giro credits are cleared and settled in much the same way as cheques, over a three-day period, and they use the same processing equipment and the same exchange centres. However, there is less automation - paper is exchanged but digital files are not - and the volumes are about one-tenth that of the cheque clearing volumes. Banks settle for the credit clearing through the Bank of England, as they do for the cheque clearing.
Euro cheques and the euro cheque clearing

Euro cheques

Euro-denominated cheques are issued by UK banks and can be used to pay for certain goods and services in the UK. The British euro cheque clearing system was established in 1999 to coincide with the launch of the euro.

Banks which offer customers euro-denominated cheque services generally do so as part of a UK/euro bank account. These cheques can only be used in the UK and when they are paid into euro bank accounts in Great Britain they are processed through the euro cheque clearing, which is managed by the C&CCC.

Euro cheques are used mostly by businesses and the volumes seen are very small. Annual clearing volumes for euro cheques peaked in 2003 at 729,000 and, since then, volumes have declined every year. They now total less than half a million each year.

A euro cheque
The euro cheque clearing process

The beneficiary pays the cheque into their bank account at their own bank which then passes it through the euro cheque clearing system to the drawer’s bank who, in turn, debits the funds from the drawer’s account. The 2-4-6 clearing timescales do not apply to euro cheques.

All euro cheques used in the British euro clearing must comply with the design, layout and print requirements of C&CCC standard 3 and must be printed by a CPAS accredited cheque printer.

Euro cheques are cleared in much the same way as sterling cheques, over a three-day period and they use the same processing equipment and the same exchange centres. However, as with bank giro credits, there is less automation – paper is exchanged, but digital files are not - and the volumes are very small, only totalling a few thousand per day. An account at a commercial bank is used for the related settlement payments.
The C&CCC values the relationship it has with the various stakeholders involved in the cheque clearing process, which include: cheque users; processors of cheques; hardware and software suppliers; infrastructure suppliers; cheque printers; banks that provide cheque clearing services; and regulators of the cheque clearing system.

The C&CCC’s website, www.chequeandcredit.co.uk, is home to a comprehensive range of information and data about cheques and cheque clearing, including: digital guides about the cheque clearing timescales and how to use cheques safely; various newsletters, C&CCC membership criteria; a section for cheque printers and answers to some of the questions most frequently asked about cheques and cheque clearing.

You will also find key findings from our annual research programme to help understand why consumers and businesses use cheques and whether businesses try to influence how their customers pay them. The research also helps us to assess the effect of our education initiatives, enabling us to find out how well consumers and businesses understand the cheque clearing timescales.
# The cheque timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1659</td>
<td>Date of the earliest known surviving English cheque</td>
</tr>
<tr>
<td>1694</td>
<td>First meeting of the Bank of England</td>
</tr>
<tr>
<td>1704</td>
<td>The first Act defining the status of bills of exchange and promissory notes in law</td>
</tr>
<tr>
<td>1705</td>
<td>Earliest known surviving cheque drawn on a country banker; Thomas Smith of Nottingham (a past constituent of National Westminster Bank, which is now part of The Royal Bank of Scotland Group)</td>
</tr>
<tr>
<td>1706</td>
<td>Act providing for Bills of Exchange to have two counterfoils</td>
</tr>
<tr>
<td>1717</td>
<td>Bank of England introduce printed cheques</td>
</tr>
<tr>
<td>1759</td>
<td>Earliest known surviving cheque on a printed form drawn on Vere Glyn &amp; Hallifax</td>
</tr>
<tr>
<td>1760s</td>
<td>Bank of England cheque forms made compulsory for its customers</td>
</tr>
<tr>
<td>1768</td>
<td>Boldero Carter Barnston &amp; Snaith issue coloured cheques</td>
</tr>
<tr>
<td>1770</td>
<td>Daily cheque clearings formalised among private London bankers</td>
</tr>
<tr>
<td>1773</td>
<td>Cheque exchange established in London</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>1782</td>
<td>First act to impose a tax on all cheques made out “to order”</td>
</tr>
<tr>
<td>1790</td>
<td>Earliest known printed cheque not drawn on London, issued by Cobb &amp; Co of Margate (after 1891 part of Lloyds)</td>
</tr>
<tr>
<td>1805</td>
<td>Clearing of items drawn within London moved to premises in Lombard Street</td>
</tr>
<tr>
<td>1811</td>
<td>Earliest known personalised cheque drawn by John Thom on the Commercial Bank of Scotland (a past constituent bank of The Royal Bank of Scotland Group)</td>
</tr>
<tr>
<td>1821</td>
<td>Committee of bankers formed to regulate clearings in London</td>
</tr>
<tr>
<td>1830</td>
<td>Bank of England introduce books of 50, 100 or 200 forms and counterparts, bound or stitched</td>
</tr>
<tr>
<td>1833</td>
<td>First clearing house built in Lombard Street, London</td>
</tr>
<tr>
<td>1854</td>
<td>Joint-stock banks admitted to the clearing</td>
</tr>
<tr>
<td>1854</td>
<td>Settlement in cash replaced by settlement across accounts held at the Bank of England using cheques drawn on the Bank</td>
</tr>
<tr>
<td>1858</td>
<td>Country clearing established; 1d stamp duty applicable to all cheques</td>
</tr>
<tr>
<td>1864</td>
<td>Bank of England admitted to the clearing</td>
</tr>
<tr>
<td>1865</td>
<td>Edinburgh clearing house opened</td>
</tr>
<tr>
<td>1882</td>
<td>Bills of Exchange Act</td>
</tr>
<tr>
<td>1907</td>
<td>Metropolitan clearing established</td>
</tr>
<tr>
<td>1918</td>
<td>Stamp duty on cheques doubled from 1d to 2d</td>
</tr>
<tr>
<td>1939</td>
<td>Clearing transferred to Stoke-on-Trent due to World War II</td>
</tr>
<tr>
<td>1946</td>
<td>Clearing transferred back to Lombard Street</td>
</tr>
<tr>
<td>1957</td>
<td>Cheques Act published</td>
</tr>
<tr>
<td>1959</td>
<td>E13B standard for MICR agreed and patented in the USA</td>
</tr>
<tr>
<td>1960</td>
<td>First reader/sorter demonstrated to Committee of London Clearing Bankers</td>
</tr>
<tr>
<td>1961</td>
<td>Credit clearing established</td>
</tr>
<tr>
<td>1962</td>
<td>First MICR reader/sorter system in Europe opened at the Westminster Bank, Lothbury Head Office</td>
</tr>
<tr>
<td>1965</td>
<td>First cheque card issued by National Provincial Bank allowing cheques to be cashed at its branches (and those of its constituent banks up to the value of £20 per day)</td>
</tr>
<tr>
<td>1966</td>
<td>First credit card, Barclaycard, introduced in the UK</td>
</tr>
<tr>
<td>1966</td>
<td>First cheque cards issued guaranteeing encashment of cheques and payment by cheque for goods and services up to a value of £30 per cheque</td>
</tr>
<tr>
<td>1969</td>
<td>UK Domestic Cheque Guarantee Card Scheme introduced</td>
</tr>
</tbody>
</table>
1969/70  Mergers and acquisitions reduced the number of clearing banks to six: Barclays Bank, Coutts & Co, Lloyds Bank, Midland Bank, National Westminster Bank and Williams & Glyn’s

1971  Stamp duty on cheques abolished

1971  Decimalisation

1973  Clearing processes exempted from three-day week restrictions

1977  £50 cheque guarantee card limit introduced

1984  Child Report - Review of Organisation, Membership & Control of Payment Clearing systems - published

1984  Liverpool Local Exchange discontinued

1985  APACS and the Cheque & Credit Clearing Company Ltd established

1985  General clearing renamed the cheque clearing

1985  Royal Bank of Scotland fully merged with Williams & Glyn’s and became a member of the clearing

1986  Bank of Scotland joined the clearing

1987  First debit card, Connect, introduced in the UK by Barclays Bank

1988  Abbey National joined the clearing

1989  £100 and £250 cheque guarantee card limits introduced

1989  First telephone-only bank, First Direct launched

1990  Peak year for cheque volumes

1990  William Shakespeare image (logo/hologram) appear on all cheque guarantee cards

1991  First edition of The Banking Code

1991  Nationwide Building Society joined the clearing

1992  Cheques Act and Account Payee crossing regulations

1992  The Banking Code took effect

1994  London Exchange Centre moved from Lombard Street to Goodman’s Fields in the East End of London

1995  Introduction of the Cheque Printer Accreditation Scheme (CPAS)

1995  Barclays Bank launched first banking website

1995  Nationwide Building Society joined the clearing

1995  Town clearing closed

1995  Lloyds Bank introduced left-handed chequebooks

1995 - Lloyds Bank introduced left-handed chequebooks

1995  Lloyds Bank and TSB merged

1996  Deregulation (Bills of Exchange) Order to allow collecting bank truncation (non-presentation of paper)
1996  Banks began to exchange data as well as paper – Inter-Bank Data Exchange (IBDE)
1996  Scottish cheque clearing with Scottish Exchange came under the responsibility of the C&CCC
1997  First internet banking service introduced by Nationwide Building Society
1998  IBDE extended to banks in Scotland
1999  Launch of euro and opening of the euro cheque clearing
1999  Midland Bank acquired by HSBC Bank
2000  Number of Direct Debits exceeded cheques for the first time
2000  Retirement of the last APACS Chief Inspector
2000  National Westminster Bank and The Royal Bank of Scotland merged
2001  Bank of Scotland and Halifax Bank merged to form HBOS
2002  C&CCC gained independence from APACS
2003  London Exchange moved from Goodman’s Fields to Milton Keynes – London exchange renamed the English Exchange
2004  Abbey National acquired by Banco Santander
2005  Shell stopped accepting cheques – the first major retailer to do so
2006  Office of Fair Trading report requiring certainty of fate – responsibility for unpaid cheques passed from British Bankers Association to the C&CCC
2007  Cheque volumes in double digit decline for the first time
2007  Unpaids courier service implemented
2007  2-4-6 changes introduced to cheque clearing timescales giving customers certainty on cheque funds for the very first time
2007  C&CCC moved from Livingstone House to Triton Court, both in Finsbury Square, London, EC2
2007  www.chequeandcredit.co.uk went live
2007  Payments Council established - a new body to set strategic direction for the UK payments industry
2008  Most major retailers stopped accepting cheques
2008  Faster Payments Service introduced for online, phone and standing order payments
2008  Payments Council published National Payments Plan suggesting active management of the decline of the cheque is required with a possible closure of the cheque clearing
2008  Alliance & Leicester acquired by Banco Santander
2009  Lloyds TSB Bank acquired HBOS
2009  All IBDE cheque data files encrypted
2009  New settlement sub-system using SWIFT messaging implemented
2009  Bank of Scotland withdrew from membership of the clearings, becoming an agency of Lloyds TSB Bank.
2009  Payments Council set 31st October 2018 as the target date for closing the cheque clearing
2010  C&CCC moved from Finsbury Square to 2 Thomas More Square, E1W 1YN and marked its 25th anniversary on 21st November

The cheque timeline
Sources

- A collector’s guide to British cheques, D Shaw 1986
- The Bank of England Museum
- Banks and Banking in England, R Gibson-Jarvie 1979
- The Bank of England I 1694-1797 by Sir John Clapham 1944
- The Banker, number 238, November 1945
- The Bankers’ Clearing House – What it is and what it does, PW Matthews 1921
- Bills of Exchange & Cheques made easy, JE Almond 1938
- The Chartered Institute of Taxation
- Cheques, their origin and development, CF Hannaford 1923
- E W Stubbs former Clearing House Chief Inspector
- EDS Clearing Services
- The Encyclopaedia Britannica
- F D Galbraith, former Company Manager at the C&CCC
- Guildhall Library catalogue
- Hansard Archives
- International Genealogical Index
- iPSL Ltd
- L W Shed, former Operations Manager at the C&CCC
- Lloyds Banking Group Archives
- The London Clearing Banks E Nevin, EW Davis 1970
- The Museum of London
- Payments Council’s UK Payment Statistics – current edition
- P Farley, Solchar Ltd
- P M Rowe, the last APACS Chief Inspector
- The Royal Bank of Scotland Group Archives
- The Royal Bank of Scotland Review 1987
- The Royal Mint
- Technology & Natwest (in-house publication)
- The Three Banks Review no 146 1985
- The Times newspaper archives
- TNT (UK) Limited
- The Trustees of the British Museum
- The Trustees of the National Museum of Scotland

And with thanks to all our colleagues from the member organisations, the company and UK Payments who have suggested topics, commented on drafts, and provided pictures.

© 2011 Cheque and Credit Clearing Company