

2018 ...the end



2018 The end of theno it's not the title of a new Hollywood blockbuster movie but the date set by the UK Payment Council that is likely to see the end of the cheque as a means of payment. Although probably not a big issue for most of us who now use electronic banking, credit and debit cards to process day to day payments for both corporate and personal use, the fact is that cheques are still being used by individuals and corporates alike, and indeed by Government itself.

The decision has been taken by the UK Payments Council which is the organisation that sets strategy for UK payments, which aims to ensure that the UK payments system meets the needs of users, payment service providers and the wider economy. Statistics show that the cheque as a means for payment has been in decline since 1990 and its use has fallen by 40% in the last five years. The council were faced with the option of allowing the cheque to follow natural decline or manage the decline, with the council opting for the latter, with 31 October 2018 being set as the target date for the closure of the cheque clearing system. Over the next nine years, the Payments Council will seek to promote and explain existing alternatives and assess what kind of innovation is required to meet the demands of the community. Although a target date of October 2018 has been set, the Council will be undertaking a full review in 2016 to assess whether there has been sufficient change since 2010 to allow for the cheque clearing system to be closed in 2018.

Before diving into the pros and cons that this decision will inevitably mean for all of us, I will recap on the history behind this well known method of payment, now that its days are numbered.

According to the British Banking History Society the first English cheque (or rather a drawn note) was issued on 16 February 1659 and was drawn by Messrs Clayton and Morris, scrivners, bankers and estate agents in Cornhill. It is also important to note that other forms of payments were also used throughout the 15th century, and possibly earlier, such as Bills of Exchange referred to as A Treatise of Tripartite Exchange. In fact reference is made to some Italian bankers based in England making loans to King Edward I and King Edward II respectively. Interestingly enough, I was also able to establish that the first (kind of) bank dates back to Egibi and Son in Babylon, founded in the reign of



Sennacherib about 700BC, and with that I thought that I would end my research.

As new generations set the pace in modern ways of dealing with everyday life, there are many of an older generation that are dependant on the use of cheques, and line up every month to receive their pension cheque, and then use this same method to pay for their monthly bills. Furthermore, although most families own a computer being in the form of a laptop or desktop, not everyone has an internet account to be able to access electronic banking.

Important drivers behind the councils decision to terminate the cheque are linked with the cost and fraud reduction. It is estimated that the cost of processing a cheque through the UK clearing banking system is £1 per cheque and although not many businesses accept payment by cheque unless you have a cheque guarantee card (or at a local level, if they know you fairly well), there are still many cases of fraudulent cheques being used to pay for goods and services. Dishonoured cheques are also another issue that springs to mind, and I am sure that many readers will have experienced this themselves, together with the cost charged by the bank for processing the dishonoured cheque.

One could argue that globalisation and free market movement have also pushed towards making the cheque obsolete, in particular as the cheque clearing system is not known to be very efficient when it comes to clearing foreign cheques.

Other factors that have caused the cheque to lose ground against other modern forms of payment such as electronic payments, include security and efficiency, areas where the cheque is clearly unable to complete.

The news is also likely to be welcomed by environmental groups, who will see this as a step to reducing the number of paper driven day to day necessities that are produced in this day and age.

So how will this affect you?

At a personal level, most of us probably use credit and debit cards to purchase daily goods and services for domestic use, however, not all businesses accept payment by cards and occasionally one has to draw their cheque book to make certain payments in the absence of any available cash on hand. Although local well known businesses such as utility companies allow you to pay by direct debit facility, there are others that do not accept electronic payment, and only recently I received an invoice which clearly stated that payment could only be made by cheque or cash.

There appears to be some sort of allegiance attached to cheques with many of us preferring to pay for other expenses such as membership to a local club by cheque, rather than by transfer in the hope that it will be much easier for the club treasurer to allocate the payment to your account in comparison to making of an electronic payment.

Although most employees now receive their salaries by bank transfer, there are some who still receive their payment by cheque or in cash (in particular casual labour and those who are paid weekly). Unless some other modern form of payment is introduced in the next few years (such as payment by your mobile phone) it would appear that credit/debit card and electronic payments will be gaining ground with more and more businesses trying to steer away from cheque payments in the run up to 2018.

What is clear is that popular traditions of enclosing cheques in Christmas or Birthday cards has its days numbered and as from 2018 may be replaced by e-vouchers.

And how will this affect your business?

The answer will very much depend on the nature of your business and how your clients effect payments for the goods or services provided. In the case of retail establishments, clients will continue to pay by credit/debit cards or cash however businesses will need to consider what this change might represent. For instance, whilst credit cards facilities often

invite customers to purchase in larger quantities, and more regularly on the basis that they are being provided with further credit, often with flexible payment terms, there are charges associated with receiving credit card payments which will need to be factored in by your businesses. On the other hand cash is often considered as a less costly method of payment, however there is always the risk of loss or theft of takings, and occasionally fraudulent notes do make news headlines. There are also other costs involved when depositing large quantities of cash in business accounts, with banks trying to steer away from the administration attached to this.

Other businesses such as service providers will probably turn to electronic payments as means of replacing cheque payments and it will be important for businesses to ensure that their clients adequately provide appropriate details to ensure that payments are promptly identified. It would appear that electronic banking will continue gaining strength with most banks already offering a wide range of electronic banking services.

So what should my business do?

Change is often considered as a negative by some, however one needs to be positive about change as there are often opportunities that come with it. So whatever the nature of your business, this might well be a good opportunity to reconsider your debt collection options and use this as an opportunity of improving your business performance by mitigating against bad and late payers. Most importantly, its success will depend on how the process of change is managed and how businesses communicate and market these changes to their clients and other stakeholders.

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