

# Phasing-Out of Paper Based Cheques in the UK Will Benefit Financial Institutions, Individuals and Businesses

Dan Shu

College of Economic and Management, Sichuan Agricultural University

Ya'an 625014, Sichuan, China

E-mail: 877985829@qq.com

Huawei Luo

College of Economic and Management, Sichuan Agricultural University

Ya'an 625014, Sichuan, China

E-mail: luohw888@126.com

Wei Wang

College of Business, Edinburgh University

EH11 1BE, Edinburgh, Scotland

E-mail: 123690247@qq.com

## Abstract

Paper-based cheques have been in use for about 350 years. And it has been played a very important role in people's lives (Barrow, 2009). While the use of paper based cheques is continue to decline in the world. In many countries, such as Netherlands and Sweden, people there have already stopped using paper based cheques, or there are only small amount of people using cheques. This trend also exists in UK. The UK Payments Council has decided to modernise the payment system and also set a date for the abolition of paper based cheques. The UK Payments Council claimed that the phasing-out of paper based cheques in the UK would benefit financial institutions, individuals and businesses. This essay will firstly look at the current situation of the use of paper based cheques in UK. Following this, it will discuss the alternative payments methods. Then the timelines for paper based cheques to phase out would be illustrated. Finally, it will discuss the benefits for benefit financial institutions, individuals and businesses separately.

**Keywords:** Paper based cheques, Financial institutions, UK

## 1. Current situation of the use of paper based cheques in UK

Nowadays, the use of paper based cheques has been suffered a dramatic decline in UK. Customers use the other forms of payments as debit cards in the payments for their regular bills or in the process contacting with retailers (Barrow, 2009). The use of paper based cheques has already been in decline. There are many organizations have already stopped accepting paper based cheques, such as some large stores and supermarkets. And this affected the use of paper based cheques and the number of people who use paper based cheques fallen in a great amount of number (Free Press Release, 2010). In 2005, the management of Shell UK made a decision as to stop accepting payment by paper based cheques. And Shell UK was the first big retailer to do this action. And this action was followed by other retailers. Those corporations include London Underground, Asda, Boots, Morrisons and Sainsbury's, John Lewis, Marks and Spencer and Tesco (Jarrett, 2010). Almost all these corporations were reported to stop accepting paper based cheques as payment form. Other organizations, especially utility companies, still accept paper based cheques as a form of payment, while these organizations deliberately imposed charges on customers that use paper based cheques. And customers who pay in other forms were encouraged by some discounts in the total payments for service or goods (Jarrett, 2010). The use of electronic payment methods is popular now. These alternatives would be illustrated in the following article.

## 2. The alternative payments methods

With the development of technology, the other forms of payments are used as alternatives of paper based

cheques. Such as credit cards and debit cards with Chip and PIN. These forms of payments are now widely used and accepted. With the use of these cards, both corporations and customers get benefits as the procedures are much less complex. And for customers, sometimes they could also get discounts as incentives to encourage them to pay in cards.

Another way for payments is online banking systems. With the development of computer technology, as long as customers have access to the internet (Sumanjeet, 2009), they could now easily make transfers of money to friends or family much quickly than before. And through online banking systems they can also make payments to corporations much easier than before.

The third way is contactless card payments. With this form of payments, people are allowed to pay money to organizations using the card and there is no need to sign or enter a PIN (Jarrett, 2010). While there are some limitations here, even if this form of payments is quick and easy, the Barclaycard are now only offer the service of payments that are no more than 10 pounds. The author believe that with the development of technology, people can use this form of payment to purchase service or goods that require much payments.

The fourth way is named mobile phone payments. Nowadays, mobile phones are becoming more and more popular. And almost every one of us has one or more phones. To some extent, mobile phones has already becoming indispensable for people. For little sum of payments, people could use their phone directly to pay as their phone numbers are linked to the bank systems. While when comes to the big amount of money, the customers need to offer their voices or pictures through mobile phone (Herzberg, 2003). There are also concerns about the security of mobile phone payments as the mobile phone could be stolen or misused by others (Thornhill, 2010).

The fifth way of payments is called fingerprint payments. And this could be true. And one's fingerprint is linked to his or her credit cards or bank accounts (Sumanjeet, 2009). In this way, people could pay by just touching a scanner using his or her particular fingers. Under this circumstance, people could travel to any places of the country or world without taken any money or cards.

### **3. Timelines for paper based cheques to phase out**

The phasing-out of paper based cheques is not an easy task but quite complex. The UK Payments Council should make thorough researches and studies before the elimination of paper based cheques. Even nowadays the cheques uses are in decline, there are still great number of businesses depend on paper based cheques. If the paper based cheques suddenly out of use, there would cause great masses in the society (Usswitch.com, 2009). In this point of view, the elimination of paper based cheques should be gradually and gradually. And there still quite much work need to be done. The UK Payments Council makes their plans for their work to phase out the paper based cheques and deliver the vision to the public. Basically speaking, there are three periods (Payments Council, 2003).

#### *3.1 2010 to 2014*

The main task in this period will be focused on the delivery of alternative payment forms. And do their best to communicate the message of phasing-out paper based cheques to the users and take actions to encourage the use of alternative payment methods. Work should be done to increase the awareness of alternative payment forms among the users of paper based cheques and to raise the confidence in electronic payment forms. What's more, the Cheque Guarantee Card Scheme would be closed in this period. At the end of this period, electronic alternatives should be available and make contributions to reduce the number of paper based cheques users. And the users are aware of the importance of these electronic alternatives (Payments Council, 2003).

#### *3.2 2014-2016*

This period would be of the vital importance in the process of phasing-out paper based cheques. During this period, innovations of alternative payment forms would be emerged and more and more users would choose these new emerged payment methods. The UK Payments Council would continue to encourage users to choose the alternative payment forms, especially those newly emerged forms of payments. At the end of this period, alternatives of paper based cheques could be available to users where paper based cheques still being used. And to some extent, these alternative forms would be widely accepted and being used (Payments Council, 2003). The UK Payments Council would take some actions to guarantee the interests of the users who still use the paper based cheques as their payment forms. And the UK Payments Council should begin to make detailed plans for the final closure of the use of paper based cheques in this period.

### 3.3 2016-2018

This is the last period for the process of phasing-out paper based cheques. In this period, the UK Payments Council should conduct measures and communications campaign to explain the closure decision and to continue to encourage users to adopt alternative payment forms. There would be a little sum of people still using paper based cheques in this period. The users of paper based cheques are given the last two years to adjust their behaviours and get used to the alternative payment forms. The clearings of paper based cheques would be 31<sup>st</sup> October 2018 (Payments Council, 2003). And if things go as the UK Payments Council planned, the paper based cheques would be out of use from then on.

## 4. Benefits for financial institutions, individuals and businesses

### 4.1 Benefits for financial institutions

The phasing-out of paper based cheques is good to financial institutions. This mainly reflects in the form of cost savings (Payments Council, 2003). If there were no use of paper based cheques, financial institutions would not need infrastructures that needed for cheques clearing. And compared with other alternatives of payment methods, especially electronic ones, the costs of paper based cheques are much higher, for example, the forms of payments as direct debits, direct credit and debit cards. Studies show that costs of electronic alternatives are at least one third lower than the cost of paper based cheques (Sumanjeet, 2009). As financial institutions should need quite number of employees to tackle with the issues of paper based cheques. And the procedure of the paper based cheques is quite complex and the whole work mainly depends on the effectiveness and efficiency of employees. What's worse, there could be many problems occur. And sometimes it is hard for financial institutions to check what mistakes they made as there are tremendous amount of paper based checks there. In a word, the payment form of paper based cheques is costing and time consuming. The modern methods of payments are quite different. With the help of modern technology, one financial institution employee could do their work much more effective and efficient. In this way, financial institutions do not need to employ so many employees. What's more, financial institutions have to burden the costs for printing of the paper based cheques. And the costs would be quite amount of money as there are millions of payments are conducted by using paper based cheques. And that would help financial constitutions to reduce their costs and keep competitive in the financial industry.

### 4.2 Benefits for corporate

The phrasing-out of paper based cheques is also meaningful to corporations. Compared with the costs of using alternatives of plastic card, direct credit and direct debit, the costs on making and accepting payments by paper based cheques are much higher (Payments Council, 2003). The procedures for corporations to handling and processing paper based cheques are quite complex too. Just as financial institutions mentioned above, the corporations that accept paper based cheques also need special employees to handle this issue. Besides that, the corporations also need to contact with financial institutions to deal with this business and transfer money into their corporations' accounts. In this process, financial institutions charge the corporations for the business. And that increases the costs of corporations. There are also mistakes too. When mistakes occur, the corporations would suffer great losses. The corporations have to improve the process of accepting and handling paper based cheques. Because any mistakes in the writing of cheques should be avoided or the cheques would not be accepted by banks. The non-cheques payments are quite different. Through the use modern technology, corporations could transfer the money paid by their customers into their banking accounts easily and quickly (Sumanjeet, 2009). And this eliminates the middle procedures for the corporations to tackle with the paper based cheques. There would be no need for corporation to employ special people to handle the payments of paper based cheques.

### 4.3 Benefits for individuals

Paper based cheques have inherent problems. For instance, because of problems of bad writing or sight problems of the cheques users, there would be some mistakes when comes to the transaction of money. And the paper based cheques are big problems for those people of poor literacy (Payments Council, 2003). For customers, the use of electronic alternatives of payment methods is convenient for their lives (Sumanjeet, 2009). The transfer of money between individuals and corporations are much easier and quickly. The issue of the phrasing-out of paper based cheques in 2018 caused a great debate among individuals, especially those who use cheques often in their daily lives. One issue is the security fears of the alternatives payments systems. The reason for that is people do not clear about these new ways of payments and believe that there are some shortcomings of these new technologies. For instance, if their cards of mobile phone that linked to their banking accounts, they would at the risk of losing their money lost. To solve these problems, payment organizations have prepared some methods to

avoid big loss of their customers (Herzberg, 2003). With the development of technology, more and more methods would emerge to relax customers' fear.

The other issue is the older people would not comfortable with the use of the newly emerged technologies as their payments forms. As not all of them are familiar with the new technologies or have accesses to the internet. They may have difficulties to master the new technologies. Another reason is that due to the effects of age, some older people do not have good memories and they could not always remember their PIN, and that would be a problem for those people. There are some solutions too. Only when the proper alternative payments forms are in place and accepted by most people in the society can the paper based cheques being phased out. And now the paper based cheques are still widely accepted by small traders, small businesses and some public sectors as schools and charities organizations. And those fields are having close connections with the people's lives.

## 5. Conclusion

Paper based cheques have been in use for more than 350 years and are still in use today. While with the development of the technology, there are many alternatives of payment forms, especially electronic payment forms. And the use of paper based cheques is continuing to decline and quite many organizations have already refuse to accept paper based cheques as payment forms, even cash is unacceptable. The UK Payments Council recognized this trend of paper based cheques and decided to set a date for the closure of the use of paper based cheques in UK. After thorough researches and studies, the UK Payments Council would take some steps to ensure the paper based cheques being phased out gradually and gradually in the next 8 years. In order to achieve this goal and go along with the existing trend, the UK Payment Council should communicate the vision of the future payment forms with the publics and would do their best to let the publics understand that the phasing-out of paper based cheques would benefit the society. In general, the financial institutions, corporations and individuals all would benefit from this action. Although there are some difficulties on the process of elimination of paper based cheques, all these difficulties would be solved due to the development of technologies as there would be more and more new alternative payment forms being innovated and widely accepted or used by users. As people get deeper and deeper understanding of the vision and get used to the alternative payment forms, the time comes for the closure of paper based cheques. And this would in turn modernise the payment forms in the UK and make UK among the leading countries in the world where payments are effective and efficient.

## References

- Barrow, B. (2009). *After 350 years, cheques to be consigned to the history books*. [Online] Available: <http://www.dailymail.co.uk/news/article-1230044/End-cheque-book-Traditional-paper-payment-abolished-2018.html> [Accessed 20 April 2010]
- Free Press Release. (2010). *Cheques Set To Be Phased Out*. [Online] Available: <http://www.prlog.org/10494197-cheques-set-to-be-phased-out.html> [Accessed 20 April 2010]
- Herzberg, A. (2003). Payments and banking with mobile personal devices. *Communications of the ACM*, Vol.46 No.5, pp53-58.
- Jarrett, T. (2010). The demise of the cheque. *House of Commons' Library*, Standard Note: SN/BT/5381
- Payments Council. (2003). *2018 target date set for closure of central cheque clearing*. [Online] Available: [http://www.paymentscouncil.org.uk/media\\_centre/press\\_releases\\_new/-/page/855/](http://www.paymentscouncil.org.uk/media_centre/press_releases_new/-/page/855/) [Accessed 16 April 2010]
- Payments Council. (2003). *The Future of Cheques in the UK*. [Online] Available: [http://www.paymentscouncil.org.uk/media\\_centre/press\\_releases\\_new/-/page/855/](http://www.paymentscouncil.org.uk/media_centre/press_releases_new/-/page/855/) [Accessed 16 April 2010]
- Sumanjeet, S. (2009). Emergence of Payment System in the Age of Electronic Commerce: The State of Art. *Global Journal of International Business Research*, Vol.2.
- Thornhill, J. (2010). *Cheque phase-out 'to increase fraud risk'*. Thisismoney.co.uk, [Online] Available: [http://www.thisismoney.co.uk/savings-and-banking/article.html?in\\_article\\_id=501465&in\\_page\\_id=7](http://www.thisismoney.co.uk/savings-and-banking/article.html?in_article_id=501465&in_page_id=7) [Accessed 19 April 2010]
- Usswitch.com. (2009). *The death of the cheque and new ways to pay*. [Online] Available: <http://www.uswitch.com/money/cheques-to-be-phased-out/> [Accessed 21 April 2010]