

30th January 2014

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Business Finance and Tax
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Dear Sirs

C&CCC RESPONSE TO BIS CONSULTATION "BUILDING A RESPONSIBLE PAYMENT CULTURE"

The Cheque and Credit Clearing Company ("the C&CCC") welcomes the opportunity to respond to the BIS consultation "Building a Responsible Payments Culture". We share the Department's view that the issue of late payments to small businesses should be addressed through non-legislative changes to the practices and culture of payments, and are supportive of raising awareness of the Prompt Payment Code at the very least.

About the Cheque and Credit Clearing Company

The Cheque and Credit Clearing Company is a membership-based industry body which manages the cheque and credit clearing systems in Great Britain. The Company 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. These include the exchange centres, the network for the transfer of electronic cheque data, and an automated settlement system. It also includes a courier service for the return of unpaid cheques to the collecting bank;
- 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 company objectives are to:

- maintain the integrity of the clearings in a declining market, responding proactively to changes in the business and regulatory environments;
- facilitate innovation in the clearing process that delivers improvement in efficiency or an improvement in the customer proposition;
- maintain a trusted centre of excellence and experience in the cheque and credit clearings, providing thought leadership on cheques to the payments industry.

We have a programme of on-going proactive stakeholder engagement and communications and we hold regular forum events to enable us to engage directly with users of cheques and with those who work in the cheque clearing industry; to find out more about what we do in this area please visit our website (www.chequeandcredit.co.uk).

Response

As the focus of the consultation is about payments culture rather than payments, which is our area of expertise, we do not intend to respond on the questions you pose but we do have knowledge of the use of and attitudes of small and medium sized businesses towards cheques and we would like to draw to your attention recent innovations and to work we are currently undertaking in the area of innovative cheque image technology, all of which improves the use of the cheque as a payment method.

Market Research

2014 will be the 7th consecutive year of research among businesses into their use of and attitudes towards cheques. Our survey is across a range of UK business including small and medium sized businesses (SMEs) (though businesses with turnover of less than £50,000 per year are not covered by our survey).

In 2013 survey we found that:

- In the financial year ending 31 March 2013, 71% of SMEs made at least one payment by cheque, and 73% received at least one payment by cheque.
- The most common use of cheques by such businesses is for making trade payments, with 75% of those writing cheques doing so for this purpose.
- Around 26% of all businesses that wrote cheques stated that using cheques makes it easier to manage cash flow and 9% said they used cheques because money comes out of their account more slowly than other methods. In both instances use of the cheque might appear to contribute to the late payment culture though it also interesting to find that both these reasons have been cited less every year since the peak of the credit crunch in 2008 and 2009.

There is more detail on our research under the Resource area on our website at http://www.chequeandcredit.co.uk/resources/market_research/



Initiatives and Innovations

The C&CCC has a good record of achievement and innovation. In 2007 we implemented the 2-4-6 customer promise for cheque beneficiaries and, in 2013, our most recent innovation for the benefit of customers, was the introduction of the Cheque Redirection Service as part of the new Current Account Switching Service. The C&CCC has also been looking at ways of keeping cheque processing systems as efficient as possible when the number of cheques being used continues its long-term decline.

2-4-6 timescales for beneficiary customers

For this major project the C&CCC worked closely with OFT Payments Systems Task Force to deliver in November 2007, on time and within budget, a complex and innovative programme of changes to improve greatly the cheque beneficiary customer proposition. The 2-4-6 timescales set a maximum time limit of two, four and six working days for each stage after paying in a cheque to a current or basic bank account. For customers it means that for the first time after paying in a cheque they can be sure at the end of six working days that the money is theirs. After this point, the 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. These timescales are maximum timescales for when customers will start earning interest on the money paid into their accounts and when it will be available for withdrawal. Individual banks may compete on when they will pay interest or allow funds from the cheque paid in to be withdrawn. These timescale changes have made the cheque a more certain payment method for beneficiaries, including small and medium sized businesses for whom this is an important payment method.

The C&CCC had a positive relationship with the OFT Task Force in which we were able to use our unique position to provide detailed cheque and credit knowledge to the process, to ensure that the Task Force successfully met its objectives, whilst at the time maintaining the integrity of the Clearings, one of our core objectives.

Cheque Redirection Service

The new Current Account Switch Service was launched by the Payments Council in September 2013. A key benefit of the Current Account Switch Service is the promise that any payments made to the old account will be redirected to the new account for 13 months after the switch takes place.

For cheque payments this means those issued on the old account, but presented after the old account has closed due to someone switching, will be redirected via the beneficiary's bank to the new bank to make the pay/no pay decision. The 2-4-6 timescales for the beneficiary of the switched account cheque will still be met but will need to start again when the beneficiary's bank redirects the switched account cheque to the new bank. The Cheque Redirection Service is thus of benefit both to the switching customer, who does not need to be concerned about cheques written but not presented before the switch, and to the beneficiary of a cheque, as s/he does not need to ask the payer for another cheque as a result of the cheque being returned unpaid "account closed", as happened before the new service was introduced.



Cheque Imaging

Extensive research has recently been undertaken by the C&CCC into processing efficiencies which has included looking at cheque clearance processes in other countries. One of the options being considered by the C&CCC Board is improving the current process by the increased use of images, whilst also removing the need for the exchange of paper: a move which would also speed up how long it takes for a cheque to clear. This has involved learning lessons from countries like America and China which already have such a system.

As a first step, changes need to be made to cheque legislation and to this ends we have been working with HM Treasury who are currently considering the changes required¹, so that a 'cheque imaging system' could be created to allow cheques, that have been scanned providing digital copies, to be sent electronically between banks. These changes would be good news for customers as it not only ensures that customers can carry on using cheques for as long as they want, but it should also reduce the time taken to process cheques. From a business perspective, payers would not be able rely on the cash-flow effect of using cheques, so this change could help contribute to a more responsible payments culture.

Conclusion

If would like to come to any of our stakeholder events to find out more about what we do, please ask to be put on our invitation list at info@chequeandcredit.co.uk .

We have been pleased to respond to this consultation and if there is any further information we can provide, please do not hesitate to get in touch.

Yours faithfully

Angela Thomas
Managing Director, C&CCC

¹ <https://www.gov.uk/government/news/new-proposals-to-make-cheque-depositing-easier-and-quicker-to-be-unveiled>