

Faster Payments and Cheque Truncation – Carbon-Friendly Choices

An interview with Pete Farley FCIB, former Director of The Cheque and Credit Clearing Company and Senior Manager, Payments Strategy Department at Nationwide Building Society

“The first time I realised the Faster Payments Service (FPS) is a reality was during the usual ritual of exchanging sterling for euro via a foreign exchange broker to make a payment. Watching exchange rates is only part of getting the process completed. This had proved an efficient way to move money between currencies for transactions outside sterling. I expected a break in continuity while cleared funds reached the broker’s account before my payment instructions were executed. But on this occasion I got a phone call within 30 minutes of making the internet transfer.” The Single European Payment Area (SEPA) Direct Debit system is due to be launched when the Payments Services Directive (PSD) within the European Union is made law in all of the member states. In the UK, the Government has confirmed that the PSD will be transposed into UK law no later than November 2009.

FPS went live on 27 May 2008, for some. The transaction is completed across a real-time payment platform and the receiving bank’s technology has 15 seconds to validate the payment information and accept it. However this does not mean the funds will always be in the recipients account - the receiving bank is at liberty to take up to 24 hours to undertake the appropriate processes before making the credit available to the payee. The FPS rollout is gradual over a 6 month period. “It will bring to payments the immediacy we have grown accustomed to through internet purchases. But will it also result in a major reduction in costs associated with sellers fees attached to card payments?” conjectured Pete Farley.

FPS has an upper limit for internet and phone payments of £10,000. Just 2% of payments between banks are currently via internet or phone and the average value is just over £300. Larger payments will continue through bank cheques and CHAPS (Clearing House Automated Payment Scheme) payments - an efficient, risk-free and reliable same-day payments mechanism for both sterling and euro. There were 14.6 million of these processed in 2007. The three-day Bacs payment system is celebrating 40 years of automated payments. In 2007 Bacs (Bankers' Automated Clearing Services) accounted for around 5.5 billion transactions.

“Business to business payments will be as easy as managing personal accounts. However, fraud prevention and audit trail requirements are still less robust around electronic transfers and not all organisations are prepared to use them,” explained Pete. “Timing is a significant factor in the choice of payments.” The 2-4-6 changes to cheque clearing clearly signal a continuing accommodation of paper payments. Increased clarity and certainty was welcomed by the OFT, delivering consistency across the industry. Market research shows that only 13% of customers place any value on faster withdrawal. “Some use the current cycle to plan their liquidity”, added Pete.

So is it paradoxical that alongside developments in electronic banking, banks do not foresee a quick exit for the paper cheque? Currently there are 1.5 billion cheque settlements per year and APACS (Association for Payment Clearing Services) predicts 737 million by 2017. “This is still a substantial number and with carbon emission concerns, the next move is interesting. According to Bacs the carbon footprint of a monthly cheque payment is 9 times that for a monthly direct debit. Is truncation the logical next step? It certainly fits within the overall strategy to improve technology and efficiency.”

Truncation is possible when clearing banks decide to exchange cheque images not paper. Their customers, such as solicitors or government bodies, would accept digital records rather than have paper returned. Remote deposit would allow cheques received to be sent as images and data rather than deposited through paying-in. "This would require image and data capture at the first point of contact." explained Pete. "The process of capturing cheque data is currently used in pre-banking payment processing to automatically update existing accounting packages and business systems such as CRM. Transaction reporting is also greatly simplified and benefits customer service delivery and investigations. UK clearing banks are already promoting image/data capture and most have placed a minimum requirement for customers to retain MICR code line information and cheque details as part of banking service contracts", remarked Pete.

"Image and data exchange is now functioning seamlessly in a number of countries worldwide. Notably the USA, with their large volumes, has embraced this technology. As cheque volumes in the UK fall, the processing cost to banks per item will increase and truncation will offer savings and lower carbon emissions. Organisations that choose to adopt inexpensive image/data capture technology, will improve their efficiency and be prepared for future developments."

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