

Payment facts



Cheque & Credit
Clearing Company



APACS

► Helpful information from the UK payments association

Cheques

Cheques are written orders from account holders instructing their bank or building society to pay specified sums of money to a named beneficiary.

Although not legal tender, cheques are legal documents and their use is governed by the Bills of Exchange Act 1882, and the Cheques Acts of 1957 and 1992.

The Cheque and Credit Clearing Company is responsible for the bulk clearing of cheques and paper credits throughout Great Britain. Cheque and credit payments in Northern Ireland are processed locally.

Cheques differ from most other payment methods in that they are authenticated at the end of the transaction process: with cards, the transaction is verified at the start

with a PIN, whereas a cheque has to be physically processed and checked. This is why it takes longer for a cheque to clear and it is also why it makes cheques comparatively expensive to handle.

The use of cheques in the UK has been in long-term decline over the last decade,

as individuals and businesses have shifted to plastic cards or automated payment methods as a more convenient, cost-effective or safer means of making and receiving payments.



Key statistics

- If all the cheques processed in 2006 were laid end-to-end, they would stretch almost 5 times around the world. This compares with 8 times around in 2001, and in 1990, the peak year for the number of cheques processed, 12 times.
- 2006 saw the fastest-ever decline in cheque volumes with a drop of 8% to 1.8 billion transactions.
- The number of people using guaranteed cheques is also declining, as is the frequency with which they use them. The proportion of adults using guaranteed cheques at least once per month has fallen from one in three in 1996 to one in nine in 2006.
- Cheques remain popular for credit card bill payments, person-to-person payments, person-to-small-business payments, and for payments made by small and medium-sized companies to other businesses. They were the largest single payment method for credit card bills, at 126 million payments last year.
- Cheque use for household commitments has been falling, with 9% paid by cheque in 2006 compared to 24% in 1996. Over 50% of utility bills paid by cheque are made by the 55s and over.
- In 2006, 69 million cheques were used for mail order payments compared to 174 million in 2001.
- Personal cheque payment volumes are expected to decline by 61% over the next 10 years.
- Most large businesses prefer to make and receive payments electronically with their trading partners; business-to-business cheque volumes have fallen from a peak of 972 million ten years ago to 591 million in 2006.

Future developments

"2-4-6"

"2-4-6" is being implemented for current and basic bank accounts, to give customers maximum clearing timescales and to increase transparency, providing clarity and certainty when paying in a cheque or banker's draft.

By the end of November 2007, maximum times will be set for all component parts of the cheque clearing cycle broken down into "the paying-in day" plus 2, 4 or 6 working days.

The change means that you can be confident that if you pay in a cheque on Monday (before the advertised cut-off times):

- after two working days (Wednesday) you can expect to get value i.e. earn interest, or a reduction in the amount of interest you pay on your overdraft
- after four working days (on Friday morning) you can expect to withdraw funds from a current or basic bank account

- at the end of six working days (by the end of the following Tuesday) you can be certain that the funds will not be reclaimed from your account as a result of the cheque having been returned unpaid (unless you are a knowing party to a fraud).

You can pay in a cheque in a number of ways, such as across a branch counter, at a cash machine, by post or at a post office. This may affect when your bank actually receives the cheque and when the timescale starts. If you are not sure, you should check with your bank or building society.

For savings accounts "2-6-6" is being implemented, which means that the maximum time limit on withdrawal will be no later than six days after your bank receives the cheque (i.e. for a cheque paid in on Monday, withdrawal will be no later than the Tuesday of the following week). If you need faster access to cheque funds then it will usually be best to pay it in to a current or basic bank account.

These changes are likely to improve withdrawal times for the UK's 6.5 million basic bank account holders enabling them to withdraw their money more quickly, while all customers will potentially benefit from improved certainty and the removal of delays and exceptions.

Most UK bank and building societies will meet these new industry standards by the end of November 2007, and they will be incorporated into the next version of The Banking Code. This means that all signatories to the Code will deliver the new standard when the next version of the code becomes effective in 2008.

These changes to the cheque clearing cycle are the maximum times that financial institutions must take to clear cheques. As the clearance of funds is a competitive issue, it may be that some banks and building societies offer faster clearing times for value and withdrawal.



How the clearing cycle works

There is often confusion about how clearing works and the time it takes for a cheque to clear. In fact, the central clearing operates within a three-day period, illustrated as follows:

It does not operate on Saturdays, Sundays or Bank Holidays.

Monday

In this example, Mr Smith (whose account is with the paying bank) has written a cheque payable to Miss Jones, who pays it into her account at a branch of her own bank (the collecting bank) on Monday. At the end of each working day all the cheques that have been paid in at the various branches are sent to the bank's clearing centre. So the cheque paid in by Miss Jones is sent to her bank's clearing centre, arriving in the late hours of Monday night.

Tuesday

At the clearing centres the cheques are sorted. The sort code, account number and serial number are captured from the codeline data found at the bottom of the cheque, and these, together with the amount of the cheque, are sent electronically to the banks on which the cheques are drawn (the paying banks) on Tuesday morning. The physical cheque is then batched up together with all other cheques drawn on accounts at the same bank, and handed over to the paying bank at the exchange centres. This also takes place on Tuesday morning.

Wednesday

The paying bank debits Mr Smith's account with the amount of the cheque on Wednesday morning. At the same time, all banks

calculate the amount they must pay to or receive from each other on the basis of the value of all the cheques exchanged on the previous day. The net balances are then settled across accounts held at the Bank of England. This happens on Wednesday morning.

This is the end of the central clearing cycle, but there remains the process that a bank uses to return an unpaid cheque and checking for fraud. Both of these processes take a little longer.

What most people want to know is when the cheque they have paid in will be credited to their account, when it is going to start earning interest or reduce the amount of interest they pay on their overdraft (clearing for value), when they can get

their money out (clearing for withdrawal) and when they can be sure the money is theirs (clearing for fate).

Individual banks set their own competitive policies on the point at which they credit funds on cheques paid into their customers' accounts, (though typically it will be the day it is paid in) pay interest, or allow funds to be drawn against the cheques. However, the industry is working on implementing maximum clearing timescales on each component of the cheque clearing cycle to provide clarity for customers. These changes, known as 2-4-6, will be the maximum times that financial institutions must take to clear cheques, but some may offer faster clearing times as part of their competitive policies. See 'Future developments' (above) for more information.

Top tips for writing and receiving cheques

Writing a cheque

1. If you are making a cheque payable to a bank or a building society, do not make the cheque payable simply to that organisation. Add further details in the payee line, for example XYZ Bank, re J Jones, account number xxxxxx. (In order to safeguard against fraud, in October 2006 the rules for accepting cheques at banks and building societies changed. Since then, if you try to deposit a cheque in a branch, or by post, made simply to a bank or building society, it may be returned without processing.)
2. You should draw a line through unused spaces so unauthorised people cannot add extra numbers or names. It is also good practice to include the word 'only' after writing the amount in words.
3. If it is necessary to make amendments, these should be made clear by crossing through the error and initialling or signing the correction.
4. Never sign blank cheques.
5. When writing cheques, be sure to complete all sections, including the payee name, and the amount in both words and figures.
6. Always be sure to date cheques when you issue the cheque - undated cheques are likely to be returned with a request to include

- a date, as are post-dated cheques. Alternatively they may get into the clearing cycle ahead of the specified date and money will be taken from your account before you intended it to be.
7. Ensure you write your cheque using a ball-point pen or indelible ink as this helps prevent cheques from being fraudulently altered.
 8. You cannot use a sterling cheque to write in a foreign currency.
 9. Do not staple cheques to letters; use a paper clip instead and do not fold your cheque in half. This will prevent staples perhaps getting caught in processing systems, whilst folds may cause the cheques to be read incorrectly.

Receiving a cheque or banker's draft

1. Never accept a cheque from someone unless you absolutely know and trust them. Be especially wary when accepting a high-value cheque or banker's draft.
2. Be aware that a banker's draft or banker's cheque is not safe from fraud. If you receive a banker's draft or banker's cheque in payment for goods, you must allow time for it to clear before releasing the goods. A banker's draft/cheque can be stolen or altered like any other cheque, and if it is altered, stolen or counterfeit it will not be honoured.

3. Be aware that, even after the value of the cheque or banker's draft has been credited to your account, there is a risk that the money could be reclaimed if the cheque or banker's draft subsequently turns out to be stolen or counterfeit. From the end of November greater protection will be given to customers receiving cheques or bankers' drafts. Please refer to the section 'Future developments' for more information.
4. Cheques should be paid into your account as soon as possible to reduce the risk of loss or theft, and should always be paid in within six months as older ones may be returned unpaid.

Cheque fraud

Losses from cheque fraud are decreasing, and the industry stops 90 per cent of attempted fraud as the cheques go through the clearing process, but if you use cheques regularly you should still take due care.

There are three main kinds of cheque fraud in the UK: counterfeit, forged and fraudulently altered. For the most part, innocent victims who have had their cheque book stolen can expect to be refunded by their bank. However, consumers should be aware of scams that may leave them vulnerable.

- **Counterfeit cheque** – A cheque manufactured or printed on non-bank paper to look exactly like a genuine cheque and drawn by a fraudster on a genuine bank account.
- **Forged cheque** – A genuine cheque where part or all of it has been completed by a fraudster.
- **Fraudulently altered** – A genuine cheque where part or all of it has been altered by a fraudster.

Criminals are clever in using the three-day clearing cycle to trick people into accepting forged, counterfeit or fraudulently altered cheques which then bounce.

Changes to the cheque clearing cycle from the end of November 2007 introduce extra protection for consumers paying in cheques or bankers' drafts. At the end of six working days from paying in the cheque, you can be certain that the money is yours, and you are protected from any loss should the cheque turn out to be fraudulent (unless you are a knowing party to the fraud).

The golden rule is that if it seems too good to be true, it probably is. Never accept a cheque from someone unless you absolutely know and trust them, particularly if you are selling high-value goods such as a car; ask for an alternative payment method such as an automated phone or internet payment (which takes three working days) or a CHAPS payment (a same-day service).





Explanation of terms

What is a cheque?

A cheque is a written order from an account holder instructing his or her bank to pay a specified sum of money to a named beneficiary or beneficiaries. Cheques are not legal tender but are legal documents, and their use is governed by the Bills of Exchange Act 1882 and the Cheques Acts of 1957 and 1992.

What is a banker's cheque or a banker's draft?

A banker's cheque is a cheque drawn directly on the issuing bank (or building society if it is a building society

cheque) rather than on the account of a customer, and signed by a bank or building society official. Bankers' drafts are not strictly speaking cheques but, like cheques, they are subject to the Bills of Exchange Act 1882, and are cleared in the same way as cheques. When issuing a banker's cheque or banker's draft, the bank will debit the ordering customer's account, so that the payee can be assured that the cheque or draft will not be returned unpaid due to lack of funds. This means that, provided the cheque or draft is genuine, the recipient can be certain that funds will clear.

History and milestones

The cheque evolved over a number of years, with the earliest handwritten cheque known to be in existence dated 16 February 1659.

Fully-printed cheques were introduced in the early 1700s and the first personalised printed cheques produced in 1810.

A major milestone in UK cheque history was reached in 1969 when the UK cheque guarantee scheme was established, enabling retailers to accept cheques with increased certainty.

16 years later, in 1985, the Cheque and Credit Clearing Company was set up with responsibility for the bulk clearing of cheques and paper credits throughout Great Britain.

Personal cheque usage peaked in 1990 but it was not until 1997 that business cheque use peaked.

Since 2001, business-to-business cheques have seen a steady decline as businesses increasingly move to the use of automated payments for their trade suppliers.



In recent years, however, the fastest decline has been with personal cheque payments. In 2006, petrol retailers were amongst the first retailers to

announce that they would no longer accept cheques, and since then other high street retailers have followed suit.

For more information

This payment fact guide is available in digital format from the APACS website - www.apacs.org.uk.

Useful information and advice about card fraud prevention can be found at www.cardwatch.org.uk.

Useful information and advice to help banking users stay safe online can be found at www.banksafeonline.org.uk.

To contact the APACS Information Office please call T: 020 7711 6259 or email corpcomms@apacs.org.uk.