

Corporate Fact Sheet

The C&CCC is currently looking at introducing a new, easier and quicker way of clearing cheques. Called cheque image processing, it will enable Sterling cheques to be processed at the click of a button and allow money from cheques paid in to be available for withdrawal much sooner than currently by the use of new technology.

This fact sheet explains what corporate customers might expect.



Background

Cheque usage in the UK has been in decline for more than 20 years, falling from its peak of 4 billion cheques in 1990, to its current level of 644 million per year.

For the last two years the Cheque and Credit Clearing Company (C&CCC), the organisation which manages the GB cheque clearing process, has been undertaking extensive research to try and find a method of clearing cheques which uses 21st century technology whilst at the same time protecting the future use of cheques for customers.

Cheque image processing - where images of cheques are collected and then transferred with files of cheque data between banks at little more than the touch of a button - has been chosen as the preferred way forward.

Many other countries, including the USA, France and much of the rest of Europe, China and India already operate a cheque image collection process.

In order that the UK can introduce cheque image processing a change to the law has been approved. Currently cheques are physically transported from bank branches to clearing centres where the details are read and confirmed. Electronic files are transmitted to the other banks and the actual cheques are exchanged as well. The new legislation in the Small Business, Enterprise and Employment Act received Royal Assent on 26th March 2015 and this law will allow banks to scan cheques and send the images electronically with the data files.

There is much work to be done before cheque image processing can become a reality. The Government is now working on the regulations that need to be put in place to underpin the new legislation and this will be completed by 31st July 2016. Meanwhile the C&CCC is working with the banking industry to agree the changes to the infrastructure and technological capabilities that are required before the process can be introduced. A specific timeframe for the project to complete will be announced over the coming months.

Specific benefits for customers

- Cheque usage will be protected. Customers will write cheques and give or post them to recipients just as they do now. They can carry on using cheques for as long as they want.
- There will be new ways to pay cheques in, which banks may offer to some of their customers.
- Banks may offer scanners to their corporate customers, which they can use to create images that can be uploaded to their online bank for paying in and processing, rather than visiting a branch. Some corporates, subject to status, may wish to participate directly in the cheque clearing system themselves.
- Customers who want to carry on paying in cheques as they do at the moment will be able to do so. Customers need do nothing different if they don't want to.
- Money from cheques paid in will be available for customers to withdraw more quickly than at the moment. Under the new image-based clearing process, if their bank receives the cheque on a working weekday, the time it takes for it to clear and for the customer to be absolutely confident that it won't bounce is likely to change from six working weekdays to the next working weekday.
- Customers will receive faster notification of any unpaid cheques.
- Customers will continue to be protected from fraud. Cheque image processing will benefit from better fraud detection and prevention systems through use of cutting edge technology.
- Cheque image processing will make it easier for challenger banks to enter the market with cheque products, thereby increasing competition within the sector. More competition means more choice and this should lead to better products for customers.

Q. How are cheques currently processed and cleared?

A. The Cheque and Credit Clearing Company (C&CCC) is the organisation that looks after the GB Sterling cheque clearing system. A bank currently has the legal right to demand that they see the physical cheque prior to deciding whether to pay it or not. As a result, cheques are physically transported from bank branches to central clearing centres where the details on the cheques are then read and confirmed. Cheque codeline data is sent across a secure network to the other banks and the cheques are exchanged as well. It is a slow and labour-intensive process but it has to be done this way because the current law requires it. New legislation has been passed but will not come into force until July 2016. It is not possible to change to industry-wide cheque image processing until after that date.

Q. So what is cheque image processing?

A. Cheque image processing is very simple. Once the new process is in place, cheques being paid into bank accounts will be scanned to create images which will then be transmitted, along with a file of cheque codeline data, across a secure network to payers' banks for payment. This will speed up the cheque processing system.

Q. How will cheque image processing work?

A. Customers will continue to write paper cheques and give or post them to the recipients as they do now but customers receiving cheques may find their bank offers them ways of paying in cheques.

They will still be able to pay in at a branch counter just as they do now, where an image of the cheque will be taken by the bank. It will be this

image (rather than the physical cheque), together with a file of the cheque codeline data, that will be exchanged electronically between the relevant banks.

In addition, some banks are developing a number of new ways for customers to pay in cheques.

Corporate customers may be offered a facility to scan cheques themselves to create images which they will be able to upload directly to their online bank for processing.

Alternatively, they may wish to participate directly in the cheque clearing system. Subject to status (the Cheque and Credit Clearing Company will set the criteria), corporate customers will be permitted to scan cheques to create images together with a file of cheque codeline data, which they will transmit themselves across a secure network directly to payers' banks for payment.

A third option will be to appoint an accredited payment processor to undertake cheque imaging (creation of image and cheque data which they will transmit to the payers' banks for payment) on their behalf.

Corporate customers should talk to their bank to find out about what options are available to them and how much the charges will be at the earliest opportunity.

Q. Will personal customers and smaller businesses have new ways to pay in?

A. Yes, banks may offer personal customers and smaller businesses the facility to image cheques they receive as part of their secure mobile banking app, which they can then upload to their mobile bank for paying in and processing.

Q. My organisation receives a lot of cheques. Will I be forced by my bank to image cheques on their behalf?

A. No. If you receive cheques from your customers and you want to continue to pay the cheques in at your local branch counter then the bank will take an image of the cheque and it is this image that will be exchanged electronically between the relevant banks.

However, you may find that you have new ways of paying cheques in. These facilities should make it easier for you to handle bulk cheque deposits in the future.

If you are attracted to the advantages of image processing but do not wish to undertake it yourself, one option will be to appoint an accredited payment processor to undertake cheque imaging (creation of image and cheque data and transmission to the payers' banks for payment) on your behalf.

Individual banks will keep their customers updated on what facilities and products they intend to offer and how much they will cost.

Q. As an organisation we already scan cheques that we receive. Under the proposed changes to the cheque clearing process will we have to scan them again in order to pay them into our bank?

A. No. The Cheque and Credit Clearing Company is currently working on introducing a scanning standard that will encompass minimum levels of both quality and security which the industry will adopt. This will mean that there is no need for you to scan your cheques twice. We are planning to announce more details on this later in the year.

Q. Will banks provide 'approved' scanners free of charge to their corporate customers?

A. Over the coming months, banks will be liaising with their corporate customers to ensure that businesses have all the relevant equipment needed for cheque imaging if they wish to use these services. This is a competitive matter and will be for the individual banks to decide on what charges there will be.

Q. Will customers need to have new chequebooks when cheque imaging is introduced?

A. No - while there will be new security features introduced into cheques, customers will still be able to use their existing chequebooks. The new system will use a whole range of fraud detection techniques which will work on old-style chequebooks as well as the new.

Q. Will all banks be taking part in the new image processing system?

A. Yes. The proposed speeding up of the cheque clearing system will impact all banks and building societies. However, not all banks and building societies will offer the facility for their customers to take images of cheques themselves - this is a matter for individual banks and they will update their customers accordingly.

Q. Due to the large volume of cheques that we process, we currently enjoy reduced banking charges. Cheque image processing will cost banks millions of pounds to implement so will the banks try to recover the costs from me?

A. We do not expect them to as the costs of changing the cheque processing system will be borne by the banks themselves but it is a competitive matter and will be for the individual banks to decide on. Individual banks will be contacting their customers over the coming months to give them more information.

Q. Our company has an account with a bank that is not a clearing bank. Will this advantage or disadvantage me in the future?

A. Currently, under the paper processing model, it is very difficult for a non-clearing bank to move from one bank to another for the processing and settling of their cheques without changing all their chequebooks and other stationery - something that is costly. Under the new image processing model, it will be easier for non-clearing banks to move to another bank. Perhaps the most important benefit, therefore, of introducing a cheque image processing model is that it should increase competition between banks - which will be good news for customers.

Q. Bulk lodgements are very important to me as it makes my reconciliation work much easier. What will happen under the cheque imaging process? How will I manage my reconciliation work in future?

A. Under the proposed new cheque image processing system all cheques will clear by 23.59 at the very latest on the next working weekday after they have been deposited. Knowing this should make your reconciliation much easier than at the moment. Some banks may clear their cheques more quickly than this. Your own bank will be liaising with you over the coming months to explain what information they will be providing to you (and in what format) which will ensure that your reconciliation process continues to run smoothly.

Q. I am concerned about fraud. How will this new system protect me?

A. Customers will still have the same level of protection as they do now - nothing will alter. In the unlikely event of being a victim of fraud, the innocent customer will not

bear the cost of the fraud. There has been no evidence from other countries which have adopted a cheque image processing system to indicate that levels of fraud have risen. In-built security techniques and checks using the latest fraud technology will be deployed to prevent fraud.

Q. What will we do if any of the cheques we deposit bounces - how will we be advised?

A. If a cheque is returned 'unpaid' then you will receive notification much more quickly than at present. You will receive a copy of the image of the cheque rather than the actual paper cheque itself. The cheque image will be the legal instrument. This will provide all the information you need either to represent the cheque or take appropriate action.

Q. If the cheque processing time is quicker, will we be able to use the money sooner than at present? What's the catch?

A. There is no catch. By using image technology, customers will be able to get access to their money much more quickly than at present.

Q. If the cheque processing time is quicker, does that mean money will leave our account more quickly as well?

A. Yes, it might leave your account very quickly. Your cheque will still need to get to the recipient before it can be paid in to their bank account but, if you hand a cheque to the recipient and they take an image with their secure mobile banking app to transfer to their bank on a working weekday, some banks will start processing that cheque straightaway. Just as now, cheques should only be written if there are sufficient funds in your account to make the payment.

History

The cheque evolved over many years, with the earliest handwritten cheque known to be in existence dated 16 February 1659. Fully-printed cheques were introduced in the early 1700s, with the first personalised printed cheques produced in 1810. The daily cheque clearings began around 1770 when bank clerks met at the Five Bells (a tavern in Lombard Street in the City of London) to exchange all their cheques in one place and settle the balances in cash. The renting of a room for this purpose first occurred in 1773.

Following the formation of a permanent committee of bankers in 1821 to regulate the clearings (later known as the Committee of London Clearing Bankers), the first clearing house building, initially owned by a group of private bankers, was built in Lombard Street in 1833. Although there were various changes in membership, and settlement in cash was replaced by settlement across accounts held at the Bank of England, this arrangement continued for 150 years until the Cheque and Credit Clearing Company was established in 1985.

The Lombard Street clearing house closed in 1994 and the English exchange centre moved to Alie Street in the East End and eventually moved outside London at the end of 2003. The Scottish clearing became part of the Cheque and Credit Clearing Company in 1996 bringing with it a Scottish exchange centre. The same year, in addition to exchanging the actual cheques, banks started transmitting codeline data on the cheques across a secure network to the other banks. Sterling cheque settlement still takes place at the Bank of England.

Cheque use increased greatly over the years and peaked in 1990, when 4 billion personal and business cheque payments were made. Since 1990, cheque volumes have gradually declined due to the growth of alternative ways to pay.



Who we are

The Cheque and Credit Clearing Company (C&CCC) is a non-profit making industry body funded by its members that is responsible for managing the Sterling cheque clearing system. As well as clearing cheques, the system processes bankers' drafts, building society cheques, postal orders, warrants, government payable orders and sterling travellers' cheques. The C&CCC has managed the cheque clearing system in England and Wales since 1985 and in Scotland since 1996. The C&CCC provides a range of professional services to members including: operational management, technical advice, project management, risk and compliance management and secretariat, regulatory consultation and stakeholder engagement. The C&CCC also manages the systems for the clearing of paper bank giro credits, euro cheques and US dollar cheques (the two clearings for currency cheques drawn on GB banks).



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