


# Ready for the big cheque-out

AS WE DRIVE TOWARDS THE 2018 CHEQUE EXIT, WE'LL SEE MORE REVOLUTIONARY TECHNOLOGIES TAKING FURTHER CONTROL OF OUR WALLETS, PREDICTS **JOHN SALTER**.



UK as a whole, the net saving in not having to process cheques will be something like £750m a year. Those are huge numbers, far too big to ignore.

However, the mandatory 2018 deadline, with a progress review in 2016, has now usefully forced everyone to travel this route together. And the truth is that there are still lots of occasions when cheques are used extensively – transactions between individuals, payments to sole traders, small businesses, clubs, charities and schools, and so on.

And there's a good reason for managing the decline, rather than simply letting the system wither messily on the vine, as it were. The UK regulatory body the Payments Council wants to make sure by 2018 there's literally "no scenario where individuals or businesses still need to use a cheque... and that the needs of elderly and vulnerable people are met".

All the same, taking cheques out of the system is going to have a big impact on everyone at different levels. In 350 years, it has become such an established part of our banking landscape, one of our most familiar payment instruments. The cheque is so ingrained in our social psyche that it's not necessarily all that straightforward to wean people off the habit. As with removing one of the foundation stones of a house, you'd better be pretty sure how to replace it.

Moves to other payment systems are often restricted not just by lack of awareness but also by lack of confidence in the alternatives. When we talk to customers, it's very clear they expect banks to be in the forefront of the development of alternatives. And they expect banks to guide them safely through into that new world.

And what we're finding so significant here is that, while lots of other companies – notably telephony and internet service providers – are entering the field with new payment methodologies, there's measurably less trust in the offerings of non-bank providers.

This isn't just an interesting objective commentary. For banks it's a matter of high importance at a time when the strengthening of customer trust is rightly so prominent on all our agendas. At the very least, I take it to mean that we have a head start in what's now a mandatory quest to find fast and reliable replacements for the cheque.

Now, of course, attitudes to this change vary. The Facebook generation is noticeably relaxed about embracing replacement

One of the next big challenges for all UK banks is to prepare for when cheques check out. Although the end-October 2018 deadline for this historic event looks comfortably distant, the implications for corporates and for individuals are more immediate – and more exciting – than many assume.

It's too easy to be made complacent by the evidence of rapid and terminal decline in cheque usage that stares us all in the face. In the last 20 years, there's been a steady fall in the number of cheques in circulation – and that decline is getting steeper: down 40% in the last five years alone.

Much of this is retail-driven. Major store groups like Tesco and M&S have already decided not to accept cheques any more and have shown that, when the process is managed well, it won't undermine their business. It simply encourages customers to become accustomed to other ways of paying.

And that makes the larger business point: the incentives are indeed highly attractive. It's estimated that, for corporate



### Box 1: How habits change

	1999	2009	2018
Wages paid in cash	1 in 8	1 in 20	1 in 50
Transactions using cash	73%	59%	45%
Cash spending in pubs	90%	40%	25%
Debit card spending	£65bn	£264bn	£490bn
Personal cheque transactions	6%	2%	0.8%*
Faster Payments	n/a	£294m	£836m**

Source: Payments Council report, *The Way We Pay 2010*

\* Forecast for cheques before the December 2009 decision to manage the decline of cheque clearing and close it in 2018

\*\* Includes volumes of standing orders and one-off phone/internet banking payments

technologies. Whereas the older people get, the less confident they become generally about handling tech-based solutions. But the truth is that taking cheques out of the system is going to have a big impact on everyone at different levels.

We're intensively examining two routes. The most obvious alternative is to use plastic instead of paper. A lot of people are beginning to think that a card-based system is the answer. I think that's right. There's no doubt that cards are going to have a massive role in cheque replacement. But credit cards won't be the vehicles for this, I think. They're in a mature market.

The really interesting opportunity is in the development of the debit card where the growth is currently already at double the rate of credit cards. This is going to be particularly important where there's a powerful residual need to send a physical product to a beneficiary. Some of the heaviest issuers of cheques – the life companies and the local government agencies, for instance – like sending a physical item like a cheque because it gives them a valuable opportunity to cross-sell their services to the recipients. It's an integral part of their marketing strategy and they're going to want another method of customer engagement with the same or better potential to cross-sell.

The heart of the challenge is in the development of pre-paid cards – gift cards, for instance, which can be used once, or better still recharged with funds at an ATM. The concept is there but remains to be fully developed into a strong USP to give companies the marketing opportunity they need.

There's another opportunity in so-called nearfield communication devices (NFCs) using short-range, high-frequency wireless communication technology which enables the exchange of data between devices – in this case making a cashless payment – over a distance of, say, around four inches. These ideas are beginning to achieve major traction as ways of reducing customer inertia about cheque removal.

Contactless payment, as it's called, for relatively small purchases – a sandwich, say, or a newspaper – has huge further potential to increase debit card use. Today, there are some 18 billion cash transactions of less than £15 which could more conveniently be handled by swiping a card through an electronic reader.

As a matter of fact, in the UK we'll simply be following a path that's already been pretty well trodden elsewhere in

Europe. The Netherlands and Scandinavia, for example, have been operating for years without cheques. People there, and in Germany, have become used to cards for all sort of quite tiny transactions which just wouldn't occur to us here.

These technologies are being developed very fast. I can equip my child, for instance, with a virtual account to pay for the school lunch through ParentPay. Activated biometrically by my child's fingerprint, it's a secure web service which Lloyds TSB Cardnet facilitates in partnership with the Local Authority Caterers Association.

It's just one of a number of highly interesting technologies that are making this such a dynamic and fascinating area, and one in which the edges of the technologies themselves will become increasingly blurred.

The second route of cheque replacement is to go fully electronic. What customers want is a combination of speed, security and the convenience of paying through hand-held devices. All the banks, as well as the telephony and mobile operators, have been looking intensively at this since the May 2008 launch of Faster Payments, the latest act in the payments revolution.

As the name says, it's designed to quicken internet, phone and standing order payments. At launch, it was calculated that about 8% of BACS phone and online banking payments and standing order payments were eligible to become Faster Payments. In fact, many more payments have materialised. Customers have volunteered to replace cheque or cash payments with something faster.

As we drive towards the 2018 cheque exit, what we'll see is an acceleration of this payment revolution we've begun to witness in the last decade. The market will be characterised by the rapid and exciting evolution of new payment behaviours as card-based and other electronic technologies take further control of our wallets.



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