The displacement of cash by alternative payments is not a new thing

Bills of Exchange began to be used as an alternative to cash for domestic payments during the 17th Century. The earliest surviving cheque printed with the name of the issuing bank is dated 1759 and was drawn on Messrs Vere, Glyn & Halifax.

Innovation followed, albeit at a somewhat pedestrian pace, after 52 years The Commercial Bank of Scotland is believed to have been the first bank to issue personalised cheques and 19 years later customer demand led to the Bank of England issuing bound or stitched books of 50, 100 or 200 cheques.

From these humble beginnings, cheque usage grew over three centuries as the cheque took centre stage as the pre-eminent non cash payment instrument.

Cheque volume growth in the 1970's was between 4% and 10% per annum but during the 1980's growth had reduced to between 2% and 6% per annum.

Peak volume was reached in 1990 following 30 years of rapid innovation which included the introduction of MICR reader / sorters (1962), the introduction of cheque cashing cards (1965), the launch of cheque guarantee cards (1966), abolishing cheque stamp duty (1971) and an increase in the cheque guarantee limit to £50 (1977) which was followed by a further guarantee limit increase to £100 and then £250 (1989).

In 1990, 4 billion cheque payments were made. Of these, 2.5 billion were cleared through the inter-bank clearing managed by the Cheque and Credit Clearing Company, the remaining 1.5 billion being in-house cheques which were either paid into the branch on which they were drawn or processed intra-bank without going through the clearings.

In the 30 years since the 1990 peak cheque volume, there has been a steady but profound decline in cheque use. This rapid decline is brought into sharp focus by the latest published cheque data: in the 12 months to June 2021 only 173 million cheques were processed representing a 26% reduction in volume and a 34% reduction in the total monetary value of the cheques.

With 330 years of cheque growth, followed by 30 years of decline to a point that cheques are on the cusp of becoming an historical artefact can the humble cheque predict a likely pattern in the future use of ATMs?

1: Our payment habits have changed

For over 300 years the only real payment rival to a cheque was cash, and the 30 years leading up to peak cheque use saw the introduction of the first generation of electronic payments including: Bank Giro Credits, Standing Orders, Direct Debits, Direct Credits, Credit Cards, Debit Cards and CHAPS.

These alternative payment choices were readily adopted by businesses and consumers and the scene was set for the transition to a predominantly digital payment society.

Since the early 2000s the payment habits of large retailers and petrol stations changed when they stopped accepting cheques for payments, a practice that has generally now expanded to include the vast majority of retailers.

In the 30 years since peak cheque the introduction of initiatives including online banking, mobile banking, Faster Payments, contactless payments, Apple Pay and, recently, Open Banking have led to the formation of deeper digital payment habits. The onset of the COVID pandemic in 2020 has led to these digital payment habits becoming increasingly embedded.

The displacement of cheques by alternative payments options is profound and despite the rejuvenation of cheque processing and the customer offering in recent years, the rapid decline of cheque use has not been stemmed let alone reversed.

Considering the current decline in the use of cash in this context suggests two fundamental viewpoints.

Firstly, continuing to provide a wide choice of payment options is vital:

"Consumers should be able to decide for themselves how they pay. For us, it is important to have a broad mix of options and that efficient methods for payment are available."

Burkhard Balz, Bundesbank, Germany.

And secondly, both the supply of cash and the provision of digital alternatives need to be inclusive, accessible and equitable.

Whether managing the decline in cash use or encouraging the adoption of digital payment options it is important that all payment options are **inclusive, accessible and equitable** for all in society.

This is an important factor as LINK considers the challenges of the **supply of** and **access to** cash over the coming decade.

2: The content of our pockets has changed

In 1975 American Express launched a campaign entitled "Don't Leave Home Without It" encouraging the aspirational business person or tourist to carry travellers cheques.

The famous tag-line became synonymous with American Express traveller's cheques from the mid-seventies through to the late 1990s - making it one of the most successful campaigns of all time.

Baby Boomers and Generation X will have distant memories of not leaving home without some cash, a cheque book and a cheque guarantee card. The cheque book and accompanying guarantee card were initially displaced by a debit / credit card and now the physical manifestation of a plastic card has been displaced by a virtual card on a smartphone or wearable device. This double displacement has removed the ability to withdraw cash at an ATM.

For Millennials and Generation Z the cheque is regarded as an uninteresting historical artefact that their parents and grandparents used to buy a tent in Millets. Stereotypically, a Millennial will bank with a challenger bank who doesn't even offer a cheque book.

As the Generation Alpha members of our society become increasingly financially independent, it is likely that a physical card will also become an historical artefact and be replaced by a virtual card.

The changes in the content of our pockets has led to an **access to cash** challenge.

3: Technology transformed the cheque

As cheque volumes grew during the 1950s and 60s the automation of cheque processing became a necessity. Rudimentary computer processing was introduced which read punch cards that held cheque details that had been manually typed by clerks.

In 1960, The Times printed a review of the 'Potentialities of Automated Reading Devices' and in 1962 National Provincial Bank became the first UK bank to install Europe's first MICR (Magnetic Ink Character Recognition) machine that read and recorded the cheque code lines.

The introduction of MICR technology enabled cheque processing to scale, by 1960 interbank clearing volumes were 2.5 million a day and it was envisaged that MICR technology running at 10% of its capacity for an eight-hour day would be cheaper than a staff team of punch card operators.

It is claimed that the first American reader / sorters could process 1,500 documents a minute and their European counterparts could process between 300 and 750 documents a minute. In reality due to the complexities of mechanically processing a piece of paper these reader / sorters processed approximately 750 to 800 items a minute.

From the conceptual invention of the ATM in the 1930's, to the race between Barclays and Nat West in 1967 to deploy an ATM, to the promotion of the 'hole in the wall' by Midland in 1980 ATM technology transformed access to cash for people who previously could only acquire cash at a bank branch which inconveniently shut at 3.30pm and was closed on a Saturday.

Just as technology transformed the cheque, **access to cash** can be transformed through innovation both within and outside the ATM scheme and estate operated by LINK.

4: The end of the cheque that never was

Celebrating 350 years of the cheque in 2009 was a bittersweet moment.

Volumes of the long-lived cheque were in sharp decline as consumers and businesses were increasingly adopting alternative payment methods and the National Payments Plan published by the Payments Council announced that it would actively manage the decline of the cheque with a view to closing down the cheque clearing system completely in 2018.

To be fair, it is important to record that this decision was based on cheque alternatives being made available that were acceptable to customers and were widely adopted. However, the announcement took many in the banking industry by surprise and the outcry by charities, the media, consumer groups, businesses and consumers led to a Treasury Select Committee.

In 2011, these events led to the reversing of the decision to close the cheque clearing. Along with the decision a commitment was made that cheques would stay for as long as customers needed them.

The reversal of the 'end of the cheque' decision and a commitment 'that cheques would stay for as long as customers needed them' reinforces the critical fact that alternative payments need to be widely available, be acceptable and be adopted by consumers and businesses before a payment instrument can be truly displaced.

It is clear that preserving cash for cash sake will ultimately only serve to leave people behind and a balance between the **supply of cash** and the promotion of inclusive, accessible and equitable alternative digital payments is vital.

5: The cheque is saved

Many years post 'peak cheque' and with a decision to 'save' the cheque it was clear that the paper based, slow and outdated clearing mechanism needed radical action to preserve the cheque clearing service for as long as customers needed them.

In late 2013, it was decided to develop and implement an image based method of clearing cheques. Interested parties had the opportunity to contribute to the definition of a new clearing system. The UK Government set out its expectations and the changes that were required to the 1882 Bills of Exchange were progressed under the Small Business, Enterprise and Employment Act which became law in 2016. Changes to the infrastructure and technological capabilities were agreed and an entirely new system built, tested, launched in 2017 and subsequently rolled out.

"Saving the cheque" resulted in significant investment consequences to preserve and rejuvenate a declining payment instrument.

The significant cost of developing an image-based clearing system and the ongoing costs to sustain a rapidly declining payment instrument are very relevant to the cash supply challenges that LINK will inevitably face in the coming years.

Given the decline in the use of cash, the cost of supplying cash will increase and this may require significant investment demands in order to preserve the **supply of** cash.

6: Image based cheque clearing has had wider user benefits

In addition to replacing the paper based, slow and outdated clearing mechanism the implementation of an image based cheque clearing system also delivered tangible benefits for cheque users.

- Speeding up the clearing of cheques was a key benefit of the image-based clearing with funds available by 23:59 at the latest on the day after the cheque was paid in (weekdays only).

- Despite the transformation from paper to image based clearing no changes to customer behaviour or practice was required, however cheque imaging has led to banks developing products to enable a smartphone to capture an image of the cheque and digitally ‘pay in’ the cheque via their banking app.

- Technical access constraints of a 20th Century paper based clearing system were addressed by the introduction of imaging clearing which allowed easier access and participation by a greater number of banks and Payment Service Providers (PSPs).

Despite holding the view that preserving cash for cash sake will ultimately only serve to leave people behind it is clear that, even though the use of cash is declining and our visits to an ATM are becoming less frequent, for some cash is an important part of the payment mix.

On this basis there is opportunity for innovation in maintaining the physical cash supply network, managing the ATM estate, developing the functions provided by the ATM and developing alternative mechanisms to access cash – Uber Cash anyone?

Conclusion

Can we remark that cheques are surviving even if they are not thriving?

My assertion is not.

The world in which cheque usage grew has become digitalised and has developed an appetite for immediacy. This change encompasses every aspect of our lives, and no less in how we decide to pay for the goods and services we consume.

Our world in 1990, at peak usage of cheques, would have responded differently to the COVID pandemic. Perhaps we would have seen the cheque rise to the occasion as it did in Ireland when during a six-month bank strike in 1970 Irish citizens traded cheques amongst themselves based on mutual trust.

However, it was cash not cheques that experienced the greatest COVID related payment disruption. In 2019 it was stated that, “10 years ago, cash was used for 6 in 10 payments. In 15 years, it could be just 1 in 10.” The COVID pandemic changed that!

The use of cash, already reducing prior to the onset of the pandemic, experienced an immediate and rapid decline and the digital payment habits we formed during the COVID pandemic will remain embedded over the long-term.

After a long and illustrious career, the use of cheques is in terminal decline however the humble payment instrument offers some insights into the challenges that cash will face as it too experiences declining use:

- The decline in cheque use only occurred due to the availability of *appropriate, inclusive, accessible and equitable* alternative payment options that work for all in society.

- Despite rapid innovation the *decline in cheque use has taken a long time*, 27 years from peak cheque volume through to the roll out of an image-based clearing in 2017. ATM transactions via the LINK network have decreased by 34% (2019 vs 2021) but the decline in the UK's use of cash will be measured in a significantly greater period of time than cheques.

- *The content of our pockets changed* and today we don't leave home without a smartphone in our pocket – a device that is a fully functioning bank, a ubiquitous payment device and has the ability to trigger the acquisition of cash at a wide range of outlets.

- *Technology transformed the cheque*, access to cash can be transformed through innovation both within and outside the ATM scheme and estate operated by LINK.

- Despite cheque volumes decreasing rapidly, the *"end of the cheque that never was" provides a cautionary tale*. Preserving cash for cash sake will ultimately only serve to leave people behind. However, it is important not to make powerful enemies, the market should dictate the 'end of cash' and this can only be when the needs of all in society are met through viable digital alternatives.

- "Saving the cheque" resulted in *significant investment consequences to preserve and rejuvenate a declining payment instrument.*

- On a brighter note, technological developments resulting from the decision to save the cheque did lead to *tangible end user innovation and network cost efficiencies*. The same could be true for cash as well.

This study has been commissioned by LINK but the views expressed in this work are those of Mike Chambers and Northey Point Limited.

Information source: Cheques and Cheque Clearing: An historical perspective published by Cheque and Credit Clearing Company (2018).