

 Regulatory Policy Committee	Validation of the One-in, Two-out Status and the Net Direct Impact on Business	
Validation Impact Assessment (IA)	Speeding up cheque payments: legislating for cheque imaging	
Lead Department/Agency	HM Treasury	
IA Number	Not provided	
Origin	Domestic	
Expected date of implementation	First half of 2016 (SNR 11)	
Date of Regulatory Triage Confirmation	29 January 2014	
Date submitted to RPC	22 September 2014	
Date of RPC Validation	08 October 2014	
RPC reference	RPC14-FT-HMT-2001(2)	
<i>Departmental Assessment</i>		
One-in, Two-out status	OUT	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	-£93.54 million	
RPC assessment	VALIDATED	
<p>Summary RPC comments</p> <p>The IA is fit for purpose. HMT has provided a robust assessment of the costs and benefits. In particular, it has quantified the large savings to the banking industry from reduced costs of processing physical cheques. Businesses and civil society organisations as end users of cheques will also benefit from a more efficient cheque clearing system, although these savings have not been monetised.</p> <p>The RPC can validate the estimated EANCB of -£93.54 million each year to business and civil society organisations from this proposal.</p>		

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

“The Government is bringing forward a set of amendments to the legislation for cheques, to remove outdated statutory provisions that stand in the way of innovations and efficiencies that the banking industry is keen to make. Under the existing legislation for cheques in the UK a paying bank has the right to demand that it is presented with the physical cheque before deciding whether to honour it. Therefore, the Government needs to amend the legislation, to remove this right and render an electronic image of a cheque as equivalent to the original paper instrument for the purpose of presentment. If the Government does not intervene, banks will not be able to offer quicker cheque processing to their customers.”

What are the policy objectives and the intended effects?

“Cheque imaging will enable a faster clearing cycle, meaning business and consumers receive their funds more quickly. It will provide significant savings for the banking industry, as running the payment system will be more efficient and cost-effective. This will help future-proof the cheque as a sustainable payment option that financial institutions can afford to continue to provide. Customers will have greater convenience and choice in when and how they deposit cheques. Cheque imaging will also help reduce barriers to entry and encourage greater competition in retail banking more widely.”

RPC comments

The proposal is to recast and modernise existing cheques legislation to enable “cheque imaging” to be introduced in the UK. It will make certified images of cheques equivalent to the original paper instrument for the purposes of clearing. Under the proposal, customers who receive a cheque can either take it to their branch where it will be scanned and processed digitally or they can use their bank’s mobile banking application to create the digital image of the cheque and pay it in electronically.

All banks and building societies that offer cheque payment services in the UK will be affected by the proposal. It will also affect those businesses and civil society organisations that issue and receive cheques as part of their ways of making and receiving payments.

HMT explains that the proposal will result in transitional costs to the UK banking industry to enhance the current inter-bank electronic data exchange

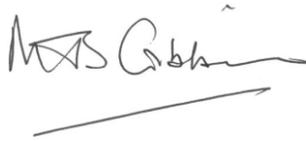
network, or introduce a new network to enable cheque imaging. HMT estimates this to be a two-year cost in the region of £15 million in each year. The distributed effect of this cost across the sector is not yet known.

The significant benefits of the proposal are savings to the banking sector as the costs of processing physical, hard copy cheques are reduced. In 2013, a total of 566 million items (cheques, bankers drafts and postal orders) were cleared through the Cheque & Credit Clearing payment system. Evidence from the Payments Council suggests that the current cost of processing each cheque is at least £1. HMT explains that cheque use has been declining at a rate of 12% each year. However, because the proposal will address some of the causes of this decline, the department's best estimate assumes that cheque volumes over the 10 year appraisal period will continue to decrease, but at a slightly lower rate.

Businesses and civil society organisations as end-users of cheques will benefit from a quicker and more efficient cheque payment system, and faster clearing times. However, the department has not been able to monetise these benefits.

HMT estimates the EANCB at -£93.54 million, based in cost savings to the banking industry. On the basis that the department is recasting existing legislation – in line with the definition in the Better Regulation Framework Manual (page 87) – we are able to validate this figure as an OUT.

Signed



Michael Gibbons, Chairman