Consultation Response
HM Treasury:
Speeding up cheque payments
legislating for cheque imaging

April 2014

Who we are

Toynbee Hall has worked on the frontline in the struggle against poverty for 130 years. Based in the East End of London we give some of the UK's most deprived communities a voice, providing access to free advice and support and working together to tackle social injustice.

Toynbee Hall helps over 13,000 people a year. Our years of experience in providing people with the skills to improve their financial health, means that we are in an ideal position to help others improve their financial health policies and practice. We have used this understanding to create the Financial Health Exchange.

The Financial Health Exchange is committed to creating a fairer, more financially healthy society and our aim is to improve financial health in the UK. We help policy-makers and practitioners stay up to date on the latest financial health thinking and ensure that financial health good practice is followed in all of their work with clients and service users.

We are at the forefront of shaping the future of financial health in the UK. Our publications, research, good practice examples and expert opinion pieces are accessible to all those who want to improve the financial health of others.

Introduction:

We broadly agree with the Treasury's analysis that legislating to allow cheque imaging will bring a net benefit to consumers. However, we emphasise the importance of certain safeguards being maintained. The most important of these safeguards is the protection of consumers' right to continue using paper cheques as they do now, should they wish to. Importantly, this includes the ability to visit a branch and deposit a cheque in person. The following document outlines our response to each of the questions in the Treasury's consultation that we have deemed relevant to our organisation.

Q1: The current cheque system faces a number of challenges, and legislation to introduce cheque imaging will help resolve these and deliver a set of wider benefits, as set out above. Do you agree with this analysis?

Specifically, we are interested in views and evidence on the following points:

The costs (quantifiable or non-quantifiable) of the current system:

We recognise that there are a range of costs that consumers can incur under the current system. We have summarised these as follows:

- Time: Cheques take a long time to process. Currently, cheque clearing operates on a maximum "2-4-6" timescale. This means a customer paying in a cheque begins to earn interest in no more than two days; no later than the fourth day, the customer is able to withdraw money from the deposited cheque, but the cheque can still be dishonoured ("bounce") up until a maximum of 6 days. This can make it difficult for people to budget and lead them to seek faster and more expensive ways to process cheques such as through non-bank alternative providers like Cash Converters or the Money Shop.

- Lost cheques and human error: Under the current system, there is a risk that people misplace a cheque they have received before they have had the opportunity to deposit it. This can have an impact on their available funds and ability to make priority payments. Lost cheques can also create issues for people using cheques to make payments; for instance, someone paying a bill via cheque may misinterpret their financial situation if the receiving institution loses it. The Treasury also reports that "a proportion of cheques go missing every year" during the courier transit process that currently takes place between banks in order to validate a cheque.

- Detriment to people in rural areas or with mobility problems: Having to physically take a cheque to a branch can perpetuate the exclusion of people living in rural areas without easy access to a bank branch. It can also create an access issue for people with mobility problems.

The Benefits (quantifiable and non-quantifiable) of introducing cheque imaging

It is our view that cheque imaging has the potential to create a range of benefits for customers. These include:

- Time: The Treasury's proposal is for cheque imaging to operate on a maximum "1-2-2" timescale. This shorter timescale has the potential to add efficiency both for the cheque issuer and the payee. It could also help to improve consumers' ability to budget and avoid missing payments and going into arrears.

- Lost cheques and human error: Cheque imaging will allow consumers to deposit cheques immediately upon receiving them, reducing the risk that they misplace them before finding an opportunity to take them to a branch. Similarly, the digitisation of the cheque depositing process will reduce the instances of cheques being lost or damaged once in the hands of the bank/building society.

- Benefit to people in rural areas or with mobility problems: The removal of the need to physically take a cheque into a branch in order to deposit it will benefit those living in rural areas and those with mobility problems, assuming they have digital access and skills.

- Ensuring the future of the cheque as a payment system: Cheques are an important part of the British payments landscape: they accounted for ten percent of all payments made by individuals in 2012. Research conducted by Toynbee Hall and Policis for the Payments Council found that cheques are “valued by an important sub-set of the older old but also by those for whom there are practical barriers or security fears associated with card use.”[1] The proposals to promote cheque imaging could help to safeguard the cheque as a valued payment system in Britain.

The Costs (quantifiable and non-quantifiable) of introducing cheque imaging

Although we are generally supportive of the government’s proposals, we have a core concern about how technological innovations like cheque imaging may create access issues for consumers who rely on traditional banking services in branches.

- Access to branches: In areas where financial exclusion exists on the basis of a lack of access to branches, we are concerned that the general move towards online/mobile banking may exacerbate this issue. In itself, we do not believe that the move to cheque imaging will shift demand away from traditional banking services to the extent that it will lead to branch closures; a recent Social Market Foundation study found that 6 in 10 people value face-to-face banking services.[2] However, we request that the government and the industry be alert to exclusion issues that may arise in this area, including the ‘drip by drip’ cumulative impact of ever more services being delivered online and digitally.

The appetite (among both payment service providers and customers) for adopting smartphone technology for the paying in of cheques

We feel there *is* appetite for further online/telephone banking services. Over a third (36%) of respondents to the Social Market Foundation survey said that online or telephone banking was their preferred channel to access banking.

The survey found that younger and more affluent consumers were more likely to prefer online banking. However, a significant minority of the lower D/E socio-economic groups (25%) said they preferred online banking for their financial transactions. This indicates that there is some appetite for innovations like cheque imaging amongst those typically at-risk of financial exclusion. At all times we urge the government to keep in mind that cheque imaging will be unlikely to benefit certain at-risk groups, such as older people who are not comfortable with online banking.

The experience of other countries in adopting cheque imaging

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[1] http://www.paymentscouncil.org.uk/files/payments_council/payments_council_-_policis_and_toynbee_hall_older_old_and_disability_report_24.10.12_final.pdf

[2] http://www.smf.co.uk/files/5413/9360/7558/Branching_Out_-_The_evolution_of_retail_banking_FINAL.pdf

N/A

Q2: The current legislation preserves the practice of exchanging paper instruments, and does not accommodate the transmission of digital images. Do you agree that the legislation should be amended to remove the right of the paying bank to demand delivery of the original paper cheque, and require a certified, digital image of the cheque to be treated as equivalent to the original paper cheque for the purposes of presentment?

We agree with the Treasury's assertion that removing the right of the paying bank to demand a paper cheque will allow legislative space for the industry to innovate and create cheque imaging technology, and therefore support the proposal.

Q3: Do you agree that the government should legislate to protect the choice of customers to deposit paper cheques in branch, even where there is the option of paying in via smartphone?

The protection of consumers' right to continue depositing paper cheques in branch should they wish is of central importance to us. We agree that the government needs to legislate to ensure this right is safeguarded. Without regulation, banks may eventually phase out the provision to deposit cheques in branches altogether, as it will be more expensive for them than using cheque imaging.

Furthermore, we are concerned that the government's drafting of the legislation may not go far enough to protect consumers adequately from all potential risks. We urge the government to protect customers from being charged additional fees for not moving to the cheque imaging model when it is established. If banks make significant cost savings from customers using cheque imaging – for instance, by reducing the amount of time branch staff spend cashing cheques – they may attempt to establish disincentives for customers using the traditional system. This could cause detriment to the subset of consumers who rely heavily on cheques. We therefore strongly recommend that legislation to protect choice also protects the consumer from pricing aimed to disincentivise or penalise paper cheque users.

Q4: The government believes there is a strong case for the industry moving as one onto a cheque imaging model with a central scheme infrastructure, but is willing to consider permitting banks to request paper substitute cheques as an alternative.

Should the government legislate for a date by which all financial institutions must be ready to accept cheque images? If so, what is a reasonable period of time to allow the industry to prepare for cheque imaging?

Or should the legislation provide the option for financial institutions to accept an Image Replacement Document (IRD) as an alternative?

A new model of "1-2-2" has been put forward as a desirable and realistic target for the industry. Do you agree?

We support the goal of a new "1-2-2" model as we judge that it would give valued clarity to cheque users, both payees and payers, on the actual availability of funds. We also judge that this model would reduce the need for some consumers to use faster but more expensive non-mainstream cheque cashers, which in turn would reduce the costs of cheque cashing, particularly for those consumers with tight margins who require faster access to funds.

Q5: Do you agree that the proposed legislative changes should apply to all of these paper instruments (bankers' drafts, postal orders, government payable orders, warrants, travellers' cheques and bank giro credits), to allow them to be cleared in image form?

We agree that the legislative changes should apply to all of the paper instruments referred to. The use of Postal Orders in particular has risen in recent years. Increasingly, consumers use them to make online purchases because they are drawn on the Post Office's accounts and vendors can be certain they will not bounce. The sender pays a small fee – capped at £12.50 for larger payments – but does not have to provide financial details or have a bank account; this is particularly relevant for a key client group of financially excluded consumers on low incomes. The increased efficiency and shorter processing time that cheque imaging could provide may help users of Postal Orders to manage payments and budget effectively.

Q6: Do you agree that liability should be with the collecting bank, rather than the paying bank?

For agency arrangements, should the liability be with the collecting bank, or the beneficiary bank, or shared between them? The government would particularly welcome comments from banks and building societies with agency relationships. Should the government impose specific due diligence obligations on the collecting and/or beneficiary bank, as well/instead of transferring the liability?

N/A

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