



House of Commons Treasury Committee

The future of cheques

Eighteenth Report of Session 2010–12

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The Treasury Committee

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Mr Chuka Umunna MP (*Labour, Streatham*) was also a member of the Committee during the inquiry.

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The current staff of the Committee are Chris Stanton (Clerk), David Slater (Second Clerk), Jay Sheth, Peter Stam and Daniel Fairhead (Committee Specialists), Phil Jones (Senior Committee Assistant), Caroline McElwee (Committee Assistant), Steve Price (Committee Support Assistant) and Nick Davies (Media Officer).

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Contents

Report	Page
Summary	3
1 Introduction	5
Our inquiry	5
The Payments Council	6
2 The former cheque replacement programme	7
The use of cheques	7
Mixed messages to customers	8
Closure of cheque guarantee card scheme	10
3 The arguments used for and against the abolition of cheques	12
Payments Council work on costs and benefits	12
What people value about cheques	13
4 Cheques in the future	15
New payment systems	15
Dual authorisation	15
Abandonment of proposed paper-based alternative to cheques	16
Should the future of cheques be in the hands of the Payments Council?	17
Conclusions and recommendations	20
Appendix	22
Letter of 14 June 2011 from Mark Hoban MP, Financial Secretary to the Treasury, to Andrew Tyrie MP, Chairman of the Treasury Committee	
Formal Minutes	24
Witnesses	25
List of printed written evidence	25
List of additional written evidence	25
List of Reports from the Committee during the current Parliament	28

Summary

In December 2009 the Payments Council set a target date of 2018 for the abolition of cheques. This was a response to a decline in cheque use, but was a decision taken without an assessment of the costs and benefits, or an indication of what alternatives to cheques would be put in place. This caused great and unnecessary concern among bank customers, especially those who depend on being able to use cheques.

On 12 July 2011 the Payments Council withdrew its plans and undertook to maintain the cheque system indefinitely. This was a welcome, though belated, acknowledgement that the Council's plans did not have the confidence or support of the public, Parliament or the Government.

The Payments Council accepts that its original decision to set a target date for cheque abolition was poorly communicated. Worse, the banks have on occasion given the impression to their customers that the end of cheques was a foregone conclusion. The separate and regrettable abolition of the cheque guarantee card reinforced this impression, caused fewer businesses to accept cheques, and provided no consumer benefit. The Payments Council must ensure that banks do not in the future attempt to abandon cheques by stealth, or deter customers from using cheques.

The Payments Council and its members will now concentrate on improving the processing of cheques behind the scenes. This may make the cheque clearing system cheaper to operate, but it must also provide benefits to customers by reducing the delays and uncertainty that affect cheque payments.

The Payments Council is dominated by the banks and other payments industry members. The composition of its Board must change in order significantly to strengthen the voice of consumers among the independent members. In addition, any two of the four independent members, rather than all of them as at present, should have the right of veto over a decision of the Council.

The Payments Council is an industry-dominated body with no effective public accountability. It should not have unfettered power to take decisions on matters, such as the future of cheques, that are of vital personal importance to millions of people. The Treasury should make provision in the forthcoming Financial Services Bill to bring the Council formally within the system of financial regulation.

The Treasury should also confirm whether the current Draft Financial Services Bill contains the powers that would allow the new Financial Conduct Authority to intervene to protect bank customers by preventing cheques being withdrawn. If not, we recommend that the Government consider inserting such provisions in the forthcoming Bill.

The attempt to abolish cheques has demonstrated the lack of transparency in retail banking, which restricts the exercise of consumer choice. Improving consumer choice will require more competition in the sector, while the payments system must also be capable of taking advantage of innovation in the consumer interest. The Treasury must respond

4 The future of cheques

positively to the recommendations of the Independent Commission on Banking and of this Committee that the FCA have a primary duty to promote competition.

1 Introduction

Our inquiry

1. In December 2009, the Payments Council Board decided to set a target date of 2018 for closing cheque clearing, which would have caused cheques as individuals and businesses know them today to disappear. As a consequence of this decision, the previous Treasury Committee took oral evidence from the Payments Council on the future of cheques in March 2010. When we decided earlier this year to look again at the subject, we soon discovered that concern among public and consumer groups was very strong. We received more than 1,200 letters and emails from members of the public in response to our request for views, far more than we normally receive for an inquiry. We have read and analysed the correspondence to us, and some of it is published with this report. We are extremely grateful to all those individuals and organisations who took the trouble to write to us on this subject. The Committee heard oral evidence from the Payments Council on 15 June 2011.
2. The Committee inquiry led to a reversal of policy on the part of the Payments Council. On 12 July 2011, it announced its decision to abandon the target to close cheque clearing in 2018, and told us that cheques would continue indefinitely.¹
3. The Chairman of the Payments Council, Mr Richard North, wrote to the Chairman of the Committee to explain the decision:

As you are aware, the Payments Council has undertaken a very thorough consultation on the future of cheques. We have met over 600 different stakeholder organisations, including many representing the vulnerable, as well as giving evidence to the Treasury Committee on two separate occasions. It has become clear through this process that many people wish to keep the cheque. While we had originally planned to make announcements on a paper-based alternative by the end of 2011, it is now evident that this is not the best way forward, so the cheque clearing system will remain open.

We will continue to focus on our critical role of encouraging innovation in payments, so that the options available can continue to suit all customers in the future. As part of this, we will look at ways in which the cheque itself can be improved, by considering radical changes to the clearing process.

May I say that the Payments Council is very grateful to you and the Committee for the contribution you have made and your rigorous scrutiny of this project over the last 18 months. Your interest has been most helpful in leading the Board to reach the right conclusion on this matter. This should now put many minds at rest, knowing

¹ Payments Council Press release, *Payments Council to keep Cheques and cancels 2018 Target*, 12 July 2011; letter from Payments Council to the Chairman of Treasury Committee, 12 July 2011

the cheque is here to stay, and that any improvements to be made will concentrate on the “behind the scenes” processing.²

4. We welcome the fact that the Payments Council has, albeit belatedly, responded to the views of the public, Parliament and the Government by withdrawing its plans for the abolition of cheques.

5. Although the Payments Council no longer plans to abolish cheques, our inquiry has led us to consider whether regulation in this area, the role of the banks and the future of the Payments Council itself need to be reviewed.

The Payments Council

6. The Payments Council was created in 2007 with three core objectives:

- to have a strategic vision for payments and lead the future development of co-operative payment services in the UK;
- to ensure payment systems are open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

It is a voluntary membership organisation, with 30 members from the banking and payments industries. Its Board has 15 voting directors, an independent Chairman and a Bank of England observer. Eleven of the 15 are industry-appointed directors. There are four independent directors who, if they vote together, can veto a decision. However, only one of the four independent directors has a consumer background.

2 The former cheque replacement programme

The use of cheques

7. The use of cheques has fallen by 70% since its peak in 1990.³ This decline has both demand and supply drivers. As well as more people choosing to make use of obvious alternatives such as debit and credit cards and Direct Debit, supermarkets have in recent years decided no longer to accept cheques at all, and utilities will often give discounts to Direct Debit customers that are not available to those paying by cheque. In addition, many banks, including several of the largest high street banks, no longer automatically send customers cheque books; they have to be ordered by customers.

8. The Payments Council told us that an external consultancy had forecast that cheque volumes would fall by a further 40% by 2016.⁴ However the use of cheques, though declining, is still large. Businesses wrote 493 million cheques in 2010. For businesses, cheques are the second most common method of making a payment after electronic credit. Individual customers wrote 620 million cheques in 2010. Among the users of cheques are many who currently have few or no satisfactory alternatives to using them.

9. The Council's decision in 2009 to set a target date for the end of cheque clearing was taken against the background of this decline in the use of cheques. The Council explained its decision as follows:

The Payments Council was faced with the choice of either managing this decline or leaving it to happen over time. On 16 December 2009, having consulted widely and assessed all the evidence, the Board decided that setting a target date for closing the cheque clearing in 2018 was the best way of ensuring that viable alternatives for those who use cheques would be available by that time. The Board felt that if cheque decline was not managed, not only could it result in confusion, if some institutions withdrew cheque facilities, but it could lead to increasing disadvantage for those consumers who are at present largely dependent upon cheques and are least equipped to change of their own volition.

The Board also took account of the impact on overall economic efficiency which a move from cheques to more efficient payment mechanisms would bring. We believe that there will also be substantial value delivered to users through the uptake of alternatives, not only in the provision of more efficient methods of payment but also that customers will benefit from cost savings to banks and businesses via competitive pressures. Our research has shown that users are amenable to cheque replacements provided that they are offered accessible alternatives which meet their needs. There will also be significant on-going cost savings across the economy, especially for

³ Ev 17

⁴ Q 37

business and the public sector. Our broad estimate is that these could amount to £750 million in 2018. As for the banks, their saving is somewhat smaller and we estimate that it will be around £200 million in 2018.⁵

10. The Council told us that the objectives of the cheque replacement programme were to protect vulnerable groups from an unmanaged decline in the use and acceptance of cheques, to provide information and assistance to customers to ensure that they were aware of the payment options available to them, and to spur innovation and improvements to existing services.⁶

11. The Payments Council told the previous Treasury Committee in 2010 that:

closure in 2018 is by no means a foregone conclusion; there are several key milestones that must be achieved before a closure can be confirmed. There will be regular reviews of progress by the Board and major reviews will occur in 2014 and 2016.⁷

Mixed messages to customers

12. Before it abandoned the cheque replacement programme, the Payments Council gave an undertaking on behalf of its members that no decision would be taken to abolish cheques before 2016. The Chairman of the Payments Council told us that:

We have not made the decision to abolish cheques. That decision will not be made until 2016 at the very earliest, and it will only be made in 2016 if two tests are met: first and foremost, that there are alternative payment systems in place that are acceptable and have been widely adopted by all user groups, and by “user groups” I mean charities or schools or the elderly. That test has to be met. If that test is met, we then look to see if there is a cost-benefit analysis case also for abolishing cheques. Those two tests have to be met. The decision is not going to be looked at until 2016.⁸

13. However conflicting messages appear to have been given on occasion to bank customers. This led to confusion and great concern, and fuelled the belief among some members of the public that cheques would definitely be abolished. Which? told us that some banks no longer issue chequebooks.⁹ The Charity Finance Directors’ Group said that many charities had been told by their banks that cheque withdrawal was “definitely going ahead in 2018”.¹⁰ We raised a specific example with the Payments Council, a Bank Mandate Form that Barclays sent in June 2011 to a shareholder attaching a dividend cheque. It states:

5 HC 477 (2009–10), Ev 49

6 Ev 21

7 HC 477 (2009–10), Ev 50

8 Q 21

9 Ev w65 [Note: references to ‘Ev wXX’ are references to written evidence published in the volume of additional written evidence published on the Committee’s website]

10 Ev w69

Prepare for the future—have your dividends paid direct to your bank account

Cheques are going to become a thing of the past. To make sure that you are ready, you can choose now to have your dividends paid direct to your bank account. [...] [our emphasis].

The Chairman of the Payments Council was “shocked and surprised” at such a message being sent to customers, which he could only explain as being “the right hand not knowing what the left hand is doing in a very large organisation”. He undertook to go back to the banks to ask them to give a consistent message on the future of cheques.¹¹ The Deputy Chief Executive of UK Retail Banking at Barclays subsequently wrote to us to explain the wording of the form:

Having looked into and identified the document to which you were referring, I am able to clarify that it is a mandate form for Barclays shareholders to encourage them to receive their dividend payments via direct credit to their bank account rather than through a cheque, which we believe will be more convenient for a large proportion of our shareholders. Clearly, we will continue to send dividend cheques to those shareholders who would like to receive their payments in that way. However, I accept that the existing wording on the mandate may send the wrong message to our shareholders and we would wish to avoid that. I thought you would like to know that this will be amended for future shareholder mandate forms.

I felt I should reiterate Barclays position on cheques, which I set out in my letter to you dated 14th June. As I explained, Barclays is committed to working with the industry to find alternatives to cheques that our customers value but we will continue to accept and issue cheques beyond 2018 should the criteria laid out by the Payments Council not be met.

I hope that this clarifies our position with regard to cheques.¹²

14. It is not only banks that gave incorrect information to consumers. One correspondent, Mr John Osborne, told us that his local council had circulated a guide to council tax that stated that “The Bank of England has announced cheques are to be phased out by 2018”.¹³

15. The Financial Secretary to the Treasury told us of his dissatisfaction with the way that the original announcement of a target date for the closure of cheque clearing was handled by the Payments Council:

Regrettably, the announcement was made without an assessment of the costs and benefits, or a plan or timetable for managing the process, or an indication of what alternative payment instruments might need to be created. These things are only now being developed. The result has been to create a great deal of uncertainty and alarm across the country, particularly among those for whom other existing forms of

¹¹ Qq 42–46

¹² Ev w115

¹³ Ev w3

payment may be unsuitable—elderly or housebound people, schools, clubs and charities, rural communities, small businesses, and others.¹⁴

16. The Payments Council told us when it appeared before us that it still believed that its approach had been right, but admitted that “the presentation has not been good”.¹⁵ The Chairman of the Council said:

I regret that we have failed to get our message across, and that has created, as is rightly said, concern.¹⁶

That concern has now been recognised by the decision of the Council to retain cheques.

17. Because of our concern at the banks’ behaviour, we have asked them to review the various documents that they have issued to customers since the decision of the Payments Council in December 2009 to set a target date for the closure of cheque clearing, and to send us copies of any examples that did not accord with their assurances to the Payments Council that cheques would continue unless and until the criteria laid down by the Council had been met.

Closure of cheque guarantee card scheme

18. The Payments Council announced in June 2009, before the decision to set a target date closing cheque clearing, that the cheque guarantee system would end on 30 June 2011. The Payments Council wished to stress to us that “the two things are separate and there were separate cases made”.¹⁷ The Council believed that the decline in the use of the guarantee (a fall of a third in 2008 alone) and in the number of retailers accepting it meant that:

if co-ordinated action was not taken then there was an increasing risk of guaranteed cheques being refused in yet more situations and banks removing the functionality in their own individual timescales increasing the risk of confusion, processing errors and fraud.¹⁸

The Council felt that “it would be better for all concerned to manage the decline and closure of the scheme in an orderly fashion rather than a disorderly collapse”.¹⁹

19. There were concerns among witnesses about this decision. Which? suspected that “removing the CGS will further affect consumers’ ability to use cheques and force them into different payment methods even if they are not willing or able to use these yet”.²⁰ Age UK voiced three concerns: “the message it sends about the eventual abolition of cheques; the impact on traders’ willingness to accept cheques; and how the closure is handled by

14 The full text of the Financial Secretary’s letter is reproduced in the Appendix to this Report.

15 Q 6

16 Q 3

17 Q 57

18 Ev 25

19 *Ibid.*

20 Ev w68

banks and their staff".²¹ Certainly some businesses stopped accepting cheques as payment as a direct result of the withdrawal of the cheque guarantee card scheme.²² One of our correspondents, Mr Andrew Brown, said:

It is clearly in the interest of the banks to demonstrate a declining use of cheques. I can think of nothing better calculated to reduce this use than the imminent abolition of the cheque guarantee which will make cheques unusable for any face-to-face transaction. It is a cynical action by an industry notorious for its poor customer service.²³

20. The decision to announce a target date for the closure of cheque clearing, without providing an explanation of what might replace it, caused deep concern among customers. This was as unnecessary as it was unacceptable. The Payments Council communicated poorly with the public, as it acknowledged itself. On occasion the banks gave the impression that the decision to abolish cheques was a foregone conclusion. This impression was reinforced by the recent abolition of the cheque guarantee scheme, a decision which directly led to more businesses refusing to accept cheques. The Payments Council has revisited the withdrawal of cheques. We ask the Payments Council to examine reintroducing the cheque guarantee card. We say more about the future role of the Payments Council later in this Report.

21. We are concerned that although the plans to abolish cheques have been abandoned, it may still be in banks' own interest to discourage customers from using the cheque facility. We therefore recommend that the Payments Council require from the retail banks a commitment to give the Council advance sight of any further material related to the future availability of cheques that the banks send to their customers. The Payments Council must show any such material to this Committee. Furthermore, the Council should obtain and pass to this Committee any material from banks which the Council believes might already have caused bank customers to doubt the future of cheques, produced after the decision of December 2009. In addition, each bank should be required to write to its customers stating that cheques will continue to be in use for the foreseeable future.

22. We are led to believe that the announcement to abolish cheques may have led some government bodies to refuse acceptance of cheques. We recommend government ensure that all departments and agencies of both local and national government continue to accept cheques.

²¹ Ev w56

²² Eg South West Trains, <http://www.southwesttrains.co.uk/payingbycheque.aspx>; South Eastern Railway, <http://www.southeasternrailway.co.uk/news/latest-news/change-to-cheque-acceptance-policy/>

²³ Ev w13

3 The arguments used for and against the abolition of cheques

Payments Council work on costs and benefits

23. In its written evidence to us written before the decision to retain the cheque, the Payments Council told us that:

Closure of the cheque clearing system will produce savings for banks as the industry pays substantial fixed costs when providing cheques to customers (e.g. operating processing sites, cheque book production and equipment, the running and maintenance of the clearing system, distribution, and the transportation of cheques, all of which have substantial negative environmental as well as cost impacts). The industry is actively reducing and managing such costs today as volumes decline but there will be an increase in unit costs whilst fixed overheads remain.²⁴

24. When the Payments Council gave evidence to the previous Treasury Committee in 2010 it was asked why, although it had been able to estimate the annual saving to the banks of not having to operate the cheque clearing system as being £200 million, it had not attempted to assess the costs to users of the abolition of cheques. In response the Payments Council commissioned Frontier Economics to assist the Council in its consideration of the costs and benefits of the cheque replacement programme. The consultants produced a substantial report in June 2011 at a cost to the Council of £250,000,²⁵ the summary of which told us:

Two questions sit at the heart of the work being undertaken by the Payments Council:

1. What is the balance between costs and benefits of the Cheque Replacement Programme, in aggregate and for specific groups in society?
2. What should be done between now and the decision in 2016 whether to close the cheque clearing system to ensure that there is a high degree of probability that the criteria for closure will be successfully met?

It is not possible to answer the first question today. The difficulty answering the question is because the answer depends on: what alternatives to cheques will emerge over the next few years; how acceptable to users these will be; and how much they will cost both the public users and the payments industry. That information will only become apparent over the next few years and without it any cost benefit analysis would be meaningless.

25. The Council nevertheless thought that the Report had been worthwhile:

²⁴ Ev 21

²⁵ Q 81

What it does do is make recommendations, which we have accepted, which will put us in a position to be able to do the cost-benefit analysis at the point in time when the decision is to be taken in support of the decision, if the decision is one to go ahead and close the cheque clearing system. [...] It will put us in a position to produce both a robust and thorough cost-benefit analysis in 2016.²⁶

26. Although an estimate is available of the savings to the banks that would come from the abolition of cheques, the Payments Council never had a clear view of the wider costs and benefits of the cheque replacement programme. The lack of transparency in bank charges is a matter on which we have reported before.²⁷ Some customers, if given the opportunity to find out how much they were really charged for banking and offered the chance to make savings, might choose not to make use of cheques. Far from offering such a choice to customers, however, banks gave the impression that they wished to eliminate cheques and reap the savings through the back door. This is unacceptable.

What people value about cheques

27. It is clear from our correspondence that the ability to use cheques is valued by many and is perceived as vital for some who believe that there is no easily useable alternative at present. People who wrote to us said that they used cheques principally for giving to charity, family gifts, paying carers, tradesmen and small businesses, paying bills, payments to clubs and societies, postal shopping and subscriptions. Many said that alternatives did not exist. For example, using cash was difficult for those with no car or whose mobility was limited for other reasons as they would find it difficult to go to a cash machine. In any case, keeping large amounts of cash at home is far from ideal, given the security risk that it represents, and sending cash in the post is also much less secure than using a cheque. For paying sole traders, carers, clubs or friends and relations, cheques are often the only possible means of payment other than cash, as the recipients do not possess the means to receive payment by debit or credit card.

28. Some of our correspondents had other concerns which caused them to use cheques. A large proportion of those who gave their reasons cited a lack of IT skills or a disability which precluded them from using other forms of payment than cheques. Another substantial concern was about the possibility of fraud or security problems to do with electronic transactions. Other reasons were a lack of a nearby bank, post office or cash machine, the possibility of bank error with electronic payments, and the ease of checking previous transactions that the paper trail of a chequebook provides.

29. The Charity Finance Directors' Group told us that charities received a large proportion of donations by cheque, and that "cheques are ingrained in the UK's giving culture".²⁸ Both the Alzheimer's Society and the Shipwrecked Mariners Society told us that they received

26 Q 20

27 Treasury Committee, Ninth Report of Session 2010–12, *Competition and Choice in Retail Banking*, HC 612-I, paras 62–98

28 Ev w69

half their donations by cheque,²⁹ and St Wilfred's Hospice received 85% of its donations (by value) by cheque.³⁰ Charities also pointed out that they used cheques as a means of dual authorisation of payments; we deal with this point in paragraph 34 below.

30. The Financial Secretary to the Treasury has told us that he too has received “a substantial volume of correspondence and representations from Hon Members about this issue, “principally expressing concern about the potential impacts on those who are reliant on cheques”.³¹

31. While cheques will continue, the risk remains that they may become more marginalised, frequently refused by retailers and others, or expensive to use. The Payments Council has made it clear to us that it does not have the power to require retailers and businesses to accept cheques as payment.³² **The Payments Council must ensure that the banks do not attempt to abandon cheques by stealth, or deter customers from using cheques.**

29 Ev w9; Ev w72

30 Ev w54

31 Letter from the Financial Secretary to the Treasury to the Chairman of the Committee - see Appendix

32 Ev 20

4 Cheques in the future

New payment systems

32. Cheques are not without their own shortcomings, for example the time taken to process them and the uncertainty over when funds leave one account and are available in the other. New payment methods are welcome in principle: those that are successful and widely adopted will be ones that customers find useful and convenient. The Payments Council told us that it had been working on a paper-based alternative to cheques (since abandoned) and an industry-wide system enabling person-to-person and person-to-business mobile payments designed for small businesses (e.g. sole traders) and “person-to-person payments by cheque-dependent individuals who are comfortable using such technologies”.³³ Work on this new mobile payments system continues.

33. Age UK listed the criteria that it believed any new payment method ought to meet:

- Easy to use
- Accessible, without the need for special equipment
- Operable from home
- Accepted by retailers, including small traders, clubs and societies
- Allows payments to individuals
- Controllable (so that people can budget)
- Secure, and perceived to be secure
- Protected
- Difficult to abuse
- Easily available
- Suitable for people on low incomes.

Age UK believed that any new system should be designed inclusively, as it was not practical to assume that people could or should have to change payment methods if their hearing, sight or mobility deteriorated.³⁴ Citizens Advice Bureau similarly believed that any new payment method “must be inclusive and accessible to all”.³⁵

Dual authorisation

34. The Payments Council has received, as we did, representations from charities, societies and small businesses who need to use cheques to comply with their own rules that require two separate authorisations for a payment. The Council has said that from the end of 2013, “banks will provide customers who use cheques for multiple authorisation purposes with alternatives, such as internet or telephone banking which can provide the same service”.³⁶

³³ Qq 108–111; Ev 25; Payments Council press notice, 27 May 2011, New Payments Council project could make our mobile the one thing we won’t leave home without.

³⁴ Ev w58

³⁵ Ev w48

³⁶ Ev 24; see also Q 132

This may be a useful facility for those who would prefer not to have to use a cheque for such a purpose.

Abandonment of proposed paper-based alternative to cheques

35. The Payments Council had, until its decision to retain cheques, been working on a paper-based alternative to the cheque. It told us:

A paper-based solution will probably look very similar to a cheque [...] but it won't act like a cheque [...] the trick is that for users, they feel it is as like a cheque as possible such that they will feel comforted. It will be just as convenient and just as flexible as a cheque, but in terms of how it is processed through the system it will be more efficient. It will be quicker and lower cost.³⁷

The Council was not able to say, however, how it would work.³⁸

36. The Financial Secretary to the Treasury wrote to us:

Whilst I accept that a complex system that is designed to process more than 4 billion cheques a year may become unsustainable at significantly lower volumes, there seems to have been no assessment of whether a redesign to accommodate lower volumes may be more cost effective than developing new alternatives. The clearing system, as well as being costly, can also be slow and I have received numerous representations asking the Government to intervene on this point already.

Any alternative system should replicate the flexibility and ease of use of cheques, whilst improving processing times, and be cost effective. It will need to have been tested in practice, and be widely available, widely acceptable and widely adopted by users who do not currently have a suitable alternative. Until this is demonstrated, I do not believe that there is a credible and coherent case for abolishing cheques.

37. The Payments Council announced on 12 July 2011:

Early in our work, we identified that a paper-based option would be a necessary alternative to cheques and recently stated at the Treasury Select Committee that "until we have in place a paper-based solution that has the flexibility and ease of use of cheques ... we should not be abolishing cheques". Work developing this began in 2010 with the aim of identifying the best option by September 2011, with a fully-costed proposal being considered this December. We have, however, concluded early that this is no longer the best option and retaining the cheque is a better approach.³⁹

It wrote on the same day to the Chairman of the Committee that:

37 Q 101-2

38 Q 103

39 Payments Council Press release, *Payments Council to keep Cheques and cancels 2018 Target*, 12 July 2011, Notes to Editor

We will continue to focus on our critical role of encouraging innovation in payments, so that the options available can continue to suit all customers in the future. As part of this, we will look at ways in which the cheque itself can be improved, by considering radical changes to the clearing process. [...] any improvements to be made will concentrate on the 'behind the scenes' processing.⁴⁰

38. We welcome the fact that the Payments Council and its members will now concentrate on improving the processing of cheques behind the scenes. This work may make the clearing system cheaper and quicker to operate than the present clearing system, but it must also benefit customers by reducing the delays and uncertainty that affect cheque payments at present.

Should the future of cheques be in the hands of the Payments Council?

39. The Payments Council is effectively an industry body. It has four independent members, but only one has a consumer background. All four independent members would have to vote against a proposal to be able to block it. The Chairman of the Council had sympathy with the idea that three of the independent members should have the power to exercise a veto.⁴¹

40. The benefits from any abolition of cheques would have accrued to the members of the Council from reduced administration costs, though it is possible that in a fully competitive market some benefit might have passed back to bank customers. But the disbenefits would have fallen on customers, and in particular those who were vulnerable or had the fewest alternatives available.

41. The abolition of the cheque guarantee card makes abundantly clear the problems with the system as it stands and provides a worrying example of the Council's approach. The Payments Council saw that the use of the scheme was declining, and its way of dealing with the risk of banks and others deciding to stop operating it was to abolish it altogether. The scheme's abolition in turn reduced further the number of companies that accept cheques, and provided no consumer benefit.

42. Before the announcement by the Payments Council that cheques would be retained, the Financial Secretary to the Treasury gave us this undertaking:

The Government is keenly monitoring the progress of the cheque replacement programme and is considering whether it may need to intervene to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place for all.

43. We note that the Draft Financial Services Bill would give the new Financial Conduct Authority broad powers to regulate financial products and services, such as bank accounts, including the terms on which they are provided. Section 137C of the draft bill gives the

40 Letter from Richard North to Andrew Tyrie MP, 12 July 2011

41 Q 34

FCA power to impose requirements on products, and to prohibit providers from offering products which do not satisfy those requirements. The FCA will be required to exercise its powers in a way which is compatible with its objectives and consistent with other relevant provisions set out in the draft bill, for example the duty to have regard to the regulatory principles, and the consultation and cost-benefit analysis requirements.

44. The Independent Commission on Banking's interim report contained the following suggestion:

There remain reasons for concern about the payments system, particularly its system of governance and oversight (in which the owners of the networks set the rules). There may be a case for the Financial Conduct Authority (FCA) to play a leading role in monitoring the payments system, in particular in relation to innovation and competition, with oversight of both the Payments Council and the individual UK retail payment schemes. It could play a role in regulating third party access, to ensure that all banks have the access they require to essential services.⁴²

45. **The Payments Council is dominated by the banks and other payments industry members. Of the independent members of the Board, only one has a consumer background. Consumers are entitled to be suspicious of the motives of a body with such a composition proposing measures that are in the financial interests of its members. As an immediate and essential first step, we recommend that the composition of the Board of the Payments Council be altered in order significantly to strengthen the voice of consumers among the independent members. In addition, any two of the four independent members, rather than all of them as at present, should have the right of veto over a decision of the Board.**

46. **These changes to the structure and decision making methods of the Payments Council are only the first steps. The Payments Council is an industry-dominated body with no effective public accountability. It should not have unfettered power to take decisions on matters, such as the future of cheques, that are of vital personal importance to millions of people. The Treasury should make provision in the forthcoming Financial Services Bill to bring the Payments Council formally within the financial regulation system, to be overseen by the regulatory body the Treasury identifies as being most appropriate.**

47. **In order to reassure bank customers who may be concerned about any future decision by banks or the Payments Council, the Treasury should confirm whether the current Draft Financial Services Bill contains the powers that would allow the new Financial Conduct Authority to intervene to protect bank customers by preventing cheques being withdrawn. If it does not, we recommend that the Government consider the case for inserting such provisions in the Bill which will be presented to Parliament.**

48. **The episode of the attempt to abolish cheques has demonstrated the lack of transparency in retail banking, which restricts the exercise of consumer choice. In order**

to improve consumer choice, there must be more competition in banking, and the payments system must be capable of taking advantage of innovation in the consumer interest. It is essential that the Treasury respond positively to the recommendations of the Independent Commission on Banking and of this Committee that the new Financial Conduct Authority have a primary duty to promote competition.

Conclusions and recommendations

Introduction

1. We welcome the fact that the Payments Council has, albeit belatedly, responded to the views of the public, Parliament and the Government by withdrawing its plans for the abolition of cheques. (Paragraph 4)

The former cheque replacement programme

2. The decision to announce a target date for the closure of cheque clearing, without providing an explanation of what might replace it, caused deep concern among customers. This was as unnecessary as it was unacceptable. The Payments Council communicated poorly with the public, as it acknowledged itself. On occasion the banks gave the impression that the decision to abolish cheques was a foregone conclusion. This impression was reinforced by the recent abolition of the cheque guarantee scheme, a decision which directly led to more businesses refusing to accept cheques. The Payments Council has revisited the withdrawal of cheques. We ask the Payments Council to examine reintroducing the cheque guarantee card. (Paragraph 20)
3. We are concerned that although the plans to abolish cheques have been abandoned, it may still be in banks' own interest to discourage customers from using the cheque facility. We therefore recommend that the Payments Council require from the retail banks a commitment to give the Council advance sight of any further material related to the future availability of cheques that the banks send to their customers. The Payments Council must show any such material to this Committee. Furthermore, the Council should obtain and pass to this Committee any material from banks which the Council believes might already have caused bank customers to doubt the future of cheques, produced after the decision of December 2009. In addition, each bank should be required to write to its customers stating that cheques will continue to be in use for the foreseeable future. (Paragraph 21)
4. We are led to believe that the announcement to abolish cheques may have led some government bodies to refuse acceptance of cheques. We recommend government ensure that all departments and agencies of both local and national government continue to accept cheques. (Paragraph 22)

The arguments used for and against the abolition of cheques

5. Although an estimate is available of the savings to the banks that would come from the abolition of cheques, the Payments Council never had a clear view of the wider costs and benefits of the cheque replacement programme. The lack of transparency in bank charges is a matter on which we have reported before. Some customers, if given the opportunity to find out how much they were really charged for banking and offered the chance to make savings, might choose not to make use of cheques. Far from offering such a choice to customers, however, banks gave the impression

that they wished to eliminate cheques and reap the savings through the back door. This is unacceptable. (Paragraph 26)

6. The Payments Council must ensure that the banks do not attempt to abandon cheques by stealth, or deter customers from using cheques. (Paragraph 31)

Cheques in the future

7. We welcome the fact that the Payments Council and its members will now concentrate on improving the processing of cheques behind the scenes. This work may make the clearing system cheaper and quicker to operate than the present clearing system, but it must also benefit customers by reducing the delays and uncertainty that affect cheque payments at present. (Paragraph 38)
8. The Payments Council is dominated by the banks and other payments industry members. Of the independent members of the Board, only one has a consumer background. Consumers are entitled to be suspicious of the motives of a body with such a composition proposing measures that are in the financial interests of its members. As an immediate and essential first step, we recommend that the composition of the Board of the Payments Council be altered in order significantly to strengthen the voice of consumers among the independent members. In addition, any two of the four independent members, rather than all of them as at present, should have the right of veto over a decision of the Board. (Paragraph 45)
9. These changes to the structure and decision making methods of the Payments Council are only the first steps. The Payments Council is an industry-dominated body with no effective public accountability. It should not have unfettered power to take decisions on matters, such as the future of cheques, that are of vital personal importance to millions of people. The Treasury should make provision in the forthcoming Financial Services Bill to bring the Payments Council formally within the financial regulation system, to be overseen by the regulatory body the Treasury identifies as being most appropriate. (Paragraph 46)
10. In order to reassure bank customers who may be concerned about any future decision by banks or the Payments Council, the Treasury should confirm whether the current Draft Financial Services Bill contains the powers that would allow the new Financial Conduct Authority to intervene to protect bank customers by preventing cheques being withdrawn. If it does not, we recommend that the Government consider the case for inserting such provisions in the Bill which will be presented to Parliament. (Paragraph 47)
11. The episode of the attempt to abolish cheques has demonstrated the lack of transparency in retail banking, which restricts the exercise of consumer choice. In order to improve consumer choice, there must be more competition in banking, and the payments system must be capable of taking advantage of innovation in the consumer interest. It is essential that the Treasury respond positively to the recommendations of the Independent Commission on Banking and of this Committee that the new Financial Conduct Authority have a primary duty to promote competition. (Paragraph 48)

Appendix

Letter of 14 June 2011 from Mark Hoban MP, Financial Secretary to the Treasury, to Andrew Tyrie MP, Chairman of the Treasury Committee

Treasury Committee inquiry into the future of cheques

I am very glad that the Treasury Select Committee has reopened its inquiry into the future of cheques. I have received a substantial volume of correspondence and representations from Hon Members about this issue, principally expressing concern about the potential impacts on those who are reliant on cheques. I would therefore like to make my views known to the Committee.

As you know, the Payments Council announced in December 2009 that cheques would be phased out by October 2018, but that this would happen only if suitable alternatives were developed. The Council said that it was better to manage the decline of cheque use rather than risk a disorderly break-up of the cheque clearing system. It therefore set a target date for closing the cheque clearing system to encourage the transition to other forms of payment.

Regrettably, the announcement was made without an assessment of the costs and benefits, or a plan or timetable for managing the process, or an indication of what alternative payment instruments might need to be created. These things are only now being developed. The result has been to create a great deal of uncertainty and alarm across the country, particularly among those for whom other existing forms of payment may be unsuitable—elderly or housebound people, schools, clubs and charities, rural communities, small businesses, and others.

The Payments Council has said that cheque use is in terminal decline, based on the trend since 1990, when cheque use peaked at 4 billion transactions (although business use evidently continued to grow until 1997). The annual volume of cheques has fallen to 1.1 billion in 2010, of which more than half were personal cheques. Given the lack of alternatives to cheques for many groups such as those noted above, however, the volume of cheques used—while lower—is still likely to be significant. On average every adult writes 13 cheques and receives four cheques a year, and the proportion of individuals making cheque payments rises with age—more than half of men and women aged 65 and above write cheques regularly.

Whilst I accept that a complex system that is designed to process more than 4 billion cheques a year may become unsustainable at significantly lower volumes, there seems to have been no assessment of whether a redesign to accommodate lower volumes may be more cost effective than developing new alternatives. The clearing system, as well as

being costly, can also be slow and I have received numerous representations asking the Government to intervene on this point already.

Any alternative system should replicate the flexibility and ease of use of cheques, whilst improving processing times, and be cost effective. It will need to have been tested in practice, and be widely available, widely acceptable and widely adopted by users who do not currently have a suitable alternative. Until this is demonstrated, I do not believe that there is a credible and coherent case for abolishing cheques. The Government is keenly monitoring the progress of the cheque replacement programme and is considering whether it may need to intervene to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place for all.

I hope this is helpful and I look forward to seeing your report and recommendations.

I am placing a copy of this letter in the Library of the House.

Mark Hoban MP
Financial Secretary to the Treasury
14 June 2011

Formal Minutes

Monday 18 July 2011

Members present:

Mr Andrew Tyrie, in the Chair

Tom Blenkinsop	Mr Andrew Love
Michael Fallon	Mr George Mudie
Mark Garnier	Jesse Norman
Stewart Hosie	John Thurso
Andrea Leadsom	

Draft Report (*The future of cheques*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 48 read and agreed to.

Summary agreed to.

A Paper was appended to the Report as an Appendix.

Resolved, That the Report be the Eighteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for publishing with the Report (in addition to that ordered to be reported for publishing on 17 and 23 May 2011.

[Adjourned till Tuesday 19 July at 3.00 pm

Witnesses

Wednesday 15 June 2011

Page

Richard North, Independent Chairman, **Gary Hocking**, acting Chief Executive, and **Sandra Quinn**, Director of Communications, Payments Council

Ev 1

List of printed written evidence

1	Payments Council	Ev 17
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List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/treascom)

1	Cambridgeshire Older People's Enterprise	Ev w1
2	Cool Blue Canoes Ltd	Ev w1
3	Mark Partege	Ev w2
4	St Marylebone Educational Foundation	Ev w2
5	John Osborne	Ev w3
6	Tony Burgess	Ev w3
7	William Grogan, RAMSDIS software Ltd	Ev w4
8	Chums Ltd	Ev w5
9	Simon Wyatt	Ev w5
10	East Midlands Churches Forum	Ev w6
11	Grove House Residents Association Ltd	Ev w7
12	The Foundation for Information Policy Research	Ev w7
13	Wiltshire Family History Society	Ev w8
14	Shipwrecked Mariners Society	Ev w9
15	Campaign for Community Banking Services	Ev w11
16	Andrew Brown	Ev w13
17	Marlborough & District Concert Club	Ev w13
18	Hertfordshire Family History Society	Ev w14
19	St Raphael's Hospice	Ev w15
20	Northamptonshire Family History Society	Ev w15
21	Sussex Village Halls Advisory Group	Ev w16
22	Henry Langley	Ev w17
23	Acorn Mobility Services Ltd	Ev w18
24	Leicestershire and Rutland Federation of Women's Institutes	Ev w19

25	Cornwall Federation of Women's Institutes	Ev w23
26	Churches' Legislation Advisory Service	Ev w24
27	Investment Management Association	Ev w26
28	British Cheques and Credit Association	Ev w27
29	Help the Hospices	Ev w30
30	Institute of Fundraising	Ev w32
31	Trading Standards Institute	Ev w33
32	National Offender Management Service	Ev w36
33	Consumer Council for Northern Ireland	Ev w36
34	Association of Charitable Officers	Ev v38
35	Association of Charitable Foundations	Ev w38
36	Good Housekeeping Magazine	Ev w40
37	Royal Bank of Scotland Group Pensioners' Association	Ev w42
38	Equality and Human Rights Commission	Ev w43
39	Citizens Advice Bureau	Ev w46
40	British Red Cross	Ev w50
41	St Wilfred's Hospice	Ev w54
42	Age UK	Ev w56
43	National Federation of Occupational Pensioners	Ev w60
44	Vocalink	Ev w63
45	Forum of Private Business	Ev w64
46	Which?	Ev w65
47	Charity Finance Directors' Group (CFDG)	Ev w69
48	Alzheimer's Society	Ev w72
49	Financial Fraud Action UK	Ev w74
50	Intellect	Ev w80
51	Royal Bank of Scotland	Ev w86
52	Sport and Recreation Alliance	Ev w87
53	Tony Nicol	Ev w88
54	Simon Wood	Ev w89
55	National Market Traders Federation	Ev w89
56	Action with Communities in Rural England	Ev w89
57	British Independent Retailers Association	Ev w91
58	National Cochlear Implant Users Association	Ev w91
59	John C J Eaton, Director, Lupton Fawcett LLP	Ev w92
60	Delphax Technologies Ltd	Ev w93
61	Callin Court, Methodist Homes for the Aged	Ev w93
62	Guy Johnson	Ev w94
63	Ripon Centre Women's Institute	Ev w94
64	C R Hughes	Ev w96
65	Kate Raistrick	Ev w96
66	Chris Westwood Charity for Children with Physical Disabilities	Ev w96
67	Colin Lomax, retired Members' Secretary, UNISON, Devon County Branch	Ev w98
68	Allpay	Ev w98
69	VETT	Ev w101

70 NFU
71 Barclays

Ev w110
Ev w115

List of Reports from the Committee during the current Parliament

Session 2010–12

First Report	June 2010 Budget	HC 350
Second Report	Appointment of Dr Martin Weale to the Monetary Policy Committee of the Bank of England	HC 195
Third Report	Appointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 476
Fourth Report	Office for Budget Responsibility	HC 385
Fifth Report	Appointments to the Budget Responsibility Committee	HC 545
Sixth Report	Spending Review 2010	HC 544
Seventh Report	Financial Regulation: a preliminary consideration of the Government's proposals	HC 430
Eighth Report	Principles of tax policy	HC 753
Ninth Report	Competition and Choice in Retail Banking	HC 612
Tenth Report	Budget 2011	HC 897
Eleventh Report	Finance (No.3) Bill	HC 497
Twelfth Report	Appointment of Dr Ben Broadbent to the monetary Policy Committee of the Bank of England	HC 1051
Thirteenth Report	Appointment of Dr Donald Kohn to the interim Financial Policy Committee	HC 1052
Fourteenth Report	Appointments of Michael Cohrs and Alastair Clark to the interim Financial Policy Committee	HC 1125
Fifteenth Report	Retail Distribution Review	HC 857
Sixteenth Report	Administration and effectiveness of HM Revenue and Customs	HC 731
Seventeenth Report	Private Finance Initiative	HC 1146
Eighteenth Report	The future of cheques	HC 1147

Oral evidence

Taken before the Treasury Committee

on Wednesday 15 June 2011

Members present:

Mr Andrew Tyrie (Chair)

Michael Fallon
Mark Garnier
Andrea Leadsom
Mr Andrew Love

Mr George Mudie
Mr David Ruffley
John Thurso

Examination of Witnesses

Witnesses: **Richard North**, Independent Chairman, Payments Council, **Gary Hocking**, Acting Chief Executive, Payments Council, and **Sandra Quinn**, Director of Communications, Payments Council, gave evidence.

Q1 Chair: Good afternoon. Thank you very much for coming to see us again on this vexed subject.

Richard North: Mr Chairman, if you would allow, could I make an opening statement?

Chair: No. We very rarely allow opening statements.

Richard North: It is short.

Q2 Chair: I regret to say that, from your perspective, as far as I know, the only person who comes before us who has asked and received any dispensation under either me or my predecessor is the Governor of the Bank. If you want to say something to the Committee of that type it is better to put it in writing beforehand and pass it to us.

We have received a letter from the Financial Secretary to the Treasury, which we saw as a Committee late this morning and asked to be passed to you. You have received that?

Richard North: I have received it.

Q3 Chair: Yes. I am going to read out a passage of that letter because I think it is particularly pertinent. It will be published at the end of this meeting. He said, “The announcement”—that is your announcement for the demise of cheques—“was made without an assessment of the costs and benefits, or a plan or timetable for managing the process, or an indication of what alternative payment instruments might need to be created. These things are only now being developed”. One needs to bear in mind that we saw you before the last election. “The result has been to create a great deal of uncertainty and alarm across the country, particularly among those for whom other existing forms of payment may be unsuitable: elderly or housebound people, schools, clubs and charities, rural communities, small businesses and others.” This was a colossal error of judgement, wasn’t it?

Richard North: What I would like to say on that is that I regret that we have failed to get our message across, and that has created, as is rightly said, concern. If we had got our message across, I think they would have understood that the whole purpose of the Payments Council is to protect the position of the vulnerable and, in fact, what we were seeking to do was, realising that we were facing a huge decrease in the volume of cheques—cheques had fallen by some

70% in the 20 years to the point in time where the announcement was made; indeed they had fallen by 42% in the five years to that point—we needed to do one of two things: either to allow the market to dictate when there was a closure of the clearing system or, alternatively, for us to step in and manage the process in order to protect the position of the most vulnerable. Now, we consulted very widely before we took our decision. We consulted consumer groups. We consulted small businesses. We consulted charities and clubs. We consulted very widely, and the overall view was that we should manage this process and, therefore, the Payments Council took the decision to manage the process. Do I think it could have been done better? Well, of course. It would have been better—

Q4 Chair: My question is much more straightforward than that. Was this a colossal error of judgement?

Richard North: What I am seeking to say is I think this was the right thing to do but we could have managed it better.

Q5 Chair: So it wasn’t an error of judgement, but there have been some presentational problems?

Richard North: We consulted widely to ask what people’s views were in terms of—

Q6 Chair: I am just trying to get clarity about whether you think the judgements that you made that have triggered all this concern were broadly right and the presentation of them has been bad or whether those judgements themselves are questionable.

Richard North: What I’m saying is that I think, on balance, the approach was right. I think the presentation has not been good.

Q7 Chair: So this is just a presentational issue?

Richard North: The big issue was a presentational issue because, as I am seeking to say, what we sought to do is to protect the position of the vulnerable to ensure that there was no question of there being a closure of the cheque clearing system without there being acceptable alternatives in place that people were aware of and had been widely adopted by all user

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

groups. Had we not taken this approach then we would not have those safeguards in place, safeguards that have been made—

Q8 Chair: Do you know what those viable alternatives are?

Richard North: Currently? There are—

Chair: No, the alternatives that you're going to put in place if you implement the ending of cheques.

Richard North: Currently, work is going on on two particular viable alternatives. One—

Q9 Chair: So, we do not have a clear alternative?

Richard North: The work is being done. We are working on mobile payments and we are working on a paper-based solution.

Q10 Chair: Do you think it was a colossal error of judgement to embark on a decision to get rid of cheques before you had worked out what the viable alternative was?

Richard North: I don't think I would describe it as a "colossal error of judgement", no.

Q11 Chair: Would you take out the word "colossal" and then find yourself happier with the phrase?

Richard North: No, I am saying that I—

Q12 Chair: Not even that? Which bit of it don't you like? I mean, is it "error"? Was there an error?

Richard North: It was a judgement. It was a judgement that this approach would lead to an answer that protected the vulnerable.

Q13 Chair: You do not have the confidence of the Government over this. You do not have the confidence of the Government and you do not have the confidence of Parliament. Don't you think you need at least one of those before going ahead with something like this?

Richard North: Do you mean we currently don't or we didn't at the time?

Chair: You don't now. I have just received this letter in front of me. You have it in front of you. Does that sound like a confident Treasury?

Richard North: The last paragraph, I have to say, I agree with entirely. He is saying, "Any alternative system should replicate the flexibility and ease of use of cheques, while improving processing times and being cost effective". That is what we are seeking to do in the work that is currently going on in developing a paper-based solution.

Q14 Chair: So, you do not believe there is a credible and coherent case for abolishing cheques? That is what he says in that last paragraph.

Richard North: Sorry?

Mr Ruffleby: The third sentence of the paragraph you just selectively quoted from.

Richard North: Yes. It says—

Chair: Just read the sentence immediately above, Mr North.

Mr Ruffleby: Read the sentence afterwards, will you?

Richard North: Hang on. Let me count the three.

Mr Ruffleby: In fact, read the first two sentences out so that people listening to this—

Chair: David, let the witness reply.

Mr Ruffleby: Read out the three sentences.

Richard North: Okay.

Chair: Just to be clear—I'm reading what Mark Hoban said—he says, "I do not believe there is a credible and coherent case for abolishing cheques". That is clearly not your view.

Richard North: Well, he says, "Until this is demonstrated, I do not believe—"

Q15 Chair: It is absolutely clear from what precedes in this letter that it has not been demonstrated, and you have just come before us now telling us that you still don't have an alternative.

Richard North: But we have not made a decision to abolish cheques. That is why I say I agree with him. I agree. Until we have in place a paper-based solution that has the flexibility and ease of use of cheques, then no, we should not be abolishing cheques.

Q16 Chair: Millions of people listening to this will find it absolutely extraordinary that you should have embarked on something so important without having done the preparatory work, and it is clear that it has not been done. When you came before us in 2009—I was a Member of this Committee under John McFall's chairmanship—I asked you whether you had done any cost-benefit analysis and it turned out that you had not done the cost-benefit analysis. Have you done the cost-benefit analysis now?

Richard North: Let me answer the question. There is a slightly lengthy answer to this question.

Chair: No, I don't want a lengthy answer. Either you have done the cost-benefit analysis or you haven't done the cost-benefit analysis.

Richard North: I need to explain that we have done a great deal of work in preparing ourselves to be able to do a robust and thorough cost-benefit analysis. We have done all the work that we can possibly do, so we have set the foundations to do that work. The key about a cost-benefit analysis is at the time you take the decision—and we're not taking the decision until 2016 at the earliest—do the benefits outweigh the costs? So, if you're looking today at a decision you are going to make five years from now, if you are seeking to do a cost-benefit analysis, you are projecting forward as to what the world will look like in 2016 and—

Q17 Chair: That is what all cost-benefit analysis is. When you decide whether to build a road or whether you think it is worthwhile doing any project; everything has a forward-looking element.

Richard North: But it would normally be done at the time you make the decision, not five years ahead of making the decision.

Q18 Chair: So you are not going to try and do a cost-benefit analysis?

Richard North: What we have is a very large number of uncertainties that exist between now and 2016. We don't have alternatives at the moment that will meet the key test, which is, "Are there alternative systems

15 June 2011 **Richard North, Gary Hocking and Sandra Quinn**

in place that have been widely adopted by all user groups?" That test is not met today, and the only way that test will be met is with the introduction of new payment systems, of which the most obvious is a paper-based solution. Therefore, to work out the cost-benefit analysis in 2016, sitting here today, means you have to know what those alternatives are going to be. What is the take-up likely to be among the user groups? Therefore, what is the balance of who are still to take it up? Then you can work out what the cost-benefit analysis is in relation to them. There are a huge number of uncertainties and, given those uncertainties, it is not possible to do a cost-benefit analysis today looking at 2016. Now, it is not just our view. We did employ outside economic consultants. They produced their report and they are quite clear in the report: it is not possible to do a cost-benefit analysis as of today looking at the situation in 2016.

Q19 Chair: I have a copy of this report here. How much have you paid for this 350-page report?

Richard North: I don't know.

Q20 Chair: It doesn't take us very much further forward, does it, because it doesn't do the piece of work that, after our last meeting, you said you were going to do?

Richard North: What it does do is make recommendations, which we have accepted, which will put us in a position to be able to do the cost-benefit analysis at the point in time when the decision is to be taken in support of the decision, if the decision is one to go ahead and close the cheque clearing system. A huge amount of work has been done. They have advised that our processes are sound. They have made recommendations as to improvements. We have accepted, and we are adopting all those recommendations. They say that we will, therefore, have been following absolute best practice. It will put us in a position to produce both a robust and thorough cost-benefit analysis in 2016.

Q21 Chair: Just to be clear, you are saying that no decisions have been made on whether to abolish cheques?

Richard North: Yes, absolutely clear, and I am very keen that that message gets out. We have not made the decision to abolish cheques. That decision will not be made until 2016 at the very earliest, and it will only be made in 2016 if two tests are met: first and foremost, that there are alternative payment systems in place that are acceptable and have been widely adopted by all user groups, and by "user groups" I mean charities or schools or the elderly. That test has to be met. If that test is met, we then look to see if there is a cost-benefit analysis case also for abolishing cheques. Those two tests have to be met. The decision is not going to be looked at until 2016.

Q22 Chair: So, not only has no decision been made, over the next five years you are giving us a guarantee that no decision is even going to be considered? You are not going to come to a view for at least five years?

Richard North: I make that as a guarantee, yes. We are not going to.

Q23 Chair: Why is it then that Barclays—and I have it in front of me here—on their bank mandate forms, under the heading "Prepare for the future", tell their customers, "Cheques are going to become a thing of the past"?

Richard North: I can't account for what they are saying, but I have a letter from Barclays—

Q24 Chair: But what have you done? If you already know about this—

Richard North: No, I'm afraid I didn't know about it.

Chair: You didn't know anything about this?

Richard North: No.

Q25 Chair: What relevance is this letter from Barclays going to have?

Richard North: Because I was going—

Chair: The question I am asking you is: why are Barclays telling their customers that it is over for cheques?

Richard North: I was going to quote what they are telling me, and what they are telling me is, "It is imperative that we work as an industry to have a viable set of alternatives in place, otherwise Barclays will not be in a position to support the withdrawal of cheques at the checkpoint set by the Payments Council at 2016." They go on, "Barclays is prepared to continue to accept and issue cheques beyond 2016, should the criteria not be met." I think it is pretty clear that Barclays are not sitting here saying, "It is going to happen". They are saying that unless these tests are met, it is not going to happen and, by the way, they are saying, "If it is unrealistic under this timetable then we delay the timetable". By the way, that is my position, too. The timetable is not set in stone. If it looks unrealistic to achieve the position where we have the acceptable alternatives in place by 2016, we will delay the timetable.

Q26 Chair: What effect do you think a message like that on a bank mandate form has on customers who rely on cheques?

Richard North: Look, I need to look at the bank mandate. Without seeing it, I'm afraid I don't know.

Q27 Chair: This is an appalling mess, isn't it? This is a shocking mess. In fact, it is a scandal. Here you are trying to tell us that there has not been a colossal error of judgement, but it is even worse than a colossal error judgement, isn't it? You have the banks out there right now telling customers that the cheques are for the chop.

Richard North: I am sorry. I obviously will speak to Barclays. I cannot account for what Barclays are saying. I can only represent the Payments Council and I can equally represent to you what they are telling me. What they are telling me is what I have just said, that they won't—

Chair: No, we have heard what they are saying to you, which is completely different from what it appears they are telling their customers.

Q28 Michael Fallon: But in fact the Payments Council took a decision in 2009 to set a target date of

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

2018 for the closure of the central cheque clearing system.

Richard North: Subject to—

Michael Fallon: No, you took a decision.

Richard North: No, subject to strict tests being met in 2016, and those tests, as I said before, are, “Are there acceptable alternatives available that have been widely adopted by all user groups?” For example, we have in place the test to protect the vulnerable, so, if you are a charity or if you are an elderly person, we have those tests there to protect you, to ensure that if you don’t have an alternative that you feel comfortable using then the cheque clearing system will not be closed.

Q29 Michael Fallon: Why should this kind of decision be taken by an unelected body that is overwhelmingly dominated by the industry that has the most to gain from abolishing cheques? Why should this kind of decision, which impacts so much on the lives of the most vulnerable, be taken by an industry body?

Richard North: The short answer is the Payments Council was set up, in effect, by the previous Government. It was set up following an Office of Fair Trading taskforce that was charged to look at a series of issues in the payments industry, and they were given four years to look at it. The taskforce had on it representatives of consumer bodies, retail and small businesses, as well as people from the financial sector.

Michael Fallon: But you don’t.

Richard North: They were asked to look at this. The industry put a proposal as to a governance structure to that taskforce. Between them they developed and refined it and agreed what is currently now the Payments Council. It was then agreed by the Treasury and then—and this obviously may not play well with all of you—it was signed off by Gordon Brown. In effect, we were set up under the previous Government but with input from consumer groups and from those who were most interested in terms of being users of payments. Under our powers we have the power to ensure that cheque clearing remains open. It cannot be closed without the approval of the Payments Council.

Q30 Michael Fallon: Yes, okay. But of your 15 members, how many have a consumer background?

Richard North: We have four independent directors—

Michael Fallon: How many have a consumer background?

Richard North: What would you define as “consumer”? I have a consumer background. We have—

Q31 Michael Fallon: They are all insiders from banks. They are all from the industry.

Richard North: No, we have 11 industry directors, we have four independent directors and we have an independent chairman. If you are concerned about how the voting works, the four independent directors, acting together, can veto any proposal by the Payments Council.

Q32 Michael Fallon: That is not what I asked you. In fact, it is only Mr Stephen Locke who has any

particular consumer background. He is only one out of 15 people. I just ask you again: why should an unelected body, overwhelmingly dominated by the industry, take a decision that is obviously in the best interests of the industry but may well not be in the best interests of the customers you are serving? Why should it be done by you?

Richard North: I guess because we were given the authority to oversee the payment system. We have the authority to ensure that the cheque clearing system remains open. I guess it is because we have been given that responsibility.

Q33 Chair: You do not see anything wrong with an industry-dominated body having the sole responsibility for closing the cheque clearing system? Do you see anything wrong with that?

Richard North: No, what I think is important is that we have four independent directors, and those independent directors, if they vote together, can veto the closure of the cheque clearing system. Those four directors can veto. Now, if you are raising concerns about governance, and that is what I think I am hearing, we have been charged by the OFT to do a self-review. They reviewed our performance in 2009 and gave us a clearance on governance and then, rather than them do a review every two years—they were satisfied that the Payments Council was working as they had intended to do—they have said, “We would like you to do following reviews”. We are doing one this year, at the end of the year. I am very happy, within that review, to look at the governance of the structure of the board and to say, for example, “We have four directors that have to vote together to veto it. Maybe it should be three of the four rather than all four”.

Q34 Michael Fallon: Maybe this kind of decision should be taken independently by people, for example, who have some representation from sole traders, from charities, from small businesses. Why should it be you? Why don’t we have an independent review of this and let them decide?

Richard North: In effect, it is being taken independently because the four independent directors, if they vote together, will prevent it. That is pretty independent, and what I was suggesting is, if you are concerned that it takes all four, maybe it should take three of the four. I have sympathy with that.

Q35 Chair: Just on this question of who is really running the policy, Mark Hoban’s letter also makes clear that the Government will consider—and I am not quite quoting, though I am now—“whether it may need to intervene”—in other words, to take you over—to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place at all.” You were saying, “If you’re worried about governance”. Never mind Parliament; the Government is saying, the Treasury is saying, that they are not happy with your governance, aren’t they?

Richard North: What they are saying is that they want to be sure that, which in fact I have been saying, we do have the test in place, namely there will have to be

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

suitable alternatives for the vulnerable people—our test says—which have been widely adopted by all user groups, for example by individual sections of the vulnerable groups. That has to be in place. They are saying that is what is needed, and I am saying that is what we are doing.

Q36 Michael Fallon: It is pretty clear from the Minister's letter that he doesn't have any confidence in your council to take this kind of decision. He says there isn't a credible and coherent case and he says the Government may well have to intervene, so he doesn't have any confidence in you.

Chair: You are looking at me in astonishment. All we are doing is reading his letter to you.

Richard North: I understand that, and I simply reiterate that we have these tests in place and we have the commitment from the banks that these tests have to be met. There is no question of cheques being closed unless those tests are met. The tests deal with ensuring that the vulnerable have alternative payment systems that they will have adopted widely at the time any decision is made. That is the test, and he is certainly not asking for more in terms of the test.

Chair: This whole business is a very unhappy experience but it has to be done for the benefit of the people out there who want to keep their cheques.

Q37 Mr Love: When the Payments Council came before this Committee in March 2010, the memorandum that you submitted said, and I quote, "The use of the cheque is in terminal decline". For this inquiry here in June 2011, the memorandum that you submitted today says that it is in "long-term decline" rather than "terminal decline". Isn't that a telling change of phrase?

Richard North: All I can say is that we are forecasting that over the next five years it will fall by yet another 40%. I say "we" are forecasting, but an external consultancy has forecast that cheques will fall by another 40% by 2016. Whether you call that terminal or whether you call that long-term, I don't know, but it is certainly falling pretty severely.

Mr Love: That was the next question I wanted to—

Richard North: It is already down 70% since 1990 and it fell 42% in five years to 2010. I think that is a pretty steep decline, personally.

Q38 Mr Love: I will come to that just in a moment and, indeed, the Treasury Secretary comments on that, but let me come to that in a moment. First I wanted to ask you the question you have asked me. What do you mean by "long-term"? Does that mean 2018 or are we now looking at thinking perhaps further into the future?

Richard North: I think in terms of disappearing to zero, if you allowed it and did not close it, it will obviously be beyond 2018. I don't know what sort of volumes we might expect by 2025. I don't know. All I can say is that it is falling very considerably and very steeply right now, and has been for the last 20 years.

Q39 Mr Love: I think there is an acceptance that it has been falling, but the question remains, and I quote from Mark Hoban again. He tells us that in the last

year, 2010, 1.1 billion cheques were issued, and he goes on to comment, "The volume of cheques used, while lower, is still likely to be significant". In terms of small businesses, 493 million payments were made by cheque, which is the second-highest payment mechanism for small businesses. Now, while we accept it is in decline, isn't that significant and isn't that something you should be considering before you go about telling people that you are going to phase it out?

Richard North: In terms of volumes, cheques account for—I think I am right in saying—3% of all payments made. They, therefore, are already a pretty small percentage of total payments made and, as I say, the volumes are falling very considerably.

Q40 Mr Love: Frankly, isn't that misleading? If I look at the figures, 20,219 million payments are made by cash. If we move cash to the side and look at what the other alternatives are, cheques are a much larger percentage of that payment.

Richard North: I do have that percentage. Somewhere in these papers I do have that percentage, and I can hopefully give you a good number even when you exclude cash. What is the percentage when you exclude cash? It is 7%.

Q41 Mr Love: Just an explanation for those that are listening, in terms of consumers, 20,219 million are made by cash. The next largest is 6,293 million by debit card, and about a tenth of that, 620 million, are made by cheque. So while we accept it is in decline and we accept that it is not the major way of payment, except for small businesses, it is not in that much decline that it is not still a significant factor, which is the very point made by the Treasury Secretary. Has that been taken on board, and are you considering whether you need to reassure the public, who make use of this cheque facility, that you are not going to do anything precipitate, and if you do, it will only be in the circumstances where there is a viable alternative?

Richard North: I desperately hope that the outcome of this is that the message will get out: we have not made a decision to close the cheque clearing system. The first time we will even look at whether that is the right thing to do is 2016, and in 2016 we will only proceed if there are acceptable alternatives available that have been widely adopted by all user groups, and I mean by "user groups" the very people you are talking about: small business, whether they are charities, whether they are elderly, whether they are clubs or societies. These are the very people, the vulnerable people, that the Payments Council's purpose was to protect. Our concern was when we saw cheques falling, and cheques falling very significantly. We were worried that the industry would take a commercial view and that would at some stage discontinue cheques. We therefore have stood between the industry and the vulnerable and we got the agreement from the industry that they will not close the cheque clearing system unless there are viable alternatives in place of which people are aware—

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q42 Mr Love: Can I make the point to you that there are representatives on the Payments Council from all of the big major banks, yet we heard that Barclays are insisting on telling their customers that this is going to be phased out? I suspect that if we look across the banking sector, this has been said widely. We know that there are restrictions on the issue of cheques. We know that there is a publicity effort to tell people that this is coming to an end. What efforts can you make as the Payments Council through your representative to get that form of negative publicity changed so that people are clear what you are saying to us today?

Richard North: I am concerned about that issue at Barclays, and I can only explain it as being the right hand not knowing what the left hand is doing in a very large organisation. I suspect that is what the issue is at Barclays.

Q43 Chair: So it is an argument for splitting up the bank?

Richard North: Well, that is not for me, but I suspect that that is what it is because, as I said, Barclays are telling me that they are prepared to go beyond 2018 if necessary. They will not countenance the closure of the cheque clearing system unless the alternatives are in place.

Q44 Mr Love: What reassurance can you give this Committee that Barclays and the other banks in this country will make sure that the publicity goes out to the customer?

Richard North: I will go back to the directors of my board and I will ask them to go back to their banks and please see that we have a consistent message coming out of the bank. I will do that, and I will ask them to do that. I hope that we will make some progress, but I would say these are big banks, and unfortunately one side of the bank does not always know what the other side is doing.

Q45 Chair: Is there a little bit of Barclays that is completely asleep on the issue when it comes to bank mandates? It does not really sound a credible argument, Mr North.

Richard North: But I can't therefore explain why Barclays are telling me what they are telling me. I can't explain it otherwise. I am happy for you to see the letter that they have sent me. I would ask Barclays—

Q46 Chair: And you are as shocked as we are that they are putting this stuff out?

Richard North: I am shocked. I am surprised.

Q47 Andrea Leadsom: Mr North, could you clarify? Are you going to abolish cheque guarantee cards this year?

Richard North: The cheque guarantee scheme is closing at, I think, the end of this month.

Q48 Andrea Leadsom: What will be the impact on cheque usage? What sort of analysis have you done of what the impact will be on cheque usage?

Richard North: We had some consultants do an analysis last year—was it last year or two years ago?

And we did set out the findings of that analysis. I think it is in our submission to you here at the Treasury Select Committee. I do not have the details off the top of my head.

Q49 Andrea Leadsom: So you have analysed the impact on charities of being unable to provide a cheque guarantee card for any of their cheque writing?

Richard North: Can I give a little bit of background on the cheque guarantee scheme? There are only two countries in the world that have it: the United Kingdom and Ireland. In Ireland, only 25% of debit cards are part of the scheme, and they are planning actually to close the scheme by 2016. Basically, a cheque guarantee is not seen anywhere else in the world as being an important pillar of a cheque system.

Q50 Andrea Leadsom: That may well be the case, Mr North, but the point is that what we are looking at here is the very real concern among individuals, vulnerable people and charities about the potential closure of the cheque scheme itself, and cancelling the cheque guarantee scheme is surely just the first nail in the coffin, isn't it? It lends weight to this determination, reinforced by a board that is made up virtually only of bankers, to get rid of the cheques that are an inconvenient and costly part of their business and yet are the life blood for many elderly people and charities.

Richard North: That is why I have said that apart from Ireland, no other country in the world has such a scheme and therefore the scheme is not relevant in terms of supporting a cheque system. It is two different issues.

Q51 Andrea Leadsom: So you do not agree then that cancelling the cheque guarantee scheme will lead to a reduction in the usage of cheques, therefore making it more of a self-fulfilling prophecy?

Richard North: Only 7% of cheques today are covered by the guarantee. Is it 7%?

Sandra Quinn: Yes.

Richard North: Only 7%. The analysis that we did showed that a vast majority of those will switch either to people accepting without a guarantee, or they will switch to cards, and it is only a small proportion of payments that would then go to—

Sandra Quinn: Can I just add that in those cases where the cheque guarantee card is used, that covers about 7% of all cheques in issue, but in fact some analysis that banks have done is that a number of customers use the cheque guarantee in areas where they are used to using it but where it is not valid. So, they use the cheque guarantee where a cheque is put in the post and there is no validity. They use the cheque guarantee where a cheque is given to another person so that another individual cannot benefit from the guarantee. That analysis has shown overall that less than 1% of all cheques are covered by the guarantee.

Q52 Andrea Leadsom: I still say again to you that it is a nail in the coffin for cheques. Can you also comment on the fact that the Charity Finance Directors' Group has expressed great concern that

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

many of their member charities have been told by the banks that cheques will be coming out of service?

Sandra Quinn: Can I say that this is an issue they have raised with us? We have a charitable and voluntary sector liaison group under the Payments Council that meets on a regular basis, particularly on these issues, because we have identified the charitable sector as one of the key sectors we need to be involved with to ensure that there are effective alternatives for them. They have mentioned this to us. We have mentioned that back to the banks; we are sure the banks will take that on board.

Q53 Andrea Leadsom: May I suggest that if your board were expanded to include charity sector workers and representatives of the elderly, you might get a more balanced view of how necessary cheques are? Thank you, Chairman.

Richard North: Can I come back on that? Part of the DNA of the Payments Council is consulting all groups. Last year we consulted over 300 groups; this year we have already consulted over 350 groups. By “groups” and organisations, whether it is charities, whether it is small businesses, whether it is clubs and social clubs, representatives of the elderly, our whole emphasis is on understanding the needs of the consumers of payments systems.

Q54 Andrea Leadsom: Mr North, that may be so, but the fact is there is a massive amount of misinformation out there for which the Payments Council needs to take some responsibility for doing something about.

Richard North: The key issue is that we haven’t got our message across that we have not made the decision to close it. I accept that and I regret that. In fact, I do not think we would be having the session we are having now if that message had gone out clearly.

Q55 Chair: When you say you haven’t got the message across, if you look at the Financial Secretary to the Treasury’s letter—this is the Government, this is the Treasury—they are talking about progress of the cheque replacement programme, so they have it wrong as well. We all have it wrong.

Richard North: No, no—

Chair: Treasury has it wrong—

Richard North: No, no, they understand that we have—

Chair: We have it wrong, the public have it wrong and the charities have it wrong.

Richard North: No, no. To be fair, they understand that we have not made a decision to close cheques.

Q56 Chair: So what is this cheque replacement programme? Is it a programme not to replace cheques? Is that what it means?

Richard North: No, no, no. Let me say, we have not made the decision to close—

Chair: We have got that message.

Richard North: What we have done is set a timetable, and what we are seeking to do is to stimulate innovation to bring in better alternative payment systems, and if that is achieved by 2016 and the tests

are met then yes, we would proceed, but if it is not, then we won’t.

Chair: Thank you, Mr North.

Q57 Mr Mudie: Can I just ask you when you took the decision to end the cheque guarantee card?

Richard North: Before my time. I don’t know.

Gary Hocking: Two years ago.

Mr Mudie: Sorry?

Gary Hocking: Two years ago.

Mr Mudie: Two years ago?

Sandra Quinn: Yes. The Payments Council took the decision in June.

Mr Mudie: Yes, at the same time.

Sandra Quinn: No, we took the decision in June 2009, before the decision on setting a target date for closing the cheque clearing. The two things are separate and there were separate cases made for it.

Q58 Mr Mudie: How do you convince me they are separate when the wording for the closure of the ending of the guarantee card is exactly the same wording and the rationale is the same as for the ending of the cheques?

Richard North: The approach happens to be the approach that we take as a Payments Council. As I say, it is within our DNA to consult and to consult widely and ask people’s views as to what is the best way to deal, in this particular case, with the issue of a big fall in the use of the guarantee. It fell by 70% in just five years. It is a huge fall.

Q59 Mr Mudie: On your consultation, what was the result of it? Not the result—the result is apparent—but did you have no objections to this?

Richard North: Before my time, I’m sorry. I will check that with my colleague.

Sandra Quinn: I will answer that. Absolutely. We consulted extremely widely with stakeholders, including small businesses. There were concerns, but the issue around cheque guarantee in that some businesses were stopping accepting cheques already, so there was already the issue where cheques were no longer being accepted by business. We had to respond to that requirement for change.

If we look particularly at those businesses who accepted cards, for most instances where a cheque guarantee card was used, a debit card could have been used in that place.

Q60 Mr Mudie: But that is clearly a part of response to consultations. Which? and Age UK have both written in as part of this exercise and included opposition and spelled out reasons: the vulnerable, the elderly, small businesses. Did they not do this in the first run through?

Sandra Quinn: The Payments Council has three user forums that feed their thoughts into the board before the board makes decisions. They have one user forum for consumers, one for small businesses and one for large corporates. Their views were made clear to the board.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q61 Mr Mudie: I am sure they were made clear, but the board then just took the decision, despite objections, to actually end the bank guarantee card.

Sandra Quinn: The key thing for the decision—

Mr Mudie: No, no. Is that not a fact, that there were objections?

Sandra Quinn: There were concerns, absolutely.

Mr Mudie: Could you just let me finish? There were concerns, they were voiced, and no matter how many committees they went to, at the end of the day the Payments Council took the decision to end the guarantee card.

Sandra Quinn: We decided to close the scheme because if we hadn't it was very clear that because of the costs of running the scheme and running the cheque guarantee cards, individual banks would be coming out. We felt that we had to develop an orderly closure.

Q62 Mr Mudie: Is that not what you are telling us, and have told us before and are continuing to tell us on the question of cheques themselves?

Sandra Quinn: Absolutely.

Q63 Mr Mudie: Do you not make the mental jump that that is why there is great cynicism round this table about your eventual actions?

Richard North: Can I make—there is a huge distinction—

Q64 Mr Mudie: There were objections to the cheque guarantee. You went ahead and closed them, and your rationale was that they were being used less and therefore you had to do it out of kindness. That is the same argument in terms of cheques.

Richard North: On the cheque guarantee, it was done actually to prevent confusion and fraud. Cheques are totally different, because we have set a test that has to be met. That was not the case on the cheque guarantee cards. We have set a test and the test is there to protect the vulnerable. The test has to be met.

Q65 Mr Mudie: What have you done? What alternatives have you put in place for the old person that Age UK tells us cannot pay for her meals on wheels because in the past she has paid by cheque?

Richard North: I will tell you what I think the alternative will be. I think the alternative will be a paper-based solution which as far as—

Mr Mudie: No. No. Look, you have abolished them—it's the 30th of this month—and I am asking you what alternatives you have put in place for that vulnerable elderly person.

Richard North: She can continue to pay by cheque or she could pay by debit card.

Q66 Mr Mudie: Say they don't take it because they don't recognise it?

Richard North: She can continue to pay by cheque.

Q67 Mr Mudie: What happens if it is not accepted?

Sandra Quinn: We have tried to stress that in all instances cheques should continue to be accepted.

Mr Mudie: What happens if it is not accepted?

Richard North: The example you are giving, I suspect, is one where they will accept it.

Q68 Mr Mudie: Age UK, representing the elderly people in this country, voiced objections. You went ahead and stopped it from the 30th of this month, and we are asking you the same questions on cheques. What alternatives had you worked out? What fresh alternatives had you worked out in respect to the cheque guarantee card?

Richard North: I am making a huge distinction on cheques.

Q69 Mr Mudie: So you didn't? That's fair enough. You are saying to us that you did not, so despite Age UK and Which? spelling out how vulnerable people would be affected: tough.

Richard North: I honestly do not know what representations they made at the time.

Q70 Mr Mudie: No, you didn't, because you were not there. I am just asking the question of the organisation. You are the Payments Council.

Richard North: I know, and as chairman of it I take responsibility for the current actions. I do not know what representations they made. What I am hearing is that they may have made representations—

Q71 Mr Mudie: Mr North, I am just making the point for you that you are at great pains to say the Minister, the Government, the Treasury and this Committee can all relax and you would never get rid of cheques unless the criteria have been met, yet we contrast that with something that was running in parallel that affected vulnerable people and you did not wait for an alternative. You just finished it.

Richard North: As I say, I draw a distinction, because we have set a test here. We did not set a test there.

Q72 Mr Mudie: The last thing: you keep saying on both issues, "If we didn't do this, the banks would withdraw the facilities anyway". What good are you as a council, if the banks can take unilateral action and say, "I hear what you say, but we are stopping"?

Richard North: I can give you an example on cheques. What we have done on cheques is we have stepped in and we have made them commit that they will not close the cheque clearing system unless the tests are met and it is supported by a favourable cost-benefit analysis. That is why we exist.

Q73 Mr Mudie: Let me just stop you there. I have heard that, but when we were talking about the guarantee card, the answer back is: "If we didn't withdraw this and allow its withdrawal without any guarantees of another method for the elderly people, the banks would just withdraw it". So, if the banks can act that way in defiance of what you say, what guarantees do we have with them on cheques?

Richard North: The determination was made in 2009, and clearly, at that time, having consulted those who are most affected, the view was to close the scheme, whereas on cheques, as I say, it is quite different. We have made the banks accept that they must commit to

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

the tests being met. The tests are there to protect the vulnerable. They have to be met. Very different.

Q74 Mr Mudie: Except Barclays.

Richard North: No, Barclays are committed to the tests. Maybe somebody in a local branch doesn't understand it, but I can tell you the senior management are committed to the test, because that is from whom I have had the letter.

Q75 Mr Mudie: Do you genuinely sit there—I am not sure I heard it—and say this was one branch only of Barclays, so we can dismiss it as just one branch?

Richard North: No, no. No, I am not.

Mr Mudie: Well, that is what you said; one branch.

Richard North: I apologise. I did not mean to give that impression. But what I am saying is that senior management, who are responsible for payments, are saying to me that they will not close the system unless the tests are met, and they are perfectly prepared to go beyond 2018 if necessary.

Q76 Chair: Bank mandate forms are not written by clerks.

Richard North: No. I do not know who—

Q77 Chair: You have said to us that you cannot do the cost-benefit analysis because you do not know what the alternative is, but you do know, don't you, what the benefits would be to the banks from the ending of cheques? That number must be around.

Richard North: We have numbers for both banks and corporate, and the number for corporates, for example, is £750 million and the estimate for banks is £200 million.

Q78 Chair: That, broadly speaking, is the benefit that is going to accrue to the banks from moving over to a paperless system.

Richard North: It is a saving that the bank will make. When you say "accrue to the bank", that depends whether you feel we have a competitive banking market. If you want a competitive banking market, you would expect a part of those benefits to feed back to the consumers. In the corporate market, that is definitely happening. For example, I only the other day set up a broadband account with British Telecom and they have offered me £1.80 a month savings if I go to a direct debit rather than a cheque, so it is perfectly clear that those benefits can come back to the consumers.

Q79 Chair: Do you have a chequebook?

Richard North: I do have a chequebook, yes.

Chair: Do you have a chequebook?

Sandra Quinn: Yes, I have.

Chair: Do you have a chequebook?

Gary Hocking: I do.

Q80 Chair: All three of you have chequebooks. Do all three of you have a computer?

Richard North: Yes.

Q81 Chair: I only raise that because, if you look at your own report, this huge 350-page document here—

Richard North: The report from Frontier?

Chair: Yes, the report that you have put in, which I have asked you for the cost of.

Gary Hocking: The cost of the report was £250,000.

Q82 Chair: This tells us that you are using as a proxy measure for the decline in cheques whether people are acquiring computers, from the ONS data. Clearly, none of you fit into the category that is identified here as the potential measure, and therefore that measure, as they do say, is clearly an incomplete measure. It is more than an incomplete measure. It sounds hopeless on the basis of a score of three. You add me to it and you can add all 14 of the journalists who have rung me up about this subject, to whom I have asked exactly the same question. One of them is nodding his head in agreement in the room at the moment.

Richard North: The reason that I have a chequebook—and I would hasten to suggest why you do—is that some people only accept cheques. That is why I have a chequebook.

Q83 Chair: We have had 1200 letters and emails on this.

Richard North: I am well aware that you have had a lot. You have published a good number and I have read every one. A large percentage of them are from people who think that we have taken a decision to close the cheque clearing system, which worries me.

Chair: You have found out the Government thinks that you are going to.

Q84 Mr Ruffleby: I inhabit the real world, Mr North. I don't know what world you and the rest of the Payments Council inhabit, but the statement that cheques will be phased out by October 2018—and that was announced by the Payments Council in December 2009—has scared the pants off middle England; not just vulnerable groups but small traders, sole traders and ordinary citizens. Will you now apologise for the rank incompetence of the handling of this issue? Will you make a general apology to the people I have just listed?

Richard North: What I have said is—

Mr Ruffleby: I am asking for an apology. Now, do you want to do that?

Richard North: What I am saying is that I regret we have not gotten our message across. I deeply regret that we have not gotten our message across.

Q85 Mr Ruffleby: Are you apologising to all the people you have scared the pants off? Not just old people but small traders, people in my constituency in Suffolk. Are you going to apologise?

Richard North: I am sorry that they have not received the message; that we have not—

Mr Ruffleby: I am going to take that as an apology.

Richard North: I am sorry that they believe that—

Q86 Mr Ruffleby: It is their fault, is it?

Richard North: No, it's not.

Q87 Mr Ruffleby: It is your fault.

Richard North: I am sorry that they have not got the message, which is our responsibility, I accept.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q88 Mr Ruffleby: Yes. Let's move on. You have repeated several times the 70% figure for decline of cheques and the 42% figure in the five years to 2010. Can you tell me how many cheques were written in 2010?

Sandra Quinn: I can.

Mr Ruffleby: No, no. I want the chairman to answer.

Richard North: I have—

Mr Ruffleby: No, listen. You are chairman of the Payments Council. How many cheques were written in 2010?

Richard North: I am chairman of the Payments Council, I accept.

Mr Ruffleby: Answer the question, as chairman of the Payments Council.

Richard North: I have the detail here.

Mr Ruffleby: Fire away.

Richard North: I don't carry it in my head. I apologise if I don't carry it in my head. There are a lot of statistics I don't carry in my head.

Mr Ruffleby: How many people signed cheques?

Richard North: The exact number of cheques that were signed in 2010: I am sorry; I don't carry that in my head.

Q89 Mr Ruffleby: Why don't you know? I know, and the Financial Secretary knows, because I have it in front of me and it was in the letter that we all have in front of us. So what is the answer?

Richard North: The answer is that I have it here; I just do not have it in my head.

Q90 Mr Ruffleby: Tell me what it is.

Richard North: Where is the number?

Mr Ruffleby: Oh dear, oh dear. You are the man responsible for cheques—

Richard North: It is 1.1 billion.

Q91 Mr Ruffleby: And what was it at its peak?

Richard North: Four billion.

Q92 Mr Ruffleby: Right. You are doing well today. The reality is that there are lies, damned lies and statistics aren't there? You kept on repeating in your evidence that there were these big falls—Mr Love questioned you on that—70%, 42%. The fact remains that today there are 1.1 billion cheques signed in 2010. What proportion of those, Mr North, were personal cheques? You are not very well briefed, are you?

Richard North: It is in the submission that we have made.

Mr Ruffleby: Tell us what it is.

Richard North: You say I am not very well briefed. I think it is unreasonable to expect me to carry all these numbers in my head.

Mr Ruffleby: These are rather basic facts. You are head of an organisation that indicated to the great British public that cheques would be phased out by October 2018, and you do not even know the basic numbers on how many cheques are written.

Richard North: 620 million.

Mr Ruffleby: Million. Personal cheques? Yes?

Richard North: Yes.

Q93 Mr Ruffleby: Good, because that is what we have in front of us here. If you had read the Financial Secretary, he is terribly well-briefed. You have come to this Committee without knowing basic facts, Mr North, and I think we have all noticed that.

Now, the next question. I am interested in the 2016 deadline when you say that you will be getting around to doing a cost-benefit analysis. Is that correct?

Richard North: We will do a cost-benefit analysis to support a decision. If there is an affirmative decision to close the cheque clearing system, then we will have done—

Q94 Mr Ruffleby: When will you be doing a cost-benefit analysis?

Richard North: It will need both tests. The whole point about a cost-benefit analysis is—

Q95 Mr Ruffleby: When will you be doing it? I know what a cost-benefit analysis is. What I do not know is when you propose to do it and on what basis you will be doing it. Will you be doing it around 2016? Next year? The year after? When will this important piece of work happen?

Richard North: Our plan is to do it as near to 2016 as possible in order to determine at that point whether it supports a decision to close the cheque clearing system.

Mr Ruffleby: All right. As near 2016 as possible.

Richard North: If you want to ask me if it is possible to do it earlier, the earlier you do it—because you are projecting what the position is going to be like in 2016—the more uncertainties are introduced.

Q96 Mr Ruffleby: Of course. We all understand that. What I want to ask you is: what is the magic number, what is magical about the year 2016 and why, on what basis, was the date of phasing out by October 2018 arrived at? Why not 2028? Why 2018?

Richard North: The decision was that we had to have some framework, and forgive me, because I was not a party to this decision—

Q97 Mr Ruffleby: You are the chairman and you are responsible for the organisation now. What we want to understand is why it is 2018. Why not 2022 or 2028?

Richard North: You are asking me what the considerations were that were made at the time.

Mr Ruffleby: And what is the answer?

Richard North: As I understand it, they looked to see what would make sense in terms of a timetable that was not too remote so that it was irrelevant but equally it was not too fast such that it became unrealistic.

Q98 Mr Ruffleby: It seems to me on the basis of what you have just said that 2018 is quite an arbitrary figure, isn't it?

Richard North: It was a judgement as to whether that made sense in terms of the right length for a programme.

Mr Ruffleby: 2018 is arbitrary, isn't it?

Richard North: As I say, it was a judgement. Any figure, you can argue, is arbitrary; whatever date you take you can argue is arbitrary.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q99 Mr Ruffleys: Do you think 2018 is a date you are minded as chairman of this organisation to stick with?

Richard North: What I said earlier was that the timetable is not set in stone.

Q100 Mr Ruffleys: So you might move 2018?

Richard North: If it looks unrealistic in terms of seeing that we have acceptable alternatives in place, yes, we will move it.

Q101 Mr Ruffleys: Good. You have used the words “paper-based solution” at least twice during this evidence to this Committee, to my colleagues. Now can you just say it to us in layman’s language and describe what a “paper-based solution” that is not a cheque might be? Why not just keep cheques?

Richard North: A paper-based solution will probably look very similar to a cheque.

Mr Ruffleys: Will it? A-ha. I see.

Richard North: But it won’t act like a cheque. That is the point. The point is that in the way it is processed—

Q102 Mr Ruffleys: We are through the looking glass now into Alice in Wonderland. It will be paper-based, so it is not paperless. I think most people could understand if the change was going to be online or paperless, but you are talking in this testimony today about paper-based solutions; it will be like a cheque but not a cheque. What on earth will it be?

Richard North: The trick is that for users, they feel it is as like a cheque as possible such that they will feel comforted. It will be just as convenient and just as flexible as a cheque, but in terms of how it is processed through the system it will be more efficient. It will be quicker and lower cost.

Q103 Mr Ruffleys: Explain how that might happen. If it is a bit of paper and it is going through a system—

Richard North: I can give you an example as to how I think it might work but I don’t know how it will work because we have the work going on at the moment and a presentation will be made to our board at the end of December as to what the best option in terms of a paper-based solution will look like. I do not want to give an example and it turns out the example we think is the best solution looks different.

Q104 Mr Ruffleys: Okay. You have retail experience. I notice you were a chairman of Woolworths, but let’s move swiftly on from that.

My final question is this, and it relates to the impression that various banks have got, and Barclays is one example: can you tell us whether there are any other banks that you are aware of who have this impression that cheques will be phased out by October 2018?

Richard North: I know that the senior management of all the major banks are absolutely committed that we will not close the cheque clearing system unless the tests that I have said—more often than I need, I guess—are met in 2016. The senior management are absolutely on board on that. I cannot guarantee that there are people in other parts of the banks who have a different impression. I cannot guarantee that. Before I knew I was coming to this Select Committee, I wrote

to the chief executives of all the major banks to make sure that that message was that we have not agreed to the closure of the clearing system; to make sure that they were absolutely signed on to the tests, and that the tests needed to be supported by a cost-benefit analysis. I have affirmative responses from them all. But I cannot guarantee that there are not people within those banks who maybe do think the decision has been taken. I cannot guarantee that.

Q105 Mr Ruffleys: My very final question, Chair: it is a very short one. I just want to quote from the letter that, judging from your earlier answers, you had not bothered to read, from the Financial Secretary to the Treasury.

Richard North: I have read it.

Mr Ruffleys: The letter is dated 4 June. Well, you had not read it, but let me just read out what I think is an important sentence. It is from Mr Mark Hoban, the Financial Secretary, and I quote. It is the third paragraph: “Regrettably, the announcement was made without an assessment of the costs and benefits, or a plan or timetable for managing the process, or an indication of what alternative payment instruments might need to be created. These things are only now being developed.”

That is the Minister criticising what the Payments Council has been doing on your watch. Have you ever considered your position, and don’t you think you should resign?

Richard North: Well, actually it wasn’t on my—

Q106 Mr Ruffleys: Why are you laughing?

Richard North: Because it wasn’t on my watch. This decision was taken and the announcement made before I became chairman. I have been chairman for just 14 months.

Mr Ruffleys: It is on your watch inasmuch as you are chairman of this organisation.

Richard North: I am chairman, but you are pointing to when the decision was made. You are quoting the Minister saying the announcement was made. I was not chairman when the announcement was made.

Q107 Mr Ruffleys: It is extant now. I have news for you. A lot of people out there in Britain still think that this is a deadline of October 2018 for cheques to be phased out, and it seems to me, Mr North, that you have done precious little except try to shuffle off responsibility to other people, and have not taken responsibility for what in my view has been rank incompetence by the organisation of which you are chairman. I simply ask you the question—and you can do a yes or a no—have you considered your position?

Richard North: No.

Mr Ruffleys: Thank you.

Richard North: No, I haven’t.

Q108 Mark Garnier: I would like to turn to the alternatives now, and I am very grateful to Mr Ruffleys for gently softening you up on the alternatives there are to cheques. You did say a little bit earlier that you are working on two alternatives. Do you see both of those coming in?

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Richard North: I do, yes. If you are asking for my personal opinion, yes. I believe that we will introduce a mobile payment system.

Q109 Mark Garnier: How will that work, in the very, very loosest of terms?

Richard North: How will it work?

Mark Garnier: Yes. How do you envisage it working?

Richard North: The option that has been looked at is to be able to make payments via a phone by doing it through the individual phone number so that you do not have to give your own bank details to me. You can give me your phone number and I can make a payment through a sophisticated piece of software through your phone and into your bank account.

Q110 Mark Garnier: It amounts to texting cash across.

Richard North: Yes.

Q111 Mark Garnier: Then of course we did talk about the paper-based alternatives to cheques, which is a paper-based alternative that may as well be called cheques, is what you are essentially saying.

Richard North: Sorry? That may well be called cheques?

Mark Garnier: The alternative. The paper-based alternative to cheques will ultimately be a cheque.

Richard North: It will look in terms of the way you use it very similar to cheques, but I am hoping it will give added benefits in terms of the speed of processing.

Q112 Mark Garnier: There genuinely are issues about an awful lot of people who are terrified of this. My 82-year old mother, who is sitting in hospital at the moment, is one of them.

Richard North: I am aware of those.

Q113 Mark Garnier: If it feels exactly like a cheque and it looks like a cheque, why then have you not got this message out that potentially what it amounts to is a cheque with just a different bit of hidden stuff in the background?

Richard North: I guess until we have completed the work on identifying what it is going to look like, it would be unwise to talk about it, but that work will be completed at the end of this year. I am pretty conscious that the sooner we get out into the market the best information we can on this alternative, the better for everybody in terms of allaying their concerns.

Q114 Mark Garnier: Did you just say by the end of this year you will have an idea of what it is going to look like?

Richard North: The group that is working on it is due to report to the board in December of this year.

Q115 Mark Garnier: When are you going to publish the findings?

Richard North: Without knowing what they report, I don't know.

Q116 Mark Garnier: You will publish the findings? You won't be sitting on them?

Richard North: Yes, yes. This is very much a part of the Payments Council. We publish a huge amount.

Q117 Mark Garnier: The other alternative to cheques, of course, is cash. Do you not see the possibilities—if people are not comfortable with this new alternative with texting money or with a paper-based method that may or may not look like a cheque—people may switch towards a cash-based economy?

Richard North: I don't think we will have met our tests if they switch to cash. It has to be an alternative payment system, not cash, that has been widely adopted by all user groups. Cash does not meet the terms.

Q118 Mark Garnier: So far as you are concerned, you currently have two alternatives. You might use both of them. Do you think it is possible there may be other alternatives, or do you think this is it?

Richard North: Yes, I do. In fact, at the original time when the decision was made to make this announcement, part of the thinking was it would spur innovation. We have two things—

Q119 Mark Garnier: It is not a huge amount of innovation if you only have two.

Richard North: It is not often that you get major changes to the payment system in this country. Two is a lot, I can tell you, over a period of time. Think about how often we do get changes to the payment system. It is not very often.

Q120 Mark Garnier: I want to be absolutely, finally clear that you could abolish cheques but we would still have something that looks exactly like a chequebook in 2018–2020.

Richard North: I suspect that that is where we will end up, yes.

Q121 John Thurso: Can I follow up a little bit on that? What would be the criteria you would set for the alternative? Have you set those criteria?

Richard North: For the alternative paper-based solution?

John Thurso: Have you said, “This is what cheques do that we want replicated by whatever system it is”? And have you published that list of criteria?

Richard North: What we have done is a huge amount of work. We have talked to over 650 organisations in the last year and a half. One of the key purposes of that is to understand what it is about a cheque that is important to individual users and to feed that in so that in developing any alternative, you have to achieve this functionality at the very least.

Q122 John Thurso: Have you reached the point at which that functionality has been defined? Do those criteria exist?

Richard North: What have we published?

Gary Hocking: By the end of this year we will have that.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q123 John Thurso: At the moment the position is that we know there are things people use cheques for. We don't know which ones of those are vital and therefore we don't have the criteria as yet.

Sandra Quinn: We published commitments last year. Part of those commitments were about ensuring that any alternatives are efficient and safe and secure, because one of the things that have been continually raised to us by people is about security concerns. We are absolutely convinced that that has to be front of mind when we develop an alternative.

Q124 John Thurso: What I am getting at is there will come a moment early in the process where a set of clear criteria are set out that can be discussed by this Committee or whoever else it ought to be and agreed before decisions are made.

Richard North: Criteria on the functionality?

Q125 John Thurso: Yes. The point is, where we are at the moment, and I was on the Committee when your predecessor came—

Richard North: It was the chief executive actually.

Q126 John Thurso: Well, whoever it was came before us. I certainly walked away from that believing I had been told that there would be no cheques in 2018 and thinking, "How on earth am I going to run my business?" Not here, but elsewhere. I now have the message that that decision has not been taken.

Richard North: No, it has not been, no.

Q127 John Thurso: That is very helpful to have, but it seems to me that a decision needs to be made that there are a set of criteria, things that the cheque does, which must be replicated by any system before a decision is made that the new replaces the old. What I am asking you is: will the criteria be published in plenty of time?

Richard North: I am sure we could publish it, but I would go further than that. It is not just a question that it must replicate it. The users must adopt it. That is the key, that they recognise that this is as good as if not better than my cheque.

Q128 John Thurso: So you would envisage that the two systems would run in parallel?

Richard North: We are not at that stage, but what I would envisage is that users will have to be consulted to determine that they think it is better than a cheque unless we run the two things in parallel.

Q129 John Thurso: What I am driving at is that I have something I know and understand and there are a number of benefits to it, which I could happily set out. I am worried about it going. There is a proposal for something new which may well be better but it may not, because a lot of things at the stage of promise and conception are wonderful and at execution fail.

Richard North: Yes. I agree.

Q130 John Thurso: So the only way I am going to know is if I use them both for a period of time.

Richard North: I take your point.

Q131 John Thurso: What I am saying is, will there be a timetable set out that says, "These are the minimum things"; not what it will be, but "you won't be allowed to even start until you have these five things" or whatever it is. Then there is the development stage. Then there is a parallel stage, and at all of these points, you can turn round and say, "Sorry, you have not cut it. We are sticking with the cheque".

Richard North: Your points, I think, are excellent. We have not reached in our thought process the point you are discussing. I would propose taking on board what you have said and would make sure that is considered in the process when we get to the point of determining whether we have a product, if you like, that meets the needs.

Q132 John Thurso: If we look at the history of payments, when I first had a chequebook in 1960-something there was no cheque guarantee card, but then you did not expect anybody to question that you had written them a cheque. Then there was the cheque guarantee card. Then Mr Shepherd-Barron invented the hole in the wall, which was originally a floppy card, and you were given two of them and you could get £10 out, and so it has gone on. There is no doubt that now I would not dream of writing a cheque in a shop. I give them my card and I stick it through. That is very convenient. But in my businesses, I want my administration to write the cheques out but I want to sign them, because I don't want any of them signing away my money, so every Friday when I get home there are seven chequebooks and I either sign them or question them. That is the sort of thing that needs to be replicated.

Richard North: It does need replicating, but when it comes to the signing of cheques, quite a significant issue—and it comes out in the letters that have been submitted and you published—is concern over dual authorisation. We picked that up, and we have got the banks to agree that dual authorisation will be electronically available for everybody by the end of 2013. It is an example that we as the Payments Council have been listening to the needs of the users and identifying what is needed, then getting the banks to deliver.

Q133 John Thurso: The other use, which is a personal one, is if I go and do something that a friend has paid for, and it is not an inconsequential sum of money; it is half of a stay somewhere or a day out of some kind. It is dead easy to whip out a chequebook and give that person a cheque. They don't accept cards. Not many individuals can take a card. We had evidence when we were looking at security in the banking system from a very senior officer of—was it the fraud office or one of those?—that internet banking is broadly less safe than paper banking, and I therefore do no internet banking and do not want to. This is just me, but I think a lot of other people feel the same way.

Richard North: Can I say, I think it is a shame that you don't, because as an individual you have better protection on electronic payments than you do on cheques.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Q134 John Thurso: I think he said that too, but I still did not believe it.

Richard North: I can tell you that you do. If you are the innocent victim of fraud, you will be made good, whereas if you are the innocent victim of fraud on a cheque, unless the bank fails to spot that it is a fraudulent cheque and bounces it, you will bear the loss. You are actually better off electronically than you are with a cheque.

Q135 John Thurso: But I am more likely to suffer from loss of identity electronically than I am by paper, and that is the offsetting point. Anyway, it is my choice. That is the real point.

Richard North: No, of course. And at the end of the day, that is the point. It is down to individual consumers what they are comfortable with and find convenient. Yes.

John Thurso: There is a system that exists, which sadly we are all too familiar with in the House of Commons, whereby you can electronically approve things, and it is called the IPSA payment system. I have to tell you that if any model was anywhere close to that and created the quadrupling of administration that that system has done, I don't think small businesses throughout the United Kingdom would even begin to say thank you. My point to you, in summary if I may, is that the criteria have to be clearly set out and, I would suggest, agreed in advance, and that they have to take in all those user benefits that I certainly feel and, from conversations with my constituents, they feel, and I am not optimistic about the electronic versions unless they are very well proven.

Q136 Chair: If you have robust evidence that internet banking is less subject to fraud than conventional banking, we would like to see it.

Richard North: What I was saying was that as an individual you have better protection under electronic payments than you do with a cheque.

Chair: Any robust evidence you have, even on that side, we would like to see.

Richard North: That you are better protected as an individual?

Chair: Yes. We have had great trouble getting high-quality evidence.

Sandra Quinn: We can submit something in writing to you.

Chair: We would like to see it. It is an important question.

Q137 Mark Garnier: Can I turn back to the cost-benefit analysis that you indicated you would do closer to 2016? How are you going to draw a conclusion from these results? Are you going to be looking at it in terms of the cost-benefit to the banks, to the system or to the individual? Can you be really clear about this?

Richard North: It is a very good question. We will be looking at social costs versus benefits and we will be looking at it by specific groups, so whether you are elderly or whether you are charities or whatever.

Q138 Mark Garnier: How will you define those groups?

Richard North: As to whether they are charities or what?

Mark Garnier: How will you select those groups?

Richard North: Work is going on to identify what are appropriate groups that we should be doing the cost-benefit analysis separately on.

Gary Hocking: And we have committed to publish that in 2014.

Q139 Mark Garnier: So you are looking at the social costs; you are looking at not just the costs of it if you are a charity, that you are going to have more expense in terms of processing donations and gifts, but on top of that the potential cost that will happen: that maybe there will be a decline in giving to charities because of it.

Richard North: There is a huge piece of work being done to determine what the right costs are that you have to take into account.

Q140 Mark Garnier: Then against that you will be looking at the simple sort of cost, to use a pun, writing out a cheque to pay for the system to work, but the actual cost to the banks to run the cheque clearing system?

Richard North: Sorry?

Mark Garnier: What I am saying is you are looking at the social costs; you are looking at the cost in terms of the drop-off in charitable giving, for example; you are looking at the costs to charities, and against that, you have the costs to the banks of just having the clearing system for cheques.

Richard North: Yes.

Q141 Mark Garnier: What ratio do you think is going to be the right ratio to use? Do you think it is going to be 1:1? So, if it is marginally more expensive on a 1:1 basis in terms of social cost to the banks, that would be good enough for you not to go ahead?

Richard North: I think what we will be doing is determining what the right measures are. We will be talking widely to people in coming up with the right measures. We will publish them ahead of time so that people can challenge or criticise. The most important thing is that they are accepted by consumers and that these are fair measures to use.

Q142 Mark Garnier: You will have terms of reference that will be published, hopefully sooner rather than later. People would then be able perhaps to come back to us and we could have a look at it and people can get in touch with you.

Gary Hocking: The commitment already on record is that we will consult publicly in 2014 and then publish the results of that in 2014.

Mark Garnier: The terms of reference of the cost-benefit analysis?

Gary Hocking: Of all of the tests that will be applied in 2016, including the cost-benefit analysis.

Q143 Mark Garnier: And then you will publish the cost-benefit analysis, and then presumably there will be a process where people can challenge that?

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

Gary Hocking: Yes.

Q144 Mr Love: I have been listening very carefully. You are telling us on one hand that you have or you are developing a paper alternative that is just as flexible and convenient, or you hope it will be, but will be considerably cheaper for the customer?

Richard North: It is cheaper to process.

Q145 Mr Love: It is cheaper to process, and you mentioned earlier on that some of that saving would be passed on to the consumer in a competitive banking system.

Richard North: What I said is that in a competitive market, you would expect some part of any saving to flow back. That is just economics.

Q146 Mr Love: Therefore, one would expect consumers would be attracted by that. On the other side you are telling us the use of cheques is going down significantly.

Richard North: Yes.

Q147 Mr Love: One suspects that if we asked a question, "Will it plateau?" you would have to say yes, because if the use of cheques just disappeared you would not need to come up with an alternative. They would use whatever other alternatives there are. Therefore, putting these two things together—that it is going down, that you have an alternative in development—do you not think it was a monumental mistake to set out your stall at 2018? Don't you think that was a mistake?

Richard North: What? To set the timetable for 2018? As I say, I think it was a judgement that was made in 2009. There were good reasons for choosing to set out a timetable and for choosing 2018. You might have chosen 2020. You might have chosen 2016. I don't know, but eight years seems a pretty reasonable period.

Q148 Mr Love: Let me point out to you what I suspect is a developing view of the public. Their developing view is that if you look at the abolition of cheque guarantee cards, if you look at all the publicity that all the banks are putting out telling them that this is all going to come to an end, if you look at the negative publicity that has been created by 2018, they think that it is, if I can call it that way, the supply side of this equation rather than the demand side that is driving down the use of cheques. In other words, the system wants to get rid of this regardless of whether the consumer is consulted. While you would obviously disagree with that, can you understand why people would think that way?

Richard North: Given the examples that you have given me, I can understand why people think the decision has been made, clearly. As I say, I am concerned that that document says what it says. That does concern me, so yes, I do understand.

Q149 Mr Love: Would you accept that if we went to all of the other banks, we would be likely to find other banks putting out similar publicity? Which? has done some surveys in this regard in relation to the issuing

of cheques, whether it is becoming more difficult to issue cheques and all of the consumer issues related to that, and undoubtedly an assumption has been made by the banks if not by the public that this is all going to happen, and therefore they want to speed the process. Would you accept that as one of the consequences of announcing 2018?

Richard North: Well, I imagine that certain businesses may have speeded the process and they have done so because they see benefits for doing that: switching, for example, to direct debit. So I would have expected businesses to switch, but they are switching because they actually think it is a better system. They are not switching for any other reason. I mean, you wouldn't.

Q150 Mr Love: But you accept that there is a need for an alternative system to be in place. You accept that. All the way through you have accepted that, yet we don't have that system, yet we have this 2018 timetable set against it. What happens if you have not developed it but we still have many people wanting to use cheques?

Richard North: I have said the timetable is not set in stone. The moment it is beginning to look unrealistic that we can have the alternatives in place and that they will have been widely adopted by all user groups—if that isn't foreseeably achievable, we will delay the timetable, yes. That is a commitment I can make.

Q151 Mr Love: You have, if I may say so, and rightly so, repeated that many times this afternoon. Let's hope that the repetition will mean that it gets out to the public. I do hope that will happen.

Richard North: Yes, so do I.

Q152 Chair: You have made a worthy attempt to present what I think the vast majority of us would conclude is just an unpresentable case and I commend you for the effort that you have put in in doing that. I think you have a very firm sense, if you hadn't already before you came, of the seriousness of this and the seriousness with which a large number of people out there take the decisions that have apparently been taken by the Payments Council.

We have heard quite a number of extraordinary things this afternoon, not least the fact that the left hand does not know what the right hand is doing in banks, but in a quite different way. We have an investigation going on into banks at the moment, because that is exactly what was going on with respect, for example, to various aspects through SIVs and various other forms of credit creation taking place in banks that contributed to the credit crisis, but now you are telling us—

Richard North: In defence of banks, it happens in all large organisations. In all the large organisations I have worked in, you find that happens.

Q153 Chair: A very interesting contribution to the too-big-to-fail debate. But you are now telling us that the left hand doesn't know what the right hand is doing with respect to what is written on a whole raft of documents that go to customers.

15 June 2011 Richard North, Gary Hocking and Sandra Quinn

I think it is worth bearing in mind that we have had a letter today from the Treasury telling us that they are going to intervene; in other words, they are going to legislate if this goes off the rails. That is what that means, and I think it is important that everybody grasps that that is what that word "intervention" will mean. We have a Bill coming into Parliament shortly; draft clauses are being published. I have no doubt that unless people have confidence it is going to be sorted out, that is where this may go.

I would like to end with one important question. I am hoping you will be able to give us the commitment that you will not come forward with any firm proposal until you have given us a good chance to scrutinise it here and that that proposal, when you put it to us, will have already been seen and discussed in depth with the Treasury. Can you give us that commitment?

Richard North: Sorry? A proposal on what?

Chair: A proposal to go forward with the ending of cheques.

Richard North: No, of course. We will not go forward with the ending of cheques. You are asking: if the

board reaches the decision that it is right to proceed, would we come and make a presentation to you first? Is that what you are asking?

Q154 Chair: Yes, and that before you do that you will have spoken to the Treasury and made sure you have the Government on side. You are in the intolerable position where it appears you have had a policy that is unacceptable both to Parliament and the Government, and that really is a most unusual situation.

Richard North: We will commit to both talking to the Treasury and talking to you.

Q155 Chair: Thank you very much for your appearances today. It has been bumpier than perhaps you would have liked, but I am sure you will understand.

Richard North: It has been an interesting introduction to being chairman of the council.

Chair: Thank you very much.

Written evidence

Written evidence submitted by the Payments Council

EXECUTIVE SUMMARY

1.1 The Payments Council has announced a target to close the cheque clearing in 2018. However, the decision whether or not to proceed will not be taken until 2016. If by 2016 we have not met clear and published criteria, the cheque clearing will not close in 2018.

1.2 Even in the absence of Payments Council's actions the use of cheques is in long-term decline. Cheque volumes have fallen 70% in the last 20 years and are independently forecast to fall a further 40% by 2016. It would not be in the public interest if the Payments Council were to stand by without instigating some proactive management of the situation. We do not want to see vulnerable groups left reliant on a payment instrument that is increasingly difficult to use. This programme will ultimately improve customer choice and benefit the functioning of the economy as a whole.

1.3 We are conducting our work in an open and transparent manner; this is evidenced in our programme of intensive stakeholder engagement, the publishing of customer commitments and the 2014 public consultation and publishing of criteria on which a final decision will be based. Paramount amongst those criteria will be a published assessment of whether alternatives are available, acceptable and being used by all customer groups.

1.4 We are also working towards completing a social cost benefit analysis in an efficient and thorough manner, allowing us to base the decision on the future of cheques on the most robust possible analysis.

1.5 The Payments Council is well-equipped, well-resourced and best-placed to be doing this; our innovative governance structure stands up to scrutiny and makes Payments Council the optimum body to be undertaking this important work for the good of all customers, the industry and the wider economy.

INTRODUCTION

2.1 The Payments Council welcomes the reopening by the Treasury Select Committee of its inquiry into the future of cheques. We value this opportunity to update the Committee on the progress of our work to develop alternatives and protect the needs of customers currently reliant on cheques. We also look forward to seeing the submissions of other organisations to ensure the needs of specific groups of customers are supported through any change.

2.2 We remain committed to being fully transparent and to an open dialogue with those who still rely on cheques; this inquiry enables us to reassure consumers and businesses that cheques will not disappear unless we deliver on our commitments to make sure that acceptable alternatives are in place and available. Our ultimate goal is to ensure that customers gain from having alternatives that are more efficient, secure and convenient than a cheque ever could be.

2.3 This memo is structured to cover the governance and accountability of the Payments Council first, before going on to address the points raised regarding the future of the cheque. Setting out the background and remit of the Council helps to explain the rationale for setting a target date for closing cheque clearing.

STRUCTURE AND PERFORMANCE OF THE PAYMENTS COUNCIL

3. *Background to the establishment of the Payments Council*

3.1 The Payments Council was created as the long-term solution to the issues of transparency, access, governance and innovation in the payments industry that were raised in the Cruickshank review of 2000. These issues were dealt with by the Office of Fair Trading, which set up the Payment Systems Task Force in 2004, at the request of the then Chancellor of the Exchequer.

3.2 Members of the Task Force comprised representative bodies of consumers, small businesses and retailers, as well as organisations in the financial services industry including the payment schemes. HM Treasury and the Bank of England also sat on the Task Force as observers.

3.3 The Task Force was originally intended to run for four years; however, it was agreed that a new strategic body for the payments industry should be set up and this decision was a major influence in the move to close down the Task Force two years early. The Chancellor of the Exchequer, Gordon Brown, wrote to the OFT to approve the new model of governance for payment systems and the winding up of the Payment Systems Task Force.

3.4 The Payments Council was formally established in March 2007, with three core objectives that were agreed with the members of the Task Force:

- To have a strategic vision for payments and lead the future development of co-operative payment services in the UK;
- to ensure payment systems are open, accountable and transparent; and
- to ensure the operational efficiency, effectiveness and integrity of payment services in the UK.

It is the responsibility of the Payments Council to consider the needs and interests of all those involved in the payments chain from consumer to payment service provider, including the wider economy, and to ensure that payment services in the UK are adequate and suitable in meeting their requirements.

3.5 The UK's Payments Council was the first of its kind in the world and there has been much global interest in the governance structure and payments roadmap. It has been seen as an excellent model for managing and balancing the interests of users and payment service providers and other countries, eg Australia, Canada and New Zealand, have taken a keen interest in this structure to see how it can be adapted to their markets.

4. Governance structure of the Payments Council

4.1 The Payments Council is a voluntary membership organisation, governed by a set of published rules and a Board of directors. Organisations that are payment service providers with qualifying payment volumes are entitled to join as full members. Membership currently stands at 30 institutions. The Council also offers an associate member category for any organisation with an interest in payments, of which there are 21 members. Lists of both types of members can be found on our website, www.paymentscouncil.org.uk.

4.2 The Payments Council Board is made up of 15 voting directors, a non-voting independent Chairman and an observer from the Bank of England. Only full members of the Payments Council are eligible for a seat on the Board. Of the 15 directors on the Board, four seats are taken by independent directors, and the remaining 11 are industry-appointed directors who represent a cross section of our membership.

4.3 The Board is a unitary body and all directors participate equally in any discussion or decision. It aims to make decisions by consensus where possible, but where a vote is needed then it requires 70% in favour or 11 votes out of 15.

4.4 Each Board seat has one vote; however, importantly the independent directors have the power of veto if they all cast their votes together. This provides a safeguard to ensure that decisions are made in the interests of all users of payment services, not just the service providers themselves. The existence of the veto held by the independent directors influences the climate of every Payments Council Board discussion. The influence this affords to the independent directors means that it has not—to date—proved necessary for them to use that veto. The minutes from Payments Council Board meetings are published on our website.

4.5 From its inception in 2007 the Payments Council has, as part of its remit to meet the needs of users of payment systems, hosted three User Forums covering consumers, small and medium sized businesses, and large corporates. To ensure that the concerns of User Forums are effectively understood, and where appropriate acted upon, the Forums are each chaired by one of the independent directors; the independent directors then replay the views of the forums back to Board. The forums discuss and consider key issues and developments and offer specialist advice to the Board on a variety of payment related topics. The User Forums played, for example, an extremely important part in the consultation process that helped to shape the National Payments Plan.

4.6 Additionally, to widen our engagement even further, we have established a Vendor Forum, which is particularly important for our remit on innovation; and a Charity and Voluntary Sector Liaison Group, specifically for the purpose of feeding the needs and requirements of the Third Sector into our work.

4.7 Research and consultation has formed a major part of our activity to date. In the last two years alone we estimate that we have spoken to over 600 organisations and over 600 older people at various group meetings. We have also conducted extensive research into understanding payment use and payment behaviour, which has been one of our key roles since our inception.

4.8 The Council also works closely with its contracted payment schemes for the benefit of the UK payments industry. These are Bacs Payment Schemes Limited, CHAPS Clearing Company Limited (including the Faster Payments Service), Cheque & Credit Clearing Company Limited, The UK Domestic Cheque Guarantee Card Scheme, Belfast Bankers' Clearing Company and LINK ATM Scheme.

4.9 Each scheme has entered into a contract or other formal arrangement with the Payments Council. Under the contract, schemes are required to report to the Board and maintain open and transparent rules. If action is required by a scheme, the Payments Council Board is empowered to make decisions that are binding on scheme members in order to implement its strategy.

4.10 Payments Council has also established appropriate contacts with non-contracted schemes, such as Visa and MasterCard, as well as the cards industry, represented by The UK Cards Association. Given the significance of card payments to consumers and businesses, it is important to provide an holistic approach to the strategy for payments in the UK.

4.11 The Chief Executive and Chairman of the Payments Council meet with senior officials at the OFT, HM Treasury and the FSA on a regular basis. It is to these bodies that the Payments Council is ultimately accountable; however, the governance structure incorporating the User Forums also reflects the extent to which the Council is accountable to the full range of consumer, citizen and business interests.

4.12 The Bank of England Chief Cashier has a seat on the Board as an observer and the Council holds quarterly liaison meetings with the Bank oversight team. These meetings are in addition to those held with the Bank by the individual payment scheme companies.

5. Achievements of the Payments Council to date

5.1 A major milestone in the work of the Payments Council so far has been the development and implementation of the National Payments Plan. This was first published in May 2008 following a period of consultation with the industry and customers and publicly set the agenda for much of the Council's work over the next five to ten years. It is a strategic document that demonstrates how we are driving payments forward to meet the needs of stakeholders, whilst bringing together the three strands of our remit—innovation, efficiency and integrity. It also outlines those areas where collaboration and cooperative activity can deliver benefits to all users. Like the establishment of the Payments Council itself, the UK was the first country to publish a comprehensive plan for payments and the National Payments Plan has been recognised as a model of its kind. Similar plans can now be seen elsewhere.

5.2 The Faster Payments Service, a system that ensures payments reach the recipient within two hours, typically in seconds, on a 24/7 basis, was launched in May 2008 and has grown rapidly; so much so that it in 2010 it processed 220 million payments, more than were forecast to be made by this method in 2017. It was the first co-operative payments infrastructure to be introduced in the UK for more than 20 years and puts the UK among the best in the world for such a service offered to business and personal customers. In line with our policy of transparency, the Payments Council has pressed for, and secured, the publication on our website what each of the Faster Payments members offers to its customers. We see further exploitation of the opportunity presented by Faster Payments as a key objective of the Payments Council going forward.

5.3 One of the Payments Council's objectives is to take a dynamic lead in ensuring cross-scheme integrity. Following the OFT's review of the Payments Council in March 2009 (see section 6.1), we agreed a two-year work plan with Council members and the Bank of England with ten areas of activity. These ten areas have recently been independently assessed by KPMG to review our progress against this objective. In summary, KPMG found that progress had been made in almost all areas of activity but they felt that the profile of the Payments Council's work on cross scheme integrity should be raised further, both internally with Council members and externally with stakeholders. We will now be acting upon their recommendations.

5.4 As part of the Payments Council's commitment to deliver innovation in payments, we will shortly be making an announcement about a major collaborative project to provide a shared platform enabling person-to-person and person-to-business payments on mobile phones, which will provide a viable alternative to many cash or cheque payments. Indeed some individual banks have already embarked on their own mobile payment development programmes. The new Payments Council-led project will ensure that customers will be able to use their mobile phones to make payments to customers of other banks using a single common platform.

5.5 Other achievements have included publishing a Financial Inclusion Policy for use in major changes to payment systems and to encourage inclusive development of collaborative payment innovations; developing best practice guidelines to help resolve problems attributed to account number formats and payment reference information; and developing a roadmap for migrating current messaging standards used in domestic payments to newer, international standards.

5.6 One key success of the Payments Council is that we have given customers of all types—consumers and business, large and small—a voice for their payment needs. This has only been achieved because of the type of organisation that we are, hosting User Forums that directly inform the work of the Council.

6. OFT review of the Payments Council

6.1 In March 2009 the OFT conducted its two-year review of the Payments Council. The review concluded that the Council had made progress in meeting the objectives set for it by the Task Force, and that the payments industry has benefitted from a much greater strategic direction and from greater openness and accountability, which was widely welcomed by stakeholders. In summary, the work of the Payments Council has led to an improvement on what went before.

6.2 It was suggested that we should widen our membership and make more effective use of our User Forums. Since the OFT review we have welcomed four more full members and 12 more associates and agreed a change in our rules to allow card acquirers to join, thereby widening the types of organisation now part of the Payments Council community. We also established the Vendor Forum in partnership with Intellect to give payment system suppliers a bigger voice and earlier engagement in collaborative innovation. Intellect is the UK trade association for IT, telecommunications and electronics industries.

6.3 The OFT concluded that it saw no need for it to review the Payments Council again, and suggested instead that the Council itself should initiate two-yearly reviews. That first Payments Council review will be taking place later in 2011, following the first review of the National Payments Plan (the public consultation for which has recently been published). That Payments Council review will involve independent consultants and will take into account the conclusions of the cross-scheme integrity work and the revised National Payments Plan.

7. Industry work to tackle fraud

7.1 The National Payments Plan contained commitments to undertake two specific initiatives relating to fraud and security under its remit of integrity:

- Produce an annual assessment of key trends, emerging threats and countermeasures in payments fraud and security, including new technology, and review what additional action might be needed; and
- Investigate what if any further steps should be taken to facilitate data sharing.

In addition, two guiding principles were adopted: to raise awareness of fraud and security risks in collaboration with other sectors and the public authorities; and to conduct a formal risk assessment against any new collaborative initiatives.

7.2 To progress these actions, the Payments Council Board established a new strategic Payments Council group on fraud and security. This group has met a number of times and seeks input from existing payments industry fraud and security groups (including Financial Fraud Action UK, the UK Cards Association Plastic Fraud Prevention Forum and the Fraud Control Steering Group) and public sector organisations (including the National Fraud Authority, City of London Police, Metropolitan Police Central E Crime Unit, HMRC and DWP) to define priorities, and in particular explore how the payments industry and the public sector may work together more effectively.

7.3 An initial *Annual Fraud and Security Review* was published in 2010, which documents the current business environment and views of these senior fraud committees that were fed into the strategic Payments Council group. It assesses key trends, emerging threats and countermeasures in payments fraud and security, including new technology and reviews what additional action may need to be taken to ensure the industry stays one step ahead of security risks. This first annual review is available on the Payments Council website.

7.4 Payments Council Board has also confirmed that Council members should be encouraged to participate in data sharing initiatives, the second initiative that the group was asked to examine. In particular, reference was made to the Fraud Intelligence Sharing System (FISS) which enables the banking industry to share information on all types of fraud in a central, shared database. Established specifically to combat banking-related fraud in the UK, the system provides the industry with a secure and robust reporting mechanism. Confirmed fraud data from FISS is a key feed into the National Fraud Intelligence Bureau (NFIB) run by the City of London Police Force.

7.5 The work of the strategic group, and the annual assessment of fraud and security risks, will be central to the work on the development of alternatives to the cheque—and any other innovation in payments—because Payments Council members recognise that it is of utmost importance to the industry and customers alike.

7.6 Payments Council also supports the work driven by Financial Fraud Action UK, the umbrella body under which the financial services industry co-ordinates its activity on fraud prevention. We would also like to record our support for the submission to this inquiry by Financial Fraud Action UK.

7.7 Fraud losses across nearly all fraud types dropped in 2010. This current downward trend is due to the banking industry's ongoing investment to deter, detect and prosecute fraudsters, and its commitment to working collaboratively both across the industry and with other stakeholders.

THE FUTURE OF CHEQUE CLEARING

8. Rationale for setting a target date for closing cheque clearing

8.1 As part of the Payments Council's remit to ensure that the UK's payment systems and services meet the needs of all users and that they continue to operate efficiently and with integrity, the Payments Council had a responsibility to consider the implications of the sharp decline (of over 70% since 1990) that is being seen in cheque use.

8.2 No decision on the future of cheques has been taken yet; what has been announced is that the impact on customers of this decline needs to be managed—which was widely supported in the consultation and research taken prior to making the announcement—and that the industry needs to work collaboratively to ensure that suitable and acceptable alternatives are in place before a decision is made in 2016.

8.3 The trend in declining cheque use was happening independently of the Payments Council's programme, and in fact started many years ago. It has been driven largely by customers independently choosing to use alternatives that are more convenient for them, and by organisations such as retailers and utility companies preferring to accept payments by other means. Even those who use cheques heavily have had to modify their behaviour where the businesses they pay—such as supermarkets and petrol stations—have stopped accepting cheques. Whilst the Payments Council cannot stop retailers and businesses choosing not to accept cheques, we can ensure that personal customers who need and use cheques for personal transactions can continue to do so, where they continue to be accepted. This has led to the development of the ten customer commitments published in December 2010 (see section 8.9).

8.4 The programme has three main objectives:

- To protect vulnerable groups from an unmanaged decline in the use and acceptance of cheques, which would leave them without a choice of suitable and trusted payment methods to use—and would be likely to lead to a wide-scale reversion to cash;
- to provide information and assistance to customers to ensure that they are aware of the payment options available to them and are able to choose the best solution to meet their needs in each payment scenario; and
- to spur innovation, making improvements to existing services and investing in new solutions where the services currently available do not meet the needs of customers. This will produce wider economic benefits for the UK economy, as well as banking customers, not just for those currently using cheques.

8.5 We have completed initial base-lining market research to evaluate the levels of awareness and acceptability of cheque alternatives amongst consumers and businesses. All tracking market research will be undertaken on an annual basis and the results published. We currently have similar research underway within the charitable and voluntary sector. This research will go towards developing the criteria that will be used when a final decision is taken in 2016. The criteria will be based on the awareness, availability, acceptability and adoption of alternatives and will be published in 2014.

8.6 Closure of the cheque clearing system will produce savings for banks as the industry pays substantial fixed costs when providing cheques to customers (eg operating processing sites, cheque book production and equipment, the running and maintenance of the clearing system, distribution, and the transportation of cheques, all of which have substantial negative environmental as well as cost impacts). The industry is actively reducing and managing such costs today as volumes decline but there will be an increase in unit costs whilst fixed overheads remain.

8.7 The challenge to the payments industry is to ensure faster, more convenient payment alternatives are delivered. In the short-term, there will be costs to banks to implement these changes. However, if these alternatives prove successful, cost savings on cheque use can be achieved which will benefit all parties.

8.8 Even greater savings are expected to be realised by businesses and the public sector, who incur substantial costs associated with handling cheques, including processing and error reconciliation, and stand to gain significantly from innovation. Our broad estimate is that these could amount to £750 million in 2018.

8.9 In December 2010, the Payments Council published a set of ten customer commitments, including that banks will continue to offer cheques until at the very least there are available, acceptable and widely-adopted alternatives in place—the criteria that need to be passed in order for a decision to be made in 2016. This is a clear example of a programme designed to protect vulnerable customers from the premature withdrawal of cheques. The commitments will be reviewed at two-yearly intervals to ensure that they remain appropriate and relevant for customers who write and receive cheques.

1. The process by which we take the final decision in 2016 on whether to close cheque clearing will be transparent and open for public scrutiny and will include an independent evaluation of costs and benefits.
2. Our members recognise that their customers who are reliant on the cheque will need time to migrate to the alternatives which will be introduced over the next few years; therefore, members confirm that they will continue to make cheque facilities available to these customers until either there are available, acceptable and widely adopted alternatives in place, or the closure of the cheque clearing itself.
3. We will continue listening to and working with charities, clubs, societies and other voluntary organisations to ensure that we understand and address their requirements, both as writers and receivers of cheques.
4. We will ensure that the needs of harder-to-reach and vulnerable groups are identified and addressed in our work to develop a choice of alternatives to cheques.
5. We recognise the importance to older people and disabled people of services that meet their needs and will ensure that these are understood and addressed in developing alternatives.
6. We will ensure that the needs of the small business sector, both as the senders and receivers of payments, are understood and addressed in developing viable alternatives.
7. Where there are gaps in the current range of payment options, we will look to foster innovation and investigate the feasibility of providing a paper-based method of payment, to address the needs of some consumers who are highly dependent on cheques and who may find it difficult to migrate to the electronic alternatives.
8. We will ensure that security and consumer protection remain paramount in our work on alternatives to cheques.
9. We will commission robust and independent market research to be undertaken with consumers, businesses and the charitable and voluntary sector to measure awareness of alternatives to cheques and levels of acceptability of those alternatives; we will also make the results of this research public.
10. We will work together as an industry to ensure that any change introduced is communicated in a way that educates and informs our customers and supports their move to alternative methods of payment.

8.10 Customers can only benefit from the Payments Council involvement; whilst we cannot force organisations to continue to accept cheques, we can ensure that cheque facilities continue to be offered and that innovation happens in a collaborative manner to improve choice and suitability of payment methods for all.

8.11 In order to facilitate the development and promotion of suitable alternatives and to ensure appropriate communication and education for consumers, migration away from cheques will be monitored using key performance indicators. This will be undertaken by the Payments Council using member data to follow changes in payment behaviour, and to identify where customers are choosing to use new and existing alternatives instead of cheques. This will help focus resources on where the gaps in alternative payment methods exist, and identify the work that still needs to be done, to ensure that no sectors are disadvantaged.

9. Trends in cheque use

9.1 Cheque use has been in long term decline in the UK since 1990. Overall, the rate of decline has accelerated in recent years, with total cheque volumes of 1.1 billion in 2010, 42% lower than they were in 2005. In 2010, cheques were used for less than 1% of non-cash payments in the retail, travel and entertainment sectors.

9.2 There has also been a rapid decline in consumer use of cheques for regular bill payments. In 2010, cheques were used to pay 6.6% of personal regular bills, compared with 14.0% in 2005.

9.3 Change has been slower in other areas where individuals use cheques, such as payments between individuals or from individuals to small businesses and other organisations such as charities, schools and clubs. 56% of all the cheque transactions made in 2010 were made by individuals; the remaining being business cheques.

9.4 In 2010, 44% of adults wrote a cheque, each writing 28 cheques on average over the course of the year. In total, individuals wrote 620 million cheques in 2010.

9.5 The propensity to use cheques is highest amongst older individuals and those in higher income or socio-economic groups. More than 60% of people 65 and over write cheques, as do 64% of all adults in the socio-economic groups A and B. People 65 and over wrote 36% of all cheques written by individuals in 2010, whilst those under 35 wrote under 8% .

9.6 In 2010, 35% of adults received a cheque payment. There is less variation between different groups in terms of receipt of cheques than in writing cheques. Adults in the middle age bands are the most likely to receive cheques, for instance 43% of those aged 55 to 64 received a cheque in 2010, and those at the opposite ends of the age spectrum are the least likely, 28% of adults aged 75 and over received a cheque in 2010, as did 30% of those aged 16 to 24.

9.7 Business-to-business cheque use has experienced comparatively rapid rates of decline. The volume of cheques used for payments by businesses to individuals has fallen more slowly in recent years. Some large organisations remain heavy users of cheques for purposes such as refunds, dividends and insurance settlements. There were 493 million business cheque transactions in 2010.

9.8 This decline is being driven primarily by businesses writing fewer cheques. Change is occurring across the business spectrum with 50% of businesses reporting that they use fewer cheques than they did three years ago. It is happening fastest with larger businesses; over 80% of businesses with an annual turnover of more than £20 million use fewer cheques than they did three years ago, compared with 39% of businesses with an annual turnover of less than £100,000. Overall, 85% of businesses have made a cheque payment in the last month, a proportion which does not vary significantly according to the size of business.

9.9 Cheque use needs to be seen in the context of the number of payments made by consumers and businesses using other methods. In 2010 cheques represented 3% of all payments made in the UK and the breakdown into the main payment methods was as follows:

Payments made by consumers:

- 620 million payments made by cheque;
- 6,293 million payments made by debit card;
- 1,878 million payments made by credit card;
- 279 million payments made by electronic transfer
- 436 million standing order payments
- 2,834 million payments made by Direct Debit;
- 20,219 million payments made by cash.

Payments made by businesses:

- 493 million payments made by cheque;
- 2,343 million payments made by electronic credit;
- 395 million payments made by Direct Debit;

- 253 million payments made by credit or debit card.

10. *Framework for undertaking a cost benefit analysis*

10.1 It has always been the intention of the Payments Council to conduct at the appropriate time a full social cost benefit analysis of any decision to close cheque clearing. Following Payments Council's appearance before the Treasury Committee in March 2010 we asked Frontier Economics, an independent economics consultancy with extensive experience of such work, to advise on how and when a cost benefit analysis of the programme should be undertaken. Frontier has recently delivered its second report to Payments Council on work towards doing a cost benefit analysis. We will shortly be publishing the key findings and recommendations; the first report is already publicly available on our website.

10.2 Frontier has advised that a full and robust cost benefit analysis of the programme cannot be undertaken at this stage because of uncertainty about what alternatives may emerge and how they will be adopted by users, and also because of inevitable gaps in the data at this stage. They endorse our approach of preparing now for such a cost benefit analysis by undertaking preliminary analysis on the impact of the programme, programme monitoring and extensive data collection, beyond that which we have already carried out. Furthermore, given the finality of any closure decision, and the significant uncertainties that currently prevail, Frontier confirms that the Payments Council's approach of only taking this decision in 2016, by which time much of the uncertainty may have been resolved, is consistent with sound economic rationale.

10.3 The approach that we are following to undertaking the cost benefit analysis was conveyed to the Committee Chair and Clerk in correspondence in both July and November last year. This approach will ensure that we deliver what we were challenged to do before any decision is made on closing the cheque clearing.

10.4 Work that Frontier Economics has been able to do so far includes the analysis of all data that is currently available to estimate the size and make-up of stakeholder groups and the likely costs and benefits that may accrue to each. It has also developed a model for its analysis and presented a series of recommendations to the Payments Council about the data that needs to be captured and the monitoring to be undertaken, before a cost benefit analysis can be completed as close to the decision point in 2016 as possible. This is a very extensive programme of work but all its components have been accepted by the Payments Council Board and are now being acted upon.

10.5 Once these information gaps have been filled, it will be possible to produce a detailed and robust cost benefit analysis. This will be a social cost benefit analysis, meaning that the Payments Council will be interested in not just the balance between the total costs and total benefits, but how these are distributed across groups. A particular focus will be given to vulnerable groups and their perception of the benefits of using cheques; this is one of the clear advantages that a Payments Council managed approach can deliver. A clear commitment has been given that until such an analysis has been carried out, no decision will be made about the closure of cheque clearing.

10.6 Depending on the outcome of the monitoring work to measure the impact of the programme on different groups between now and 2016, we are ready and prepared to speed up or slow down certain aspects of the programme, or halt it all together if it becomes apparent that disproportionate costs are being felt by vulnerable groups without offsetting benefits accruing.

10.7 Frontier Economics has done a detailed bottom-up forecast of cheque volumes. On the best available evidence, Frontier forecasts conservatively that, even in the absence of the Payments Council's actions, the number of cheques written by 2016 would have fallen to fewer than 640 million—a further fall from today's numbers of over 40%.

10.8 There is an economic case to be made to support the replacement of cheques by more efficient payment options. Many large businesses, as well as banks and the public sector, will derive significant cost savings. Customers, of all types, will gain from the availability of enhanced and new payments to suit their different needs.

11. *Stakeholder engagement*

11.1 The Payments Council has implemented a thorough programme of stakeholder consultation, which Frontier Economics has described as "an excellent process for engaging with stakeholders and ascertaining their requirements". The Council has been working hard with representatives of vulnerable and cheque-dependent groups to understand the needs of these users and is committed to continuing to listen to these groups. The instigation of the programme has meant that users have been consulted on their payment needs in a far more comprehensive way than would have otherwise happened. Particular focus has been given to the needs of older people, small businesses, and charities, clubs and societies. Examples of our stakeholder engagement and consultation are outlined below.

11.2 We have been visiting older people's forums, meetings and groups to talk to older people directly about our work. We have also been discussing our proposals with Age UK on an ongoing basis and in April 2011 the Chief Executive of Age UK attended the Payments Council Board meeting to discuss Age UK's views. National Pensioners' Convention and Age UK are among the 15 different organisations represented on our

Consumer User Forum. We have also initiated consultation work with the care home sector to understand more about how cheques are used in this setting and the specific requirements and needs of people living in care.

11.3 We have met with those organisations that represent the needs of small and medium-sized businesses, both in individual one-to-one meetings and also as part of the SME User Forum. More specifically, this year we have been working with the British Chambers of Commerce to hold an extensive series of workshops throughout the UK, to talk directly to SMEs about their use of cheques and what they need out of alternatives. Workshops held so far have been very well received and we will be publishing the output of this work later in the year. By the end of the series of events, we will have directly met and engaged with over 300 small and medium-sized companies, ranging from sole traders to larger brands.

11.4 In addition to establishing the Charity and Voluntary Sector Liaison Group to work with us specifically on this project, during 2010 we held a series of independently facilitated workshops around the UK with over 200 organisations taking part, from the smallest local club to the largest national and international charities. A report was produced by the research agency facilitating the events, which was published and shared with all participants. Some additional workshops have been held this year with more than 30 organisations that were unable to make last year's events.

11.5 We are also working with organisations that use larger than average volumes of cheques, such as insurance companies, financial institutions and public sector agencies. We are also holding workshops with financial institutions that are not members of Payments Council by partnering with financial services trade bodies to reach their memberships.

11.6 We have received many letters and emails from members of the public, the majority of which are either from older people or written on their behalf, explaining their concerns and their current use of cheques. Everyone who gets in contact receives a reply and the opportunity to receive our newsletter for regular updates on the work. The points raised in correspondence are summarised and shared with our members and the Board on a regular basis, and fed into our work on requirements for alternatives.

11.7 We have committed to undertaking a public consultation in 2014 on the future of cheques and acceptability of alternatives, which will be fed into the decision making process in 2016.

11.8 Other communications activity has included producing customer fact sheets, publishing the first annual progress report on the programme, publishing a quarterly newsletter and launching the first part of an educational campaign called *Pay your Way*.

12. Innovation and the development of alternatives

12.1 Our criteria clearly require alternative payment methods to be available and in use before any final decision is made in 2016. This is where our work is now targeted. We understand the frustration that some feel that few new options have yet emerged but our work this year is focussed on delivering clear recommendations on enhancing existing payments and identifying new opportunities. As well as the announcement to be made by the Payments Council on the development of a shared platform for mobile payments, we are confident that the next 2–3 years will see enhanced and new payment options becoming increasingly available. This will ensure that we can make a robust assessment of the public criteria in the run up to 2016.

12.2 During 2011 we are validating the requirements and assumptions acquired from the market research and consultative work undertaken during 2010 and putting the findings into designing solutions for each different payment need.

12.3 We will be systematically examining the requirements of all key user groups, turning them into actions and solutions, which may involve building on current alternatives or creating new ways of paying. There will be regular check-points throughout the process for stakeholders to validate the requirements and for them to test and challenge the suitability and practicality of solutions.

12.4 We will recommend solutions to Payments Council Board in December 2011, including if appropriate any requirements for paper to continue. The timing of building, testing and implementation of alternatives will depend on their level of complexity; for low complexity solutions, we expect to see tangible progress in 2012. Although not all alternatives will come from within the immediate Payments Council community, we will ensure that the Treasury Select Committee is kept informed of developments during 2012. Our role is to concentrate on delivering alternatives for those groups that would be most disadvantaged if alternatives did not exist, eg schools, small businesses, charities and older people.

12.5 The Payments Council Board has already approved two recommendations for delivering alternatives to the cheque: solutions to ensure non-cheque payments can provide multiple authorisation, and mobile payments.

- Payments Council has responded to a key requirement of charities, societies and small businesses whose only way of complying with current requirements that payments have—at least—two separate individuals authorising those payments is by using cheques. By the end of 2013, banks will provide those customers who use cheques for multiple authorisation purposes with alternatives, such as internet or telephone banking which can provide the same service.

- There is also the forthcoming announcement to be made by the Payments Council on the decision taken to undertake collaborative work to provide a shared platform enabling person-to-person and person-to-business mobile payments. Our research suggests that this would help meet two important demands: the needs of a number of small businesses (eg sole traders); and person-to-person payments by cheque-dependent individuals who are comfortable using such technologies.

12.6 Payments Council has also encouraged best practice in reducing existing cheque payments where effective alternatives already exist (eg bill payments).

12.7 Another good example of this type of work has been the development by LINK of the facility to donate to charity when using cash machines. The central network infrastructure has been amended to allow this to happen, with the use of the new functionality now down to individual cash machine operators.

12.8 We will also be ensuring that the automated payment schemes in the UK (Bacs, CHAPS and the Faster Payments Service) have identified where enhancements for consumer benefit are needed and have agreed work plans in place to ensure that change is implemented by 2014.

12.9 Effective interaction with Visa and MasterCard has also ensured that existing and new card-based alternatives to cheques are fully-reflected in their plans.

13. Closure of the Cheque Guarantee Card Scheme

13.1 As part of the National Payments Plan, the Payments Council committed to reviewing the Cheque Guarantee Card Scheme in light of its falling use. That review concluded that the Scheme was in long-term decline, with volumes falling by a third in 2008 alone, and that it would be better for all concerned to manage the decline and closure of the scheme in an orderly fashion rather than a disorderly collapse.

13.2 At the time of taking the decision to close the Scheme, the proportion of debit cards without the guarantee had already reached 25% and many retailers had stopped accepting guaranteed cheques. It was becoming clear that if co-ordinated action was not taken then there was an increasing risk of guaranteed cheques being refused in yet more situations and banks removing the functionality in their own individual timescales increasing the risk of confusion, processing errors and fraud.

13.3 In 2008 we commissioned independent research from Synovate to look at the likely migration of payments if the Scheme were to be closed and what businesses would do in terms of future acceptance of cheques.

13.4 The principal finding from the research was that the impact of closure on other payment methods is likely to be limited. In 2009 there were only 88 million payments made by guaranteed cheque, or only 7% of all cheque payments. This must be seen in the context of the 6 billion debit card payments and 21 billion cash payments made in the same year.

13.5 The research went on to look at what would be likely to happen to those payments currently made to businesses by guaranteed cheque and how the business would choose to accept payments in the future.

13.6 Businesses felt that they did have alternatives available to them, if the guarantee was withdrawn.

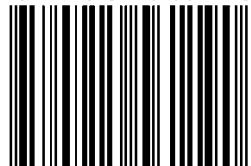
- Half of guaranteed cheques are accepted by businesses that currently accept payment by debit or credit card.
- A further 12% of guaranteed cheques are made to businesses who say that they would start accepting cards if guaranteed cheques were not available.
- A significant number of businesses, accounting for a third of guaranteed cheques received, are prepared to carry on accepting cheques unguaranteed.
- A much smaller group of businesses would consider using a commercial guarantee service in future.

13.7 For consumers, the alternatives would be an unguaranteed cheque, cash, or a card payment. A debit card would be the most obvious alternative to use as the guarantee can only be used in face-to-face transactions, where usually the guarantee card itself is already a debit card.

13.8 In terms of the overall volumes passing through the cheque clearing, the number of guaranteed cheques is both relatively small and occurs in areas where there is already a strong trend away from cheque use. Additionally, the average transaction value of a personal cheque is £392 but the maximum guarantee limit on a card is only £250 and 88% of all guarantee cards have a limit of £100 or under. We estimate that this year fewer than 20 million additional cash and debit card payments will be made directly on account of the closure of the scheme.

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