



## ***Cheques – down, but not out***

Is cheque processing the 21<sup>st</sup> century banking swan song? The cheque is a payment method with deep roots and a tolling death knell - but it's familiar and tangible - and a survivor. Because no convenient substitute has yet been offered, it remains a cornerstone of today's banking facilities and still may have some surprises up its sleeve for tomorrow.

Although apparently reaching its 11<sup>th</sup> hour, there are ever more compelling reasons to simplify cheque management for even low volumes. It fits with the prevailing efficiency-or-bust model. Substantial savings are to be had in handling costs and time. Advantages include managing fraud prevention, customer service and achieving compliant record keeping. It's a realistic expectation to collect the intrinsic value of each cheque, avoid bank charges and maximise liquidity.

There is definitely no technology desert where cheques are concerned. Cheque image capture and interpretation puts a twist on document management and CRM. It automates delivery of financial data to archives that already contain business information. This is truly convenient. The functionality gains are exponential. Together, magnetic ink and optical character interpretation has emerged as the evolution from manual ledgers. By avoiding keying, accurate record keeping is achieved. Both value and reference data is transferred directly onto computer systems - fed by that pesky paper.

Romans used cheques in the first century BC. The Knights Templar introduced a cheque system for pilgrims. Funds were deposited at one chapter house and withdrawn on arrival at their destination. Coded drafts that only the Templars could decipher were used to carry the value. The Knights adopted this most likely from the Persians, who are known to have used the cheque or Sakk system since the 9th

century. This must be the very earliest form of encryption used for payment collections. Way ahead of its time. Now commonplace, two dimensional bar codes use QR code to pass information between computer systems. In some circumstances more than 2K bytes can be carried by a single symbol. This simplifies payments made by mail.

There were just over 4.5 million cheques issued each day in 2007, compared to 11 million in the peak year for cheque volumes, 1990. It is projected that by 2014 there will still be 2.5 million cheques issued per day (Office of Fair Trading - OFT 2006). So what then? Cheques remain the first choice for payments where a clear audit trail is required.

UK banks are applying revised standards and definitions to the clearing of cheques which mean much is at stake to process cheque payments accurately and effectively. Anti money laundering legislation requires transaction monitoring for holders of client accounts. Keeping up with administrative changes to maximize gift aid benefits requires skill. Could your current systems locate cheque details for a date range, customer or donor? If a set of cheques were mislaid, could you immediately replicate each item as proof of receipt? Do you have inexpensive software algorithms to work out your tax benefit position? In this "one-stop-shop" business climate, can you integrate all types of payment, interfacing the data across your accounting and business programmes? History, like accounting requirements (and bad habits) is hard to deny. Those who fail to learn lessons are doomed to repeat them. It remains all about the value of having a convenient oracle and a dependable almanac.

In November 2006, the OFT and APACS, the association responsible for payments, jointly announced changes to the UK Cheque Clearing System. These came into force in

late 2007. The thrust of the OFT's recommendations was not to significantly change the cheque clearing process, but to establish clear minimum timescales for what happens from the customer's point of view. It mandated the Clearings to significantly reduce the time allowed for a bank to return unpaid cheques. This increased the certainty about at what point the cheque cannot be bounced or its value reclaimed. The essence of these time-scales is called the "2-4-6" rule.

- *Two days after paying a cheque into a bank the customer should start earning interest on the money deposited. This is called Cleared for Interest.*
- *Four days after paying the cheque in, the customer should be able to withdraw the funds. This is called Cleared for Value.*
- *Six days after paying the cheque in, the customer can be certain the cheque will not be bounced. This is called Cleared for Fate.*

What is the minimum business case for running a cheque processing image archive? It must be a convenient and relevant size, and simple to operate. It must have the right price-tag, be a secure investment with flexibility and future relevance. Wanting to achieve organisational efficiency is a must. Increasing liquidity is crucial - with cheques entering the Clearings more quickly, it means better cash flow. Effective customer service – that allows you to quickly resolve cheque queries, eliminating any bank charges when copies would have been required. Reputation and profits are there for the taking. Then there is the security and fraud prevention angle. The scanning process at the front-end of cheque payment processing initiates a secure procedure and eliminates tampering. Items do not need to be moved internally but can be viewed and investigated. Photocopying is redundant and the transcription of cheque details onto forms or spread sheets is on a par with the Flintstones.

The bottom line is always the most important - on a cheque and in the accounts. With the slow countdown for the cheque apparently underway (but no forecast of absolute oblivion), one might be forgiven a moment of nostalgia or quiet relief - to over look cheque processing efficiencies. Moving forward with other payment technology and document management investments is tempting. But by establishing a simple integrated cheque image archive, the potential exists to metamorphose this into the robust mainstream multi payment and information tool. David and Goliath spring to mind. Electronic payment data can rub shoulders with that of cheques and cash - and correspondence, direct debit mandates, campaign results... Not a "wet finger in the wind" decision – but a reality-cheque.

What will happen to the cheque? Will the clearing banks want to use major resources to continue to play the predicted smaller game? Image and data exchange is now functioning seamlessly in a number of countries worldwide. As cheque volumes fall, the processing cost per item will increase. By not embracing technologies that improve effectiveness during the decline, the ultimate price is being unprepared. When physical exchange of cheques and presentation ceases, small footprint, right-priced technology will be at the cutting edge to manage cheque processing – continuing today's superlative approach into tomorrow.

And history will graciously decide when to deliver the final epitaph for cheques.

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