

30th May 2014

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Dear Sirs

CMA MARKET STUDY OF THE UK PERSONAL CURRENT ACCOUNT MARKET

The Cheque and Credit Clearing Company (C&CCC) is pleased to respond to the Competition and Market Authority's (CMA) market study of the UK's personal current account market. Our response will be relevant for the market study into banking for small and medium sized enterprises (SMEs) as well.

The C&CCC is a membership-based industry body funded by its members which manages the cheque and credit clearing system 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 consumers, via Financial Institutions, with the central payment system services for the exchange and settlement of cheques and credits. These services are underpinned by payments infrastructure including 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 and building societies that offer cheque clearing services, cheque processors, cheque printers and other suppliers, as well as regulators, trade associations and other payment schemes.



The overall objectives of the Company are to:-

- maintain the integrity and sustainability of the clearings which have been operating in a declining market for some time,
- respond proactively to changes in the business and regulatory environments;
- facilitate innovation in the clearing process in order to deliver improvement in the customer proposition and, equally important, improvements in industry efficiency; and
- maintain a trusted centre of excellence, experience and expertise in the cheque and credit clearings.

Since 1985 the C&CCC has provided a cheque and credit clearing service to customers who use cheques, whether as the recipient or issuer. Whilst cheque usage has been in decline since 1990 they remain a small but important part of the current account offering so it is vital that cheques are a safe, efficient and reliable payment option. It is our role to ensure that customers can be confident that they are.

Current Account Switch Service – a competition enabler

The Current Account Switch Service (CASS) was launched by the Payments Council in September 2013 and is managed by Bacs Payment Schemes Ltd. Making it easier for customers to switch accounts should help to drive competition in the market for current accounts as banks and building societies respond to the threat of switching by offering better deals.

The C&CCC is pleased to be a part of this service. A key benefit of CASS is the promise that any payments made to and from 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 account has been switched, will be redirected via the beneficiary's bank to the new bank to make the pay/no pay decision. The Cheque Redirection Service is thus of benefit both to the switching customer, who has written the cheque, and to the beneficiary of the cheque, as s/he does not need to ask the payer for a new cheque.

Payment Systems Regulator

The C&CCC welcomes the establishment of the new Payments Systems Regulator with its focus on promoting effective **competition** in the markets for payment systems and the services they provide, promoting development and **innovation** in payment systems and ensuring payment systems are operated and developed in a way that takes account of and promotes **the interests of service users**. We are looking forward to working with the



regulator on some of the early objectives where we are already making good progress – facilitating innovation in cheques and access to the clearings.

Innovation in cheques: Cheque Imaging

In December 2013, the C&CCC Board reached an important milestone decision. It agreed to adopt, as its strategy, a future clearing model which would deliver its overall objectives utilising an image based processing system, replacing the current, largely paper based, approach.

Customers will write paper cheques for payments as they do now and they will also be able to pay in at a branch counter just as they do now, should they choose, but the new process will have two key benefits for customers:

- it will allow a reduction in clearing times so that customers will be able to withdraw the money paid in sooner; and
- it will enable banks to compete to develop image-based apps for Smart phones, on-line banking and for other technologies so that customers will have more choice and greater convenience for paying in cheques if they choose. Where banks offer these new products, customers will be able to take a photograph of the cheque on their mobile phone/tablet using a secure app. and then transfer the image to their bank for processing.

Two key priorities in the development of a new image based cheque and credit processing model are to ensure that the opportunity for fraud does not increase (and if possible is decreased) and that settlement risk is reduced and, if possible, eliminated. These priorities are important to maintain the integrity of the clearing system, which in turn is important for participants in the clearings and customers, who will continue to be protected from fraud, as they are now.

We see the new image based clearing model, which is a C&CCC Board initiative, providing sustainability for cheques for as long as customers wish to use them, as well as enabling further innovation to take account of technological developments as they occur.

Access to Payment Systems

New entrants to the market will be important for promoting competition. It is important for new entrants to gain access to the payment systems.

Direct Access: The C&CCC welcomes enquiries about membership which gives direct access to the clearing system. Our eligibility criteria are the minimum and necessary to protect the integrity of the system; they are fair and objective. We publish them on our website at http://www.chequeandcredit.co.uk/about_us_and_our_members/eligibility_criteria/ together with information about the benefits of joining, membership costs and how to apply.



Indirect Access: However, financial institutions do not need to have direct access to clearings to be able to clear cheques to the same timescales. Some 350 banks, building societies and other payment service providers, such as authorised payment institutions, choose to have access to the GB cheque clearings through agency arrangements with one of the settlement members. To be eligible to be an agency with indirect access to the GB cheque clearings, an entity must fulfil a number of criteria. These too are set out on our website at http://www.chequeandcredit.co.uk/about_us_and_our_members/eligibility_criteria/-/page/2882/

Open Access with the Future Clearing Model and more choice for Challenger Banks: In order to assist new entrants to gain access to the clearing system, the Board's strategy is to develop an image based future clearing model that will offer **direct and indirect participation for processing access** to the clearing system in addition to **direct and indirect settlement membership** options. This will be an innovation.

Our eligibility criteria for participation will continue to be objective, open and transparent and the minimum necessary to maintain the overall integrity of the system. Where possible, requirements will be proportionate to the level of participation and membership being sought.

The aim is to design a model that is both cost effective and simple through enabling a more open approach to connectivity and transferable sort codes.

All of these developments will make it easier for new entrants to the banking market to offer attractive cheque payment propositions to customers with their current account offerings.

Conclusion

We have been pleased to respond to this market study and we would be very happy to provide you with a briefing on the future clearing model if that would be of assistance in your deliberations.

Yours faithfully

Angela Thomas

Managing Director, C&CCC