



Cheques and Balances

An investigation into the use of
cheque cashing services in the UK

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Executive summary

Context

Cheque usage in the UK has been in decline for more than 20 years. Yet, despite a fall in popularity, cheques remain a preferred and trusted payment option for many, making a significant contribution in support of the UK economy and wider society. As such, the UK banking industry is committed to ensuring that cheques always remain available for those who wish to use them. The Cheque and Credit Clearing Company (C&CCC), which manages the GB cheque clearing process, has undertaken extensive research to identify ways to make the continued use of cheques cost-effective, efficient and practical. The preferred way forward is to introduce cheque imaging, where the processing of paper cheques is replaced with electronic processing of the cheque image. The aim of introducing cheque imaging is to protect the future of cheques so that people can use them for as long as they want and to deliver faster clearing timescales for the people and businesses that use cheques.

We found during the research that between 2008-2014 the rate of decline in the volume of cheques slowed, however 2015 figures show it has returned to near the level of peak decline at a rate of 11-12 per cent per year. In contrast, the rate of decline in the value of cheques has slowed considerably from 19 per cent in 2008 to 8 per cent in 2015. Interestingly, however, a number of third party cheque cashing shops are reporting a slight increase in the use of their cheque services, largely as a result of market concentration. So while the cheque cashing industry as a whole will feel the effect of decreasing cheque usage, particular outlets – often ones that offer other services such as money transfer and second-hand goods – have seen a minor resurgence in demand.

The Project

This project aims to explore the impact of the new cheque imaging clearing process on low income, excluded and/or vulnerable consumers and sole traders. This has been done by: analysing existing literature looking at cheque usage in the UK; interviews with representatives of the third party cheque cashing industry, as well as their respective trade associations, and a survey of their customers; and 25 in-depth interviews. These interviews were undertaken to gain a deeper understanding of the consumer's financial needs, the reasons they use non-bank cheque cashing services, and the potential impact if there were to be any significant changes to the financial services they use.

Aims and scope

The main aim of the research was to identify the impact, both positive and negative, on vulnerable and excluded consumers and sole traders that might arise as a result of the switch to cheque image processing. The key objectives were:

1. To explore the current use of mainstream and alternative cheque cashing facilities by these customers;
2. To explore the third party cheque cashing services and understand more about their customers;
3. To identify the needs of consumers, particularly those on low incomes, in having access to cheque cashing facilities;
4. To explore the potential changes in the way in which third party cheque cashing service providers may alter their business model and services as a result of the switch to cheque image processing;
5. To identify the potential impact of such changes in cheque cashing services on these customers.

Despite populating high streets in Britain for many years, cheque cashing has received very little research or public policy attention. As this research finds, there are no concrete numbers for how many people actually visit these shops every year. That said, we know it is a very niche service and caters for a relatively small number of people.

Summary of findings from the customer survey

We surveyed 120 customers from a range of third party cheque cashing services. Looking at who uses cheque cashing, why, and what would the impact be for them of receiving the balance on a cheque more quickly (an outcome of cheque imaging), we found:

- 29 per cent were on benefits or a pension, 15 per cent earned £13,000 or less, 25 per cent earned £13,000 to £20,000 and 27 per cent earned between £20,000 and £30,000. Only two respondents gave incomes above £30,000.
- The majority self-defined as regular customers. Access to money straight away was the most commonly cited reason for using cheque cashing shops (78 per cent) followed by not having a bank account (24 per cent) and then being close to where the respondents live (10 per cent). Among those who used the service regularly (once a month or more) 58 per cent did so because they didn't have a bank account. Only 2 per cent said they used the services because they didn't want a bank account.
- The majority described themselves as either white British or British (67 per cent) with a significant proportion of Eastern Europeans (11 per cent).
- 60 per cent of respondents in total would still use a cheque cashing service if the price rose (including 50 per cent of those who use it regularly). 28 per cent would use a bank and 12 per cent would find another service. Among those without a bank account 69 per cent would continue to use the service and 24 per cent would use a bank.
- 58 per cent of respondents liked the idea of being able to get the money from a cheque in the next weekday from their bank account, and 47 per cent liked the idea of being able to use a smart phone to pay-in a cheque.
- 61 per cent of respondents would use another service or a bank if they couldn't access the cash straightaway in store, demonstrating the importance of quick access to cash for cash chequing customers.

- 54 per cent of respondents would open or use a bank account if cheque cashing were no longer available but 29 per cent would use another service instead. 65.5 per cent of those who don't have a bank account would open or use one if cheque cashing were no longer available.

Summary of findings from customer interviews

What comes through very strongly from the 25 interviews is the need to have access to the value of a cheque, in cash, quickly. At the moment the time it takes to get a cheque cleared through a bank is considered too long. With cheque cashing the necessity of quick access to that cash outweighs the burden of paying a premium for the service, though this is not to say that these participants don't have a cost-focus.

However, we estimate that if costs potentially associated with cheque imaging are passed on to customers and the clearing time is reduced, a number of customers will start to see opening a bank account as the only reasonable thing to do (but not all of them).

That said, customers recognise the convenience of being able to do a variety of transactions in one place, in the way a money service business like cheque cashing shops can do, and can often be a lot more cost-effective for someone working long hours than, say, cashing a cheque in one place and sending money home in another. It is an established competitive advantage of cheque cashing shops.

We estimate that for some customers of third party cheque cashing services using a bank account after the introduction of cheque imaging will be more appealing, even advantageous (which evidently suggests that for some customers not having a bank account is a choice). For others the need for cheque cashing services and what they can provide (instant access and a central point for all non-traditional financial needs) will remain.

Even if prices of using cheque cashing services were to rise (because while some customers see price rises as a final straw, a significant number of them don't) some customers would still use the cheque cashing service. It is worth noting that the views of the representatives of third party cheque cashers were largely in line with results from the customer survey.

Summary of possible future scenarios

We identified four possible future scenarios for the customers of the third party cheque cashing industry after the introduction of cheque imaging, which vary in their likelihood of coming to fruition:

- 1. Cheque cashing remains but becomes more expensive.**
- 2. Cheque cashing remains as one part of a diverse number of other products.**
- 3. Cheque cashing remains but shrinks considerably.**
- 4. Cheque cashing services come to a close altogether.**

Conclusive remarks

Our analysis leads us to believe that cheque cashing will remain but will shrink in size considerably as a consequence of cheque imaging. However given that for some of the small and medium sized cheque casher representatives the total amount of their business dedicated alone to cheque cashing was between 5-30 per cent, business models might change significantly in the next few years, resulting in some services closing down possibly leading to market concentration. The new volumes of people visiting particular businesses might mean those businesses are better able to absorb the costs associated with cheque imaging.

For customers, prices may not have to change but this is largely predicated on the industry to find other ways to subsidise their business, such as placing a greater focus on foreign currency exchange, money transfer or the selling of second-hand goods.

With regards to sole traders and their use of cheque cashing services, in our interviews with industry representatives we found that while they do use the service it is difficult to determine to what extent, as they deal in personal not business cheques. We must therefore assume that sole traders using third party cheque cashers will be affected by the introduction of cheque imaging in the same way as the customers interviewed and surveyed.

Cheque imaging presents an opportunity for more people who might otherwise be resigned to using alternative financial services, and perhaps do not want to pay the associated premium, to see mainstream services as a realistic option for them.

Cheques are by no means a modern form of payment but they serve an important purpose for a large proportion of UK consumers. Many are still paid in cheque and many of those people, while not exclusively, will be on low incomes. It's important that with any change to a service or product that we pay special attention to any possible unintended consequences that may occur. We hope this research report addresses some of those possible consequences with regards to cheque imaging.

Cheques in the UK

Cheque usage

Despite a drop in usage over the years, cheques remain one of the most recognisable methods of payment in the UK. Even as the number of cheques being written falls, giving way to other forms of payment, a physical cheque is still commonly identified as a way to give or receive monetary value.

A cheque is a paper voucher linked to an individual or business current account. It is not legal tender, but rather a legal document with a written order from an account holder instructing their bank to pay a specific sum of money to a named beneficiary. If an individual wishes to pay someone back money they owe, the recipient can refuse to accept a cheque and demand to be paid in legal tender¹. A written cheque will include the name of the person or business that the current account holder intends to pay money to. The recipient will then take the cheque into their bank or building society, which will arrange for the money value written on the cheque to be transferred from one account to the other.

Cheques are classified among a suite of other modern payment methods, to be distinguished from physical coins and notes, including debit cards, credit cards, and money transfers. However the origins of the cheque are thought to go right back to the 1st century BC where ancient Romans were believed to use an early cheque form known as 'praescriptiones'². Their system, much in the same way as in the present day, required banking representatives to issue orders at the request of their customers and to pay money directly to named payees identified from a customer's 'negotiable instrument', which could be a cheque, promissory note, bill of exchange or banknote.

The earliest known surviving cheque in the UK was written in 1659³. Originally cheques were referred to as 'drawn notes', presumably on account of their being handwritten, and enabled a customer to purchase goods immediately from funds in their bank account. In 1717 the Bank of England first used a pre-printed form in order to ensure against fraud which would then come to be known as 'cheque paper'. Customers thereafter were obliged to attend a bank in person to obtain a numbered paper from a cashier⁴.

Laws in the UK governing cheques were introduced in the 19th century, as several other countries were developing them simultaneously. The UK passed the Bills of Exchange Act in 1882 which covers cheques and promissory notes. Later the definition and use of cheques were covered by the Cheques Acts of 1957 and 1992.

Cheque usage in the UK reached its peak with 4 billion used in 1990, and has been gradually declining ever since debit card usage and electronic methods of payment became widespread. Incentives against making payments to companies that may incur an extra cost for them is just one example of why cheque usage reduced, for example with utility companies charging lower prices to customers who paid by Direct Debit rather than other methods. Consumer and business cheque volumes are forecast to decline from 558 million in 2015 to 239 million cheques in 2025⁵.

All modern cheques must conform to an industry standard set by the Cheque and Credit Clearing Company (C&CCC) combining specific fonts, paper weight and security details. Cheque printers are members of the Cheque Printer Accreditation Scheme (CPAS) and bound by a scheme managed by the

1 Cheque and Credit Clearing Company, 'The Law Relating to Cheques' (London: C&CCC). Available here: <http://www.chequeandcredit.co.uk/information-hub/law-relating-cheques>

2 Rajesh, S. and T Sivagnanasithi, Banking Theory: Law and Practice (New Dehli: Tata McGraw-Hill, 2009) p.205

3 Payable to a Mr. Delboe with money drawn on Messrs Morris and Clayton, scrivener and bankers based in the City of London, and dated 16 February 1659. For more, see: <http://www.chequeandcredit.co.uk/information-hub/history-cheque>

4 Quinn, Stephen and Williams Roberds, The Evolution of the Check as a Means of Payment: A Historical Survey, Federal Reserve Bank of Atlanta Economic Review (Atlanta: Federal Reserve Bank of Atlanta, 2008). Available here: https://www.frbatlanta.org/research/publications/economic-review/2008/vol93no4_evolution-of-the-check.aspx

5 Payments UK, '2016 UK Cheques' (London: Payments UK). Available here: <http://www.paymentsuk.org.uk/industry-information/annual-statistical-publications>

C&CCC requiring all cheques to be produced by printers who have adopted strict security standards.

During the 1980s, 1990s and early 2000s most major retail outlets would accept a cheque payment for purchases. Often retailers required a cheque guarantee card to be presented at the point of sale to guarantee a cheque of up to £50, £100 or £250⁶. These were eventually phased out, replaced to a large extent with debit cards in the mid-1990s, and eventually on June 30, 2011, the Payments Council⁷ withdrew the existing Cheque Guarantee Card Scheme in the UK. By the mid-2000s many retailers decided to call an end to accepting cheques as a method of payment. In 2005 Shell became the first major retailer to stop accepting cheques as a form of payment in its 900 petrol stations. The company pointed out that less than 1 per cent of customers were using cheques and instead preferred using debit cards and making Chip and PIN payments, which were just becoming widely used⁸.

Between 2005 and 2006 other major fuel retailers, from Texaco and BP to Total all announced that they, too, were stopping the use of cheques at their outlets. The supermarket ASDA, Boots, Currys and WH Smith followed suit.

In 2006, the then Office of Fair Trading (OFT) set up a working group to look at the cheque clearing cycle. The group concluded that there was no case for a complete rebuild of the cheque clearing system and that “research showed that the number of cheques in circulation is falling by around eight per cent per year, and this rate of decline was likely to increase substantially when the new faster payments service became available

in November 2007”⁹. There was no case to speed up the central clearing cycle, however the group did recommend setting standard maximum times for cheque clearing, which were also introduced in November 2007.

This standard is referred to as 2-4-6¹⁰. In the Cheques Working Group final report, the date at which credit appeared on the recipient’s account (which is typically on the day of the cheque deposit) was designated as “T”. On “T + 2” (two working days afterwards) the value would appear on the recipient’s account and start accumulating interest. On “T + 4” (four business days afterwards) the recipient can withdraw those funds from a current account or “T + 6” from a savings account. “T + 6” is the last day on which a cheque can “bounce” (where a cheque is unable to be cleared due to insufficient funds in the payer’s account) – which is known in the industry as “certainty of fate” (the principle that allows a bank six days to dishonour a cheque after it has been deposited). Before the introduction of this standard, the number of days for giving value (interest) or allowing customers to withdraw the money was not fixed. In addition, it sometimes took weeks rather than days for fraudulent cheques to be identified, with the result that money was sometimes claimed back from customers long after they had spent the money from a cheque they had paid into their account.

In 2015 558 million cheques were used for payments and to acquire cash, for a total value of £624 billion¹¹. The average value of a cheque written by businesses was £2,245, and the average value of a cheque written by a consumer was £293¹². Between 2008-2014 the rate of decline in the volume of cheques slowed. However 2015 figures show it has

6 Cheque and Credit Clearing Company, ‘Cheque Guarantee Card Scheme’ (London: C&CCC). Available here: <http://www.chequeandcredit.co.uk/information-hub/history-cheque/emergence-technology>

7 The quasi-regulatory role for strategy setting of the Payments Council was transferred to the Payments Systems Regulator in April 2015. The Payments Council was relaunched as the trade association Payments UK in June 2015.

8 BBC, ‘Shell bans payment by cheque’, BBC, 10 September, 2015. Available here: <http://news.bbc.co.uk/1/hi/programmes/moneybox/4233002.stm>

9 Office of Fair Trading, Final report of the Payment Systems Task Force, (London: OFT, 2007). Available here: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.offt.gov.uk/shared_offt/reports/financial_products/oft901.pdf

10 A video explanation can be watched here https://www.youtube.com/watch?v=3_gJGrmxGq8

11 Payments UK, ‘2016 UK Cheques’ (London: Payments UK). Available here: <http://www.paymentsuk.org.uk/industry-information/annual-statistical-publications>

12 Ibid

returned to near level of peak decline at a rate of 11-12 per cent per year. In contrast, the rate of decline in the value of cheques has slowed considerably from 19 per cent in 2008 to 8 per cent in 2015¹³. Comparing the decline in volume and value suggests that where cheque payments are made they are for higher value items as customers migrate to other payment methods such as online banking, mobile banking and credit and debit cards for more of their day-to-day payment needs.

Who uses cheques and why?

Payments UK in their 2015 statistical breakdown found that adults aged 65 and over wrote 21 per cent of all cheques written by consumers. Those between the ages 55 to 64 wrote a further 15 per cent of consumer cheques. Between January 1 2014 and January 1 2015, 51 per cent of adults aged 65 and over wrote cheques, with 31 per cent of them writing cheques at least once a month or more frequently. By contrast, 84 per cent of 16 to 34 year olds now say that they never write cheques¹⁴.

They also report that adults falling within the socio-economic group AB wrote 41 per cent of consumer cheques compared to those in group D and E who only wrote 15 per cent of consumer cheques between them. Recipients of cheques also falls along the socio-economic spectrum, from 63 per cent of those in socio economic group AB to 23 per cent of those in group E¹⁵.

Academic studies, looking at cheque usage in the US and the European Union, have reported the effect of a consumer's age, income and education on the use of payment instruments. One study by Koulayev et al in 2012 found,

for example, that older people use cash and cheques more than younger households and that high-income and high-education households substitute cheques towards credit cards much more than low-income and low-education households, which tend to move towards paper products.¹⁶

A 2010 study by Schuh and Stavins concluded that the use of cheques was negatively influenced by the perception of the cost and the inconvenience of cheques in comparison with alternative payment instruments¹⁷. A separate analysis in 2013 by Schuh and Stavins found that consumers perceived cheques as being slow in terms of processing and less secure when compared with other payment instruments¹⁸. Further observations by Silva et al found that the greater the number of ATMs in a local area will impact negatively on the use of cheques in that area. Their research also finds that only few researchers have studied the differences in the use of payment instruments, such as cheques, between countries¹⁹.

Advantages and disadvantages of cheque use

There are established advantages and disadvantages of using a cheque that shape people's perception of them as a favoured method of payment. For example, one major advantage of using a cheque is that as long as there is money in the payer's account it is cost-free for the consumer. Some people also appreciate the personalisation of a cheque, which is particularly useful for businesses who can customise a cheque with their logo or trademark design.

13 Payments UK Quarterly Statistical Report Q4 2015. Available here: http://www.chequeandcredit.co.uk/sites/default/files/quarterly_statistical_report_q4_2015.pdf

14 Payments UK, '2015 UK Cheques: Main trends and forecasts for the use of cheques for payment and cash acquisition' (London: Payments UK, 2015). Available here: http://www.paymentsuk.org.uk/sites/default/files/PaymentsUK2015_Cheques_Content.pdf

15 ibid

16 Koulayev, Sergei, et al, 'Explaining adoption and use of payment instruments by U.S. consumers' (US: Federal Reserve Bank of Boston Working-Paper No. 12-14, 2012). Available here: <http://citeseerx.ist.psu.edu/viewdoc/download?jsessionid=55506BC2D4533258BAF522597A50CC3C?doi=10.1.1.651.1133&rep=rep1&type=pdf>

17 Schuh, Scott and Joanna Stavins, 'Why are (some) consumers (finally) writing fewer checks? The role of payment characteristics' (US: Journal of Banking & Finance, Elsevier B.V., Vol. 34 No. 8, 2010). Available here: <https://www.bostonfed.org/economic/wp/wp2009/wp0901.pdf>

18 Schuh, Scott and Joanna Stavins, 'How Consumers Pay: Adoption and Use of Payments' (US: Accounting and Finance Research, Vol. 2 No. 2, 2013). Available here: <http://www.sciedu.ca/journal/index.php/afr/article/viewFile/2540/1418>

19 Silva, Vânia, et al, 'The use of cheques in the European Union: a cross-country analysis' (Portugal: University of Évora, 2015). Available here: <http://www.apdr.pt/pej2015/papers/46.pdf>

Cheques are a trusted form of payment that suit people who don't have access to or lack confidence in newer electronic methods of payment. According to the Social Market Foundation, a substantial number of people they interviewed about money management mentioned the continuing need to visit branches to deposit cash and cheques²⁰.

Another advantage of using a cheque might be to make the best use of the delay before the amount written on a cheque is cleared. The delay inherent to cheque clearing may prove useful for those who don't want the cheque value taken out of their current account immediately, but want to demonstrate an intention to pay. A cheque payment may also be made on the assumption that the individual cheque will not be deposited by the recipient straight away, giving the payee a small buffer. This practice in the US is called "kiting" or "floating". It is considered a type of cheque fraud, since by its very nature the cheque ceases to be a negotiable instrument and instead a form of unauthorised credit, but is seldom enforced²¹.

Some of the possible disadvantages of cheque use include how long they take to process, which generally means not being able to access money for four working days. Also, for the relatively small proportion of people who do not have a bank account, cheques can be an inconvenience, particularly as the groups of people in the UK least likely to have access to a mainstream bank account are also the most likely to be paid exclusively with a cheque. Options for this group are limited and mean that they may be obliged to pay a fee to receive the value of their cheque, which is something those with a bank account can do for free.

In December 2009, the Payments Council announced that cheque clearing would be phased out by October 2018, with the qualification that this would happen only if adequate alternatives were to be developed.

A number of concerns were raised, including from disability charities, small businesses and organisations for the elderly, that it would negatively impact certain groups who still make regular use of cheques for payments. Indeed research carried out by Dr John Vines at Newcastle University in 2011 found that 53 per cent of people over 65 in the UK use cheques regularly compared to 19 per cent of those aged 18 to 24. The Treasury Select Committee and the government made recommendations to the Payments Council which in turn responded in July 2011 to say that cheque clearing would not now be closed and cheques would remain for as long as customers wanted to use them.

C&CCC to introduce cheque imaging to the UK

In 2011, the Treasury Select Committee published their report looking at the future of cheques which carried a section on the arguments used for and against their abolition. In its written evidence to the Select Committee written before the decision to retain the cheque was made, the Payments Council pointed out that:

"Closure of the cheque clearing system will produce savings for banks as the industry pays substantial fixed costs when providing cheques to customers (e.g. operating processing sites, cheque book production and equipment, the running and maintenance of the clearing system, distribution, and the transportation of cheques, all of which have substantial negative environmental as well as cost impacts). The industry is actively reducing and managing such costs today as volumes decline but there will be an increase in unit costs whilst fixed overheads remain."

Undoubtedly true, the reaction to phasing out cheques entirely was unforeseen. The Select Committee responded in their report saying:

"Although an estimate is available of the savings to the banks that would come from the abolition of cheques, the Payments

20 Evans, Katie, 'Balancing Bricks & Clicks: Understanding how consumers manage their money' (London: SMF, 2016). Available here: <http://www.smf.co.uk/wp-content/uploads/2016/01/Social-Market-Foundation-Balancing-Bricks-and-Clicks-Understanding-how-consumers-manage-their-money-FINAL-Embargoed-0001-280116.pdf>

21 For an example, see the definitions page of the Legal Information Institute, here: [https://www.law.cornell.edu/wex/example/per cent5Bfield_short_title-rawper cent5D_111](https://www.law.cornell.edu/wex/example/per%20cent5Bfield_short_title-rawper%20cent5D_111)

Council never had a clear view of the wider costs and benefits of the cheque replacement programme. The lack of transparency in bank charges is a matter on which we have reported before. Some customers, if given the opportunity to find out how much they were really charged for banking and offered the chance to make savings, might choose not to make use of cheques. Far from offering such a choice to customers, however, banks gave the impression that they wished to eliminate cheques and reap the savings through the back door. This is unacceptable.”²²

The solution, between keeping cheques in circulation and reducing associated costs, was to be found in cheque imaging.

In December 2013, the Board of the Cheque and Credit Clearing Company gave the go-ahead for the implementation of an image-based method of clearing cheques. In summary, cheque imaging describes the process by which banks will scan cheques paid in by their customers creating images which they will transmit, along with a file of cheque code-line data, across a secure network to other banks for payment²³.

Currently cheques deposited by customers are physically transported from bank branches to central clearing centres. The code-line data on the cheque is sent across a secure network to the other banks at the same time as the cheques are exchanged. It has previously been described as a slow and labour-intensive process done because of legal requirement and because a bank upon which a cheque is drawn has the legal right to demand that they see the physical cheque prior to deciding whether to pay it or not ²⁴.

Once the Image Clearing System has been fully introduced, all banks and building

societies will scan cheques paid in by their customers to create images. Advantages for customers include the ability to use cheques for as long as they want them (as opposed to the alternative, of phasing them out over time) and faster clearing. Money from cheques will be redeemable through cheque imaging a lot quicker, reducing clearing time from six weekdays to the next weekday or less. The potential advantages for banks are a sustainable and more efficient system.

In research carried out by Ipsos Mori in 2015 on behalf of the Cheque and Credit Clearing Company, looking at attitudes and the potential impact of cheque imaging, it was found that the leading benefit in the opinion of the public was that money will reach their account more quickly (45 per cent), compared to 41 per cent choosing certainty a cheque won't bounce once money shows in their account²⁵.

Responding to a Treasury consultation paper on the impact of cheque imaging, Transact (now called the Financial Health Exchange), which sits within Toynbee Hall, set out in their response the benefits (quantifiable and non-quantifiable) of introducing cheque imaging. They included the shorter timescale to help consumers' ability to budget and avoid missing payments, the reduction in number of lost cheques and also a solution for people in rural areas who don't live near a bank branch²⁶.

However, Transact did raise concerns about the extent to which the changes may affect work reversing financial exclusion:

“In areas where financial exclusion exists on the basis of a lack of access to branches, we are concerned that the general move towards online/mobile banking may exacerbate this issue. In itself, we do not believe that the move to cheque imaging will shift demand away from traditional banking services to the extent that

22 Treasury Select Committee, The future of cheques: Eighteenth Report of Session 2010–12 (London: Hansard, 2011). Available here: <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1147/1147.pdf>

23 Cheque and Credit Clearing Company, 'What next in Cheque Clearing?' Available here: <http://www.chequeandcredit.co.uk/information-hub/history-cheque/what-next-cheque-clearing>

24 Cheque and Credit Clearing Company, 'Cheque Imaging' Available here: <http://www.chequeandcredit.co.uk/information-hub/faqs/cheques-and-cheque-clearing>

25 Cheque and Credit Clearing Company, Follow-up Quantitative Research Report on Cheque Imaging (London: C&CCC, 2015). Available here: http://www.chequeandcredit.co.uk/sites/default/files/follow-up_quantitative_research_report_on_cheque_imaging_2015.pdf

26 Transact, Cheque Imaging: Transact's Draft Response (London: Transact, 2014). Available here: <http://www.transact.org.uk/shared/get-file.ashx?id=2532&itemtype=document>

it will lead to branch closures – a recent Social Market Foundation study found that 6 in 10 people value face-to-face banking services. However, we request that the government and the industry be alert to exclusion issues that may arise in this area, including the ‘drip by drip’ cumulative impact of ever more services being delivered online and digitally”²⁷.

The C&CCC has issued a publication on their website that explains the current cheque clearing process and how it will change once the Image Clearing System has been introduced. As they explain, the new system offers a multitude of advantages for the consumer, which includes securing the longevity of the cheque, a quicker clearing cycle and more competition and choice as the new system will make it easier for new banks to enter the market with cheque products. Some banks and building societies may offer additional ways to pay-in a cheque, rather than having to go to the bank (e.g. by using a secure mobile banking app on their smart phone or tablet) but it is important to state that consumers will continue to write cheques and be able to post to their bank or deposit over a branch counter as they do today. As the C&CCC publication makes clear ‘nobody has to do anything differently if they don’t want to’²⁸.

Cheque imaging internationally

Cheque imaging is not unique to the UK. There is available evidence of cheque imaging initiatives in countries across Europe, Asia and North and South America. In France, according to the Banque De France, there were 2.49 billion cheque transactions in 2014, comprising 13 per cent of non-cash payments, making it one of the biggest users of cheques in the EU. The perceived benefits of using cheques are that they are easy to use, businesses are required to accept cheques for less than 15 euros (which is useful for people dealing with

very small sums of money) and they are free of charge. Previous research has stated that the fact that use of a cheque is free of charge has led to its use being as good as compulsory for many payments. The use of cash to pay important amounts has been described as “stigmatising” and not having access to a cheque implies paying much more for purchases²⁹. When French cheques went digital with the introduction of the Cheque Imaging Exchange (l’Échange d’Images Chèques (EIC)³⁰) in 2002, the advantages and disadvantages were clear: it ensures a free payment service, which is advantageous, because by French law banks must issue cheque books for free. Banks could theoretically charge a transaction fee to customers, but one bank tried this and was forced to stop due to a huge uproar among customers³¹. Also, although cheque fraud in France has increased since 2002 - which is estimated at a cost of 100m euros – this is not driven by cheque imaging but by fraudsters making illegal usage of paper cheques (especially for guaranteed bank cheques) e.g. stealing cheque books and signing cheques³².

Cheque imaging breathes new life into cheques and ensures a mode of payment that many people still feel comfortable with. Evidence from other jurisdictions that have tested cheque imaging has focused on the positive impacts that the changes have had. Use of digital tools that enable consumers to take more control over their payment methods, as well as a general modernisation of those methods, has a number of perceived advantages. Banks will also benefit from those advantages as well.

One industry, which currently lacks any significant research in the UK or across the world – the third party cheque cashing industry – will also be affected by changes to cheque usage, and especially cheque imaging. In the chapter that follows we look at this industry, who its customers are, and what the impact of cheque imaging – if any – will have on them.

27 ibid

28 Cheque and Credit Clearing Company, ‘Cheque Imaging Explained’ (London: C&CCC, 2016). Available here: http://www.chequeandcredit.co.uk/sites/default/files/cheque_imaging_explained_may_16.pdf

29 Bayot, Bernard, ‘Social, Economical and Financial Consequences of Financial Exclusion’ (France: European Financial Inclusion Network, 2008). Available here: <http://www.fininc.eu/gallery/documents/wp-consequences-of-fe.pdf>

30 Burg, Pascal and Grégoire Toussant, l’utilisation du chèque en france (France: Edgar, Dunn & Company, 2011). Available here: <http://www.edgardunn.com/uploads/white-papers/100391.pdf>

31 Evidence given during the project from Pascal Burg, a director of the management consultancy Edgar Dunn & Company, based in France.

32 ibid

Third party cheque cashing services in the UK

Existing research

In brief, a third party cheque cashing service is a type of money service business (MSB) in the UK where customers can redeem the value of a cheque in cash immediately for a fee. There are many examples of this type of MSB in the UK and the rest of the world. Research into the UK's third party cheque cashing industry is extremely limited at best. For a variety of reasons it has been simply bracketed as part of a long line of products for sub-prime consumers without reference to its particular context. In the US, where cheque cashing outlets (CCOs) have received the most academic and policy-based attention, by virtue of its size and origins, the industry is understood as appealing to the same demographic of people who use payday loans (or, before the payday loan product was developed, salary lenders). The reason for this is that the payday loan emerged out of cheque cashers in the early 1990s and that the growth in CCOs between 1998 and 2003 actually reflects the growth in payday lenders listed as cheque cashing businesses³³.

Previous research by Christopher L. Peterson has shown that some cheque cashing firms realised additional profit could be made if advance cash was extended to customers rather than just cashing cheques. This also provided an incentive to circumnavigate the laws which, while explicit on paper, were seldom enforced. Some firms originally hoped to avoid credit laws if they labelled their services as cheque cashing rather than loans and in a bid to avoid usury laws could be referred to as “deferred presentment”³⁴.

From this, a number of assumptions have been created on the similarities of both the product and the customer. Peterson points out that working poor families have often turned to “small moneylending firms, multinational consumer credit corporations, high-rate credit card issuers, mortgage loan companies, payday loan, cheque cashing outlets, automobile title loan companies, rent-to-own furnishing stores, and pawnshops.”³⁵ While this may be true, it would be wrong to assume that certain groups of people use all of these services for the same reasons or in the same way.

The existing UK literature tends to talk about third party cheque cashing services in a similar way, without studying the intricacies of the cheque cashing product itself and its particular customers. However, one report, by the Personal Finance Research Centre (PFRC), recognises and expands upon the subtle differences that cheque cashing has with other financial services targeted at the financially unserved or underserved³⁶. They found that many cheque cashing outlets are operated by pawnbrokers or moneylenders and that “they have been set up following the Cheques Act 1994 [sic], which resulted in all cheques being crossed a/c payee only. The network of outlets is growing rapidly and now stands at over 550”³⁷.

Their report goes on to draw a distinction between ‘alternative’ consumer credit lenders from moneylenders, pawnbrokers, cheque cashers and, at the time, new companies like Cash Converters and Crazy George, or what they refer to as “non-status lenders”, pointing

33 Caskey, John P., ‘Fringe Banking: Check Cashing Outlets, Pawnshops and the Poor’ (New York: Russell Sage Foundation, 1994).

34 Peterson, Christopher L. ‘Taming the Sharks: Towards a Cure for the High-cost Credit Market’ (US: University Press Publications, 2004).

35 ibid

36 Financially unserved are defined as those people who are not served by mainstream financial services at all. Financially underserved are defined as those people who are without access to financial services products that standard or prime customers take for granted, such as an overdraft. Another way of putting this, from a 2011 KPMG report, is the “underserved market -- the unbanked (consumers without a transaction account) and underbanked (those without access to incremental credit)”.

37 Kempson, Elaine and Claire Whyley, ‘Extortionate Credit in the UK: A report to the DTI’ (Bristol/London: PFRC/DTI, 1999). Available here: <http://www.bris.ac.uk/media-library/sites/geography/migrated/documents/pfrc9903.pdf>

out that they “lend to quite different groups of people, although the unifying characteristics of their borrowers are that they tend to have limited access to mainstream lenders.”

Later research by the PFRC found that shops offering cheque cashing had seen a decline in those services. Instead, their other main area of growth was gold buying, where profits had increased considerably. Other services like foreign exchange and money transfer also provided shops with a steady income. They found that “specialist second-hand retailers all reported growth in the scale and profitability of this side of their business, in part because eBay had made the purchase of second-hand goods more respectable.”³⁸

Paul Jones and Tina Barnes from Liverpool John Moores University carried out research looking at varieties of credit use back in 2005, based on the focus grouping and surveys of nearly 360 people among a range of demographics. They found 11 per cent of respondents used cheque cashing shops. Of them, only 53 per cent were using them to cash cheques. The average fee charged for the service is around 10 per cent of the cheque’s value while 27 per cent of respondents used them as a loan on their own personal cheques, repaying the loan to the shop before it deposited the cheques in the bank (essentially a guarantee against the debt). 23 per cent used the cheque cashing shop to raise cash in advance on a personal cheque which was later banked by the shop, which is a high cost, short term loan by another name.³⁹

On the costs of cashing cheques with a third party cheque cashing shop, previous findings vary only a little. The PFRC raised concerns relating to the charges. They say:

“Of the new entrants, cheque cashers offering payday advances have also been accused of making very high charges. Typically they charge

a flat fee of around £2 plus 7-9 per cent of the face value of the cheque. The flat rate charge for cashing a post-dated cheque for £100 a month early, for example, would be around £9, resulting in an effective APR of 181.2 per cent. To be fair, however, the other option open to someone in this position would be to overdraw the account, for which the charges would be considerably higher – especially if it were unauthorised. One high street bank would charge 33.8 per cent interest, plus £5 a month and £3.50 for each day the account is overdrawn by £50 or more.”⁴⁰

According to Henry Palmer in a New Economics Foundation report from 2003, “A typical charge for a £40 cheque held for between one and seven days is around £4. To hold a cheque for the same amount for one month would cost around £5, which would amount to an APR of 396 per cent”.⁴¹

In Paul Jones and Tina Barnes’ research, they cite claims by the BCCA - then the British Cheque Cashers Association, the leading trade body for the industry - that the average fee charged by one of their members for cashing a cheque is around 10 per cent of the cheque’s value⁴².

The impact that cheque imaging might have on those services: the case of the US and Canada

There is currently no research available on the impact, or possible impact, that cheque image processing will have on the third party cheque cashing industry. In advance of our primary research focusing on this, we sought the expertise of three experts from other jurisdictions on the impact and what lessons could be taken away in a UK context. We spoke to experts we identified in jurisdictions we knew had already moved to a system of cheque image processing.

38 Personal Finance Research Centre, ‘The impact on business and consumers of a cap on the total cost of credit’ (Bristol: PFRC, 2013). Available here: <http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1302.pdf>

39 Jones, Paul and Tina Barnes, ‘Would you credit it? People telling stories about credit’ (Liverpool: The Co-operative Bank in association with Liverpool JMU and Citizens Advice Bureau, 2005). Available here: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.596.5409&rep=rep1&type=pdf>

40 Kempson, Elaine and Claire Whyley, ‘Extortionate Credit in the UK: A report to the DTI’ (Bristol/London: PFRC/DTI, 1999). Available here: <http://www.bris.ac.uk/media-library/sites/geography/migrated/documents/pfrc9903.pdf>

41 Palmer, Henry and Pat Conaty, ‘Profiting from Poverty: Why debt is big business in Britain’ (London: New Economics Foundation, 2003). Available here: http://b3cdn.net/nefoundation/3004bf55c8ced88134_0fm6bhnr.pdf

42 Jones and Barnes, see above.

US

We spoke to Ed D'Alessio, the Executive Director of Financial Service Centers of America (FiSCA). He mentioned that cheque image processing in the US has been around since 2003. The Check Clearing for the 21st Century Act (or Check 21 Act) is a US federal law enacted on October 28, 2003. This law was set up to make payments more efficient and faster. Instead of having to take a cheque to a branch, the recipient could submit a cheque electronically instantaneously. D'Alessio says it was fairly slow to be adopted by cheque cashers and nor did banks embrace it straight away. However when security risks were ironed out, the initial effect was positive to cheque cashers: "they could scan their cheques and present them electronically which then was paid on and their account could be credited. The greatest benefit was no longer having to send someone to go to a bank with a pouch full of cheques, and they were not obliged to partner with banks that were local to them which speaks to the problem of banker's discontinuance⁴³".

One downside for cheque cashers was the risk of fraud. "Most of the banks that allow this consumer-direct remote deposit are not very diligent in making sure there is a special endorsement that will render it not able to be presented to another institution. Neither is the law entirely clear. Cheque cashers will believe that they are "holders in due course"⁴⁴ and that they should be paid on the cheque, but Treasury laws didn't really contemplate the consumer use of law 21, so there is still conversations about the regulatory environment."

One way to regulate it, which D'Alessio discussed, was a database for imaged checks. However such a system isn't working for cheque cashers in the USA:

"There are some states where there are organisations representing bad cheque

databases, but it wouldn't show cheques that are just simply being notified. That would be a massive amount of data to show every bank notified. Other than a database, we've spoken about a presenter of a cheque having markings, or a change in legislation to say the bank of first deposit was responsible not only to other banks but to third parties who might cash the cheque, then the banks would either give the system to their bank customers or eliminate the system. If someone is going to be unscrupulous as to do this it's pretty risky. And we've seen money orders from Western Union or Moneygram, take it out the store, then go back in or go elsewhere and they've gotten twice the proceeds."

On whether imaging was positive for his businesses, D'Alessio said:

After 2003, my members used it to their advantage: new banking relationships and quicker payments for them. For costs, there were some additional costs, on scanners and software. The scanners were the ones the bank picked out. But ultimately it was very positive. The impact of fraud hasn't been enough to cancel out the positives."

"There hasn't been any real market exit as a consequence of cheque imaging. There might be a proportion of customers that want to use that system with a bank, but customers using cheque cashers want their cash immediately, they need that liquidity. We didn't see any real migration of customers as things got electronic because the people who go to cheque cashers don't have the facilities [smart phones]."

Canada

We spoke to Norm Bishop, a Barrister at Bishop and MacKenzie in Canada. He mentioned that Canada has had cheque image processing for around three years. In 2013 the Canadian Payments Association's Board of Directors approved the final stage of the Image Captured Payment Exchange. Unlike the US, Canada has five big banks rather than smaller banks so Canadians see lots of adverts on the

43 Federal regulators in the US cautioned banks that non-bank money service businesses (including check cashing sites) presented heightened money laundering risks. Consequently, some banks discontinued their business relations with check cashers, making it hard for those businesses to find local partner banks. However, cheque image processing meant that check cashers no longer had to do business with local banks.

44 The "holder in due course" is a person who has received a negotiable instrument, such as a cheque, in good faith and in knowledge that there is no prior claim on its value. In this case, the "holder in due course" is someone depositing a cheque.

television and elsewhere on the advantages of taking a picture of a cheque and depositing it. This system is being pushed quite hard by the banks.

Bishop pointed out that it has had an impact on third party cheque cashers in Canada. There is a lot of concern about instances in which a person has taken a photograph of a cheque and is still in possession of the original cheque. There is an opportunity, should someone be inclined, to receive the funds from the cheque and then present the cheque when the value has already gone into their bank account.

He explained what bank agreements will stay with regards to the physical cheque after it has been deposited digitally:

“A person opens a bank account and the bank agreement they sign will say they are an agent of the bank when depositing a cheque. In instances of an imaged cheque, they are giving you credit for this with just the image. The person is being the agent of the bank when depositing the cheque. In any agreement the person is supposed to destroy the instrument.”

Bishop mentions that at the moment there are no legal cases of fraud attempts, so no test cases against which we can measure outcomes. However he doesn't believe this is necessarily because fraud attempts haven't been made.

“We haven't taken any legal cases on this. In order to test the concept of what would happen has not been done because it could cost the equivalent of £10,000 to seek legal reparations for a cheque with principal of a very small amount. And it's not a growing business because of electronic payments.”

When we asked whether he felt fraud attempts had risen recently he said he didn't know, but it's not something he'd say was increasing through conversations he has had with third party cheque cashers. However, at a guess, he does think it will increase in the future.

In terms of what can be done to solve the problem before it gets bigger, he said he hadn't

seen any evidence that any measures are being considered at the moment.

“Digital pens or anti-fraud measures are not something considered important in rooms full of alternative financial services people as far as I am concerned. If there is more and more fraud it might come up, but cheque cashing is not a big part of their businesses anymore.”

It is worth noting we sought expert opinion on France's move to cheque image processing, mentioned above, but did not include the evidence in this section as France does not have a third party cheque cashing industry.⁴⁵

The UK third party cheque cashing industry today

This part of the research looks first-hand at the third party cheque cashing industry as it exists in the UK in 2016. We did this through a series of interviews with representatives of the industry, including the BCCA, customer surveys and in depth interviews. The first stage was to carry out attitudinal interviews of cheque cashing shop managers and/or area managers to develop a further understanding of their business, how it has changed recently and over a longer period of time, the local demographics and to what extent cheque usage has impacted them as the number of cheques in circulation have dropped more generally. We also sought their perspectives on cheque imaging and the impact it will have on their industry and its customers. Not including the BCCA itself, we spoke to seven representatives overall with a collective oversight of 436 shops, around half of all cheque casher outlets. As noted above, we also spoke to experts and representatives of the third party cheque cashing industries in the US and Canada for national comparisons.

The BCCA was established in 1994. Originally called the The British Cheque Cashers Association, it is now simply known as the BCCA. As payday loans started to expand in the middle-to-late 2000s, so too did cheque cashing shops, many of which offered both products. Around this time there would have

45 Gloukoviezoff, George, 'Working paper: The link between financial exclusion and over-indebtedness' (Brussels: European Financial Inclusion Network, undated). Available here: <http://www.fininc.eu/gallery/documents/working-papers/working-paper-financial-exclusion-over-indebtedness-final.pdf>

been over 1,500 shops offering cheque cashing services. Based on an estimation of the number of shops in the main cheque cashing networks, there are around 800 shops today.

At the time of researching, the BCCA had 47 members at the close of 2015, of which 33 were high street members – which are more likely to provide cheque cashing. At this time, the BCCA were undergoing a renewal period so this was only an estimation until membership fees could be properly internally evaluated. Cheque cashing is not a service that can take place online, so BCCA members that offer this service only operate in shops where cheques are handed over in return for a cash payment.

BCCA members represent the vast majority of cheque cashers operating in the UK today, estimated at around 80 per cent if agents are included. Agents are external business organisations that can earn an extra income through cashing cheques on behalf of established third party cheque cashers. Those businesses include convenience shops, newsagents, and other financial services stores with a high street presence. Agents are obliged to pay a £110 Money Service Business (MSB) registration fee directly to the HMRC.

In late 2014 the BCCA carried out research amongst its members. They had a good response with about half of their members providing commercial information about their cheque cashing business. This was helped further by the involvement of the largest cheque cashing business within the BCCA membership, and some of the other market-leaders.

They believe that there is probably somewhere around 1.2 million cheques that pass through the third party cheque cashers each year (representing around 0.2% of the total number of cheques processed annually by the industry). That would be about £322 million in cheque value, with an average value of £268. Individual firms tend to cash cheques at about that

mean average of around £260, but also see some cheques down nearer to £100 and at least one medium-sized firm cashing cheques with an average of £1,000. In comparison, of the total cheques written, the average value of a cheque written by a consumer was £293 and for a business s £2,245⁴⁶ (in comparison, the average Bacs payment was £755⁴⁷). For market share, the BCCA estimates that their members have about 75 per cent of the cheque casher market. They also estimate that around 20 per cent of the market share is with The Money Shop, a member of another trade association, the Consumer Finance Association (CFA). The Money Shop, the trading name for the US firm Dollar Financial Group (DFG), also offers pawnbroking, gold-buying and currency exchange but is probably best known for being one of the UK's leading high street payday loan providers.⁴⁸

In our interview with Jason Wassell, the chief executive of the BCCA, he told us that: “The high street model will usually have cheque cashing alongside the other services included within the definition of a MSB. So they will often provide money transfer and foreign currency”. On lending products, he said they “continue to be an option. Many of the members will opt for secured lending (pawnbroking), and then a smaller number will also include unsecured (tending to be High Cost Short Term Credit) anywhere from a few days up to over a year in loan term.” Also, “many members will provide retail services – both buying and selling of goods. That will range from dealing in antique jewellery all the way through to trading in smart phones”.

46 Payments UK, '2016 UK Cheques' (London: Payments UK). Available here: <http://www.paymentsuk.org.uk/industry-information/annual-statistical-publications>

47 Payments UK Quarterly Statistical Report Q4 2015. Available here: http://www.chequeandcredit.co.uk/sites/default/files/quarterly_statistical_report_q4_2015.pdf

48 We asked representatives of Dollar Financial Group to take part in this research but they declined.

Cheque cashing customers in the UK

When we asked Mr Wassell if the BCCA keep any segmented data on cheque cashing customers, he responded: “No. Customers are often not keen to get involved in a discussion about their personal financial situation. There are exceptions as a cheque casher may build a relationship with a regular customer. The information gathered by cheque cashers will tend to be data that is required in order to abide by anti-money laundering regulations, so proof of identity and residence. Information is passed to the relevant authorities where appropriate, for example the submission of a Suspicious Activity Report.”

When we carried out interviews with members of the cheque cashing industry we found that this was in fact the case, especially from shop managers who had a very close knowledge of regular customers and their demographic profiles. Many representatives admitted that this knowledge provides a useful deterrent against fraud, with one representative saying if a new customer enters their shop with a cheque with a value above the average, this makes them more cautious as to whether the customer has criminal intent.

According to Mr Wassell, the customer need for cheque cashing services is threefold: the first is that they have no access to a bank account, the second is that their bank account is not usable, and the third is that they need instant cash.

For the first group with no access to a bank account, these might be people who are severely financially challenged. In our evidence session with Mr Wassell he mentioned a number of reasons for why this could occur, including a history of financial trouble that makes it difficult for some people to open a new account. Mr Wassell reflected on the Financial Inclusion Commission’s suggestion that 60 per cent of those without bank accounts had previously had accounts but were closed due to financial challenges.

Mr Wassell pointed out that the payment of cash wages has become less popular for employers. He mentioned an estimation that by 2018 just 2 per cent of employees will be paid in cash. This means that the unbanked need to find other ways to be paid. He also mentioned that migrant and/or temporary workers from abroad may find it difficult to open, or may not want, a UK bank account. This may also favour the view that people use cheque cashing shops out of convenience, for many of these workers will want to cash a cheque and send a portion of the cash home in one shop.

The second group of people, whose bank accounts may no longer be usable, have different experiences. Mr Wassell said one of the primary reasons for an unusable account mentioned by his members is that a cheque deposited into an account would be ‘swallowed’ by an existing overdraft or be used to pay bank charges. “In households that are juggling finances, it can be a rational decision to pay a small price to access those funds. Where income varies, it may make sense to place funds on a pre-paid electricity card rather than pay-off an overdraft.”

There may be a number of unseen personal circumstances that mean a person can no longer use a particular bank account. By their very nature it is difficult to quantify these circumstances. Mr Wassell pointed out that a person may be in a relationship with someone who is unable to manage their finances and so finds other alternative means of storing and managing money. This could similarly be the case in relationships with a gambling addict or with substance misuse, where control of money is part of a pattern of domestic abuse.

Mr Wassell also mentioned groups who make a choice to reject banks, suggesting there are those scarred by their experience with the banks, and are keen to avoid using them in the future. He mentioned that the Financial Inclusion Taskforce in 2010 reported that of those without a bank account only about half wanted one and around 15 per cent of newly opened accounts are closed or abandoned.

As regards the third group who need instant cash, Mr Wassell mentioned the work carried out by Social Finance for the Financial Inclusion Taskforce. This suggested that in addition to the approximately two million people without a bank account (or 3.6 per cent of the population), there are another one million people with basic bank accounts that manage with cash, in so far that they will remove their cash from the bank and use cash for payments. He pointed out that in many ways these individuals operate as if they were unbanked and for them it makes sense to transfer a cheque to cash as soon as possible.

For others, using a cheque cashing outlet can effectively bring forward their payday by about four to five days, according to Mr Wassell. “For those paid their wages by cheque, using a cheque cashing outlet could provide the flexibility required to meet unexpected expenses and avoid negative consequences. The alternative may be a payday loan.”

Mr Wassell pointed out that there is no research available to provide a quantitative breakdown of the customer base. The BCCA does, however, receive feedback from members about some customer types. They include: sole traders, hard pressed families, and one-off cashers.

With sole traders he mentioned that some businesses operate without a business account, or across both a business and personal account. “When payment from one customer is paying for the supplies for another project, it is often important to be able to access money quickly.”

With hard pressed families he mentioned that there are a number of households operating with a mixture of incomes and predominately in cash. This might involve a single permanent salary supplemented by varying amounts from a secondary wage. A cheque, Mr Wassell noted, may provide access to instant cash or allow access to funds that might be ‘swallowed by the overdraft’.

Finally, with one-off cashers, individuals might be those who seldom use banking facilities, and for whom a branch is now some distance.

They may also receive a one-off cheque (e.g. utility overpayment or PPI claim) and be willing to pay a premium to access a cheque cashing store local to them.

The cheque cashing market and its customers

In our evidence interviews with third party cheque cashing representatives, we sought information on their customers, the strength of their trade and the local context of their business. We spoke to Shaun Peake from the Cheque Exchange: 400 sites across the UK (the biggest third party cheque casher); Mal Elwood from Cash Generator: with oversight of 12 sites across the UK (one of the biggest franchisees); Richard Fuller from Cash Shop: 13 sites including in Nottingham, Leicester, Hull, Peterborough and Sunderland (a medium to large network); Marc Gershon from Cash a Cheque: eight sites including in Milton Keynes, Edgware, Ealing, Bedford and Watford (small network); Ray Tilley from Tilleys: single site in Swansea; John Stamper from Cash Recycle: single store in Manchester with agents.

By age the medium and larger sized shop representatives said that customers tended to be between 18 to 35 years old. Most said that customers were from all ages, but the representatives with fewer cheque cashing sites identified some older customers. “In terms of age it could be anything”, “Average age: 18-35”. The smallest and most remote, Tilley’s, identified a regular older customer base: mostly mid-50s mass market, though we do have school leavers and ladies in their nineties”.

By social class they identified all and any, but it was noted across the board that they mainly saw C, D, and E social class groups. “Mainly Working Class”, “a bias towards the Ds ... cheque cashing tends to be for the less affluent”, “lower to mid, wouldn’t say predominantly in the lower, majority lower class, but a mix. Certainly not top end”.

On country of origin, representatives said they saw people from various places come through their doors but all of them noted a rise in Eastern European customers, across

the board, particularly those who are paid in cheque from their place of work. “All ethnicities, from white British to Romanian”, “everyone and anyone”, “predominantly European and British people, but a real mix”, “predominantly British and a fair bit of Eastern Europeans”, “even though lots of people pay by Bacs, we still see workforce, particularly Eastern European, paid in cheques”.

On employment status, their customers were predominantly employed. As social security payments are largely paid electronically, cheque usage is likely to be from people who are paid by their employer in this way. “A lot of the cheques we look at are for wages, 65 to 70 per cent in employment”, “mostly employed, service sector workers”, “employment varies, I would think an awful lot of them are working. For Eastern Europeans a lot of them come here and work and get paid by cheque but equally we get a number of unemployed people”.

On the financial history of their customers, the representatives of medium and larger networks tended to cite convenience as a factor for why they went to their shops, while the smaller single sites specified financial difficulties in the past. “Most are banked, 95 per cent of customers produce a bank card as part of their ID package”, “we see a number of people who don’t have a good relationship with a bank or who don’t yet have a bank account”, “I would venture to say individuals who live pay cheque to pay cheque, use retail financial services as their means of banking. They may have a chequered financial history and haven’t always felt great at managing money but use our services out of convenience. Like in North America there’s a feeling of entitlement of access to credit and often people burn through credit”, “most customers have had difficulties in the past, living hand to mouth. They may not have terrible credit rating but living day to day. Predominantly poor history certainly not upper class”.

Identifying whether a person was a sole trader was a little harder for the representatives since gaining that information went beyond the requirements of anti-money laundering

requirements, but they had some idea. Smaller representatives had some idea but medium and larger representatives tended not to. They also stressed that they don’t deal with business cheques. “Around 20 per cent of my customers are sole traders”, “difficult for us to answer. We do not pay cheques to limited companies, but this is not even a question we would ask. If it’s a small trader with a construction business he’ll get paid from a person doing the work, then he’ll write cheques to his guys. He might pay, they might pay but it’s a small number”, “wouldn’t be able to put a figure on it, but maybe about 20 to 25 per cent. May be a bit more.”

When we asked about changes to their customer demographics in the last few years many hadn’t seen a significant change. “We still see utility refunds, tax rebates – this hasn’t changed too much. People who write cheques hasn’t changed significantly”, “decline in customers. Because of construction sites”, “to be perfectly honest I’m asked this quite a bit, whether there are fluctuations when the economy is good or bad, and having been in this sector for 20 years here and in Canada, I haven’t seen much of a change. Demographics remain fairly static”.

We asked representatives whether they had seen an increase or decrease in line with the national decline of cheque use over recent years, which is between 11 and 12 per cent. What we found was, across the board, an increase in cheque cashing customers due to a number of factors including local market exit of competitors, PPI cheques (which was the case particularly for medium and larger sized representatives) and competitive pricing. One smaller representative, however, has seen a decline that exceeds the national trend. “In terms of cheque cashing, I’m not sure if it has dropped. Fewer people getting pay cheques so probably a slight reduction. Intuitively around a 10 per cent drop. As other cheque cashers have pulled out the market it may have gone up”, “over the past five years the total number of customers has dropped by around 40 per cent but our cheque cashing business hasn’t declined to the same extent as cheque use. We

have in fact seen a small growth, largely due to the closure of many Cheque Centres, Money Shops and independent cheque cashiers”, “I would say the decline in customers cashing cheques has been faster than the figures you’re quoting. Somewhere in the region of 25 to 30 per cent for the last three years although the last 12 months has seen a slow down in the decline. I would estimate this year to be around a 10 per cent drop over the last”.

When we asked if there were any changes that had caused general customer decline, across the range of products they offer, not just cheque cashing, there was some indication that scrap metal prices had affected the business. “We had a lot of scrap metal cheques come through our doors, that’s where the sharpest drop has been because of scrap metal prices. If scrap metal prices went up we may see a rise but don’t think that’s going to happen”, “we have a scrap metal contract with a well-known leading metal recycler. We have around 100 local scrapyards signed up at the moment, but because of Chinese cheap imports the scrap industry is suffering. That does affect us. There has been a customer drop-off which has to do with metal prices”. We asked whether the sites they represented had a frequent number

of regular customers, with most recording a high proportion. “90 per cent”, “95 per cent”, “around 80 to 90 per cent”, “about half of my customers are regular, though I’m surprised at just how many are new customers”, “we have seen a decline in the number of people paying in every week, but about 50 to 60 per cent of our customers are returning but not considered regular. 40 per cent of people are regular.”

We asked representatives for an estimation of what proportion of their business was cheque cashing. Many said it was only a relatively small proportion and certainly not the service their business relies on. Smaller representatives, however, did rely on it. “It’s about 5 per cent of the business, requiring half a person per site”, “cheque cashing is not the primary purpose of our business and in terms of a percentage of revenue, I would estimate about 22 per cent - up from 15 per cent last year - which is a reflection of local market exit”, “cheque cashing is around 3 per cent of our gross income and dropping”, “around 10 or 11 per cent”, “around about 30 per cent”. Unsurprisingly the biggest third party cheque cashing representative in the country recorded a bigger proportion. “40 per cent of total revenue”.

Cheque cashing customer interviews

We carried out 25 in-depth interviews with customers of a branch of the Cash Shop in Peterborough on March 18, 2016 and April 1, 2016. We requested a day of interviewing in a number of sites with a cheque cashing service from some of the representatives, most of whom were reluctant to allow researchers to speak to customers as they used their services. We were allowed to interview in the Cash Shop because of its large reception area, which meant that customers wouldn't have to worry about other people hearing about their lives and finances. It is also the biggest and busiest branch of the Cash Shop.

We identified customers to interview with the assistance of staff at the Cash Shop in Peterborough. They would ask customers if they would like to be interviewed for a project. Many of those who declined to be interviewed either didn't have the time or were unable to because of language barriers. It should then be noted that these interviews were done with people with good English language skills. Regrettably we were unable to interview people who couldn't speak English to get their perspective.

For a variety of reasons the cheque cashing service at this branch of the Cash Shop is frequently used. One main reason for this is that many employers pay their employees by cheque in the area. In the past decade 24,000 immigrants have moved into the city, more than one in eight of the population, with many of them Eastern European, particularly Polish. Construction sites and local farms take on flexible or temporary workers which suits an immigrant workforce. Without access to mainstream financial services, many of the

temporary eastern European workforce have used cheque cashing services as an alternative.

It is worth pointing out that in Poland, as well as among other Eastern European countries, the IT revolution in the 1990s allowed its financial system to skip over some payments methods, cheques in particular. Financial services before this point resembled the old-fashioned banks of the 19th century but thereafter established a fairly uniform and modern banking structure⁴⁹. The system is prepared for cheques now, but mostly because of demand from tourists who would once have used Eurocheques. What this might suggest is that newly-arrived temporary workers from Eastern Europe in the UK may be unfamiliar with cheque usage, but be more familiar with other modern forms of payment. There is also anecdotal evidence to suggest that having cheques in places such as Romania are virtually useless, particularly in shops⁵⁰.

In the case of our interviews, the participants' ages ranged from 18 to 37 with the majority being in their early twenties. All but four of the participants were Eastern European and all but four of the 25 people we interviewed were male. 23 of the 25 people we interviewed were employed and only seven had a useable bank account. We spoke to four people for whom it was their first time visiting a cheque cashing shop, one person who used it on an irregular basis and 20 who used it on a weekly basis.

We asked what people used cheque cashing services for, with most pointing out that it was to redeem the cash value of a wage cheque. While this was primarily the reason for visiting, it became clear that access to a bank account (or lack of) was also a factor, with one participant demonstrating a very unique

49 Wiesiołek, Piotr and Dobiesław Tymoczko, 'The evolution of banking sectors in Central and Eastern Europe – the case of Poland' (Switzerland: Bank for International Settlements, 2015). Available here: <http://www.bis.org/publ/bppdf/bispap83r.pdf>

50 A traveller article on Romania from tripadvisor.co.uk: <https://www.tripadvisor.co.uk/Travel-g294457-s601/Romania:Banks.And.Money.html>

relationship with the cheque cashing service and a bank account. “I use it to get paid from my job, but now I have just opened a bank account so will use that from now on. I’m not going to use cheque cashing services again”, “I only started work two weeks ago so I have no bank account at the moment but intend to get one in the future”, “I use the cheque casher to get paid from my job, and then I transfer the cash into my bank account down the road so I get access to the money quicker”.

When asked what the main advantages were for using cheque cashing services, many participants spoke about the ease and convenience, with a significant number speaking about the cost difference with local competition from other cheque cashing outlets. “For me, it is the best place to come. It’s a good place and I just prefer it here”, “I have looked around and it’s a lot cheaper here than the shop down the road”, “it’s a really quick service and you have the cash in hand straight away”.

Eight of the interview participants had access to a bank account while 13 had not, with four people saying they were just about to get one. When we asked participants why they didn’t use a bank the majority expressed that there was no need to use a bank account, that it was easier just to use a cheque cashing shop. One person told us specifically that they didn’t like banks.

Other participants told us “I don’t use it very often because I send all my money back to Russia where my family is”, “I don’t really use the bank for my wages because why should I have to wait for five days”, “I do want a bank account but I am a renter and I don’t have the normal papers”, “I prefer using cheques and I don’t want to open a bank account”, “I’m not allowed a bank account because I have lost my ID. As soon as I get ID I will open a bank account”, “I don’t have a bank account but I want one as soon as possible. I recently moved to the UK and I am waiting for my National Insurance number to open a bank account”.

Interestingly, when we asked participants to list other services they use, such as payday loans, home credit, pawnbroking or car loans, only

one person said they had used other services (they took on a payday loan but wouldn’t be using them again).

The next part of our interviewing, looking specifically at cheque imaging and a quicker service, is detailed on p.33 below.

Analysis

It is very revealing how cheque cashing shops are used as a stopgap for some people. There was clear recognition that cheque cashing was not strictly ‘the norm’ and that after some time they, too, could open a bank account and carry out their financial management in a way that is typical.

Existing research on the third party cheque cashing service has typically viewed it as being a relatively costly but convenient option for people with limited access to mainstream financial services. However the revelation that some people might be using it to get cash on a cheque straight away and then physically taking that cash and putting it into a bank account across the street is a good example of non-traditional and often invisible financial behaviours that tend to get lost when we view financial management only through the lens of ‘prime’ banking customers.

Of course doing this mitigates against the fact that at the moment using a cheque with a bank can take longer than cashing it with a cheque cashing service. If a person needs that cash over the weekend or at the start of the next week there is a case to be made for paying the premium and using a bank account simply as a place for holding onto money, spending it electronically and through which Direct Debits can be made.

However the introduction of cheque imaging potentially changes this dynamic. If someone who identifies as financially insecure, who is paid by cheque and needs the money straight away because of a lack of a savings buffer to make the cheque clearing waiting days manageable, and who also has a useable bank account, then the reduction in waiting time might prove extremely useful, particularly if costs are reduced too.

The other significant insight from the interviews was the number of people for whom costs of the service were important. For those people either obliged to use cheque cashing services, by virtue of having no useable bank account or because they need their money in cash straight away, they weigh up what the best cost is for the quickest time to get cash. While we chose not to name the local competitor identified, many participants named a single other shop, which they identified as being more expensive, as the specific reason for why they use the shop they were in that day. Many assumptions might be made about the customers of cheque cashing shops, but our evidence suggests that they are not unaware of price competition between shops and are not averse to shopping around.

There were a diverse range of responses about why a bank account is not used by interview participants. The convenience of being able to use the cheque cashing shop as a ‘one stop shop’ for a variety of services, including remittances, corroborates a view given by the representatives of the industry that what they offer is more of a financial service hub. Assuming that many of the Eastern European participants we spoke to consider themselves to be temporary rather than permanent migrants in the UK, it is interesting to note that previous research shows the latter to have a propensity to be actively saving money 26 per cent higher than the former group, and that remittances is one way in which migrants actively save money⁵¹ rather than more formal financial products like ISAs. In many respects, studying the characteristics of some customers of the third party cheque cashing industry gives us previously unseen insight into the financial behaviours of migrant populations more generally.

What is worrying, however, is the number of people who told us they were unable to access a bank account because they are a “renter”, don’t have the “normal papers”, “not allowed”, don’t have “the right papers” or a “National Insurance number”. To be clear, in order to be

eligible for a basic bank account in the UK you need the following, according to the Money Advice Service:

□ **Over 16.** You need to be at least 16 to open a basic bank account, although at some banks the minimum age is 18.

□ **No need for a good credit history.** Because basic bank accounts don’t allow you to go overdrawn, you don’t need to pass a credit check when you open the account.

□ **Proof of identity and address.** All banks will ask for proof of your identity and address before you can open a bank account.

A situation resulting in a person not being eligible for a basic bank account could be because:

- You could get another account, for example a full-service current account.
- You can’t provide proof of your identity.
- You refuse a credit check.
- They think you will use the account unlawfully or fraudulently.
- You are threatening, abusive or violent towards staff.⁵²

These do not correspond with the reasons given during our interviews, which is cause for concern, particularly for those who struggle to pay the premium on the cheque cashing service and for whom cheque imaging and faster clearing could be an advantage.

51 Atkinson, Adele, ‘Migrants and Financial Services: A review of the situation in the United Kingdom’ (Bristol, Personal Finance Research Centre, 2006). Available here: http://www.ggy.bris.ac.uk/pfrc/Reports/Migrants_UK.pdf

52 MAS, ‘Basic Bank Accounts’. See here: <https://www.moneyadviceservice.org.uk/en/articles/basic-bank-accounts>

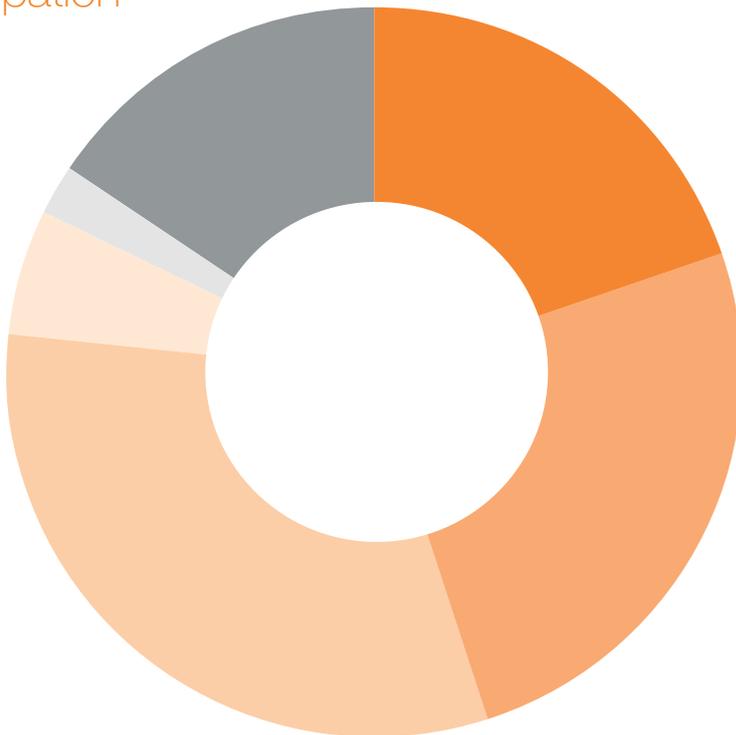
Customer survey findings

We carried out surveys among 120 customers of the third party cheque cashing industry. As with accessing customers for in-depth interviews, we invited all representatives we had spoken to, to take part in handing out surveys. Some representatives declined. Other representatives tried to encourage customers to take part, with few results. Instead the 120 surveys were completed by customers of the Cash Shop around the country, with participants from the following sites: Sheffield, Leicester, Hull, Doncaster, Bilston, Nottingham, Bulwell, Leeds, Rotherham, Stockport, and Sunderland. While the sites represent a bias towards the Midlands and the North, this is consistent with the spread of cheque cashing sites in the UK generally.

Findings

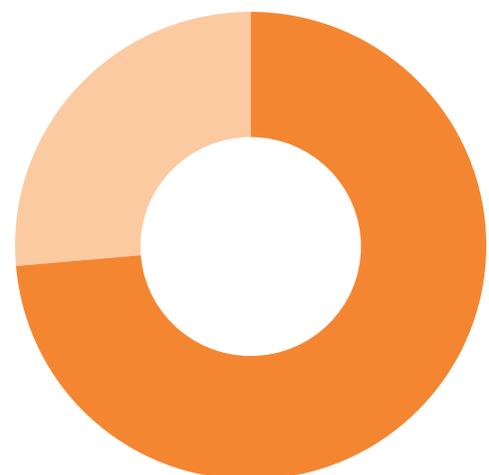
The survey respondents were 70 per cent male and 62 per cent were aged 24-34. Of those who gave professions (91 participants in total) 20 per cent were unemployed, full time mothers or carers, 25 per cent were unskilled labourers such as pickers or warehouse workers and 32 per cent were skilled manual workers such as plumbers, fitters or joiners. A smaller proportion of respondents we've designated as 'other'. They represent those about whom it wasn't clear from their answers whether they were paid or non-paid domestic workers (for example carers or domestic staff). The majority described themselves as either white British or British (67 per cent) with a significant proportion of Eastern Europeans (11 per cent).

Occupation



- Unemployed, unpaid domestic labour, retired
- Unskilled labourer
- Skilled labourer
- Carer
- Call centre worker
- Other*

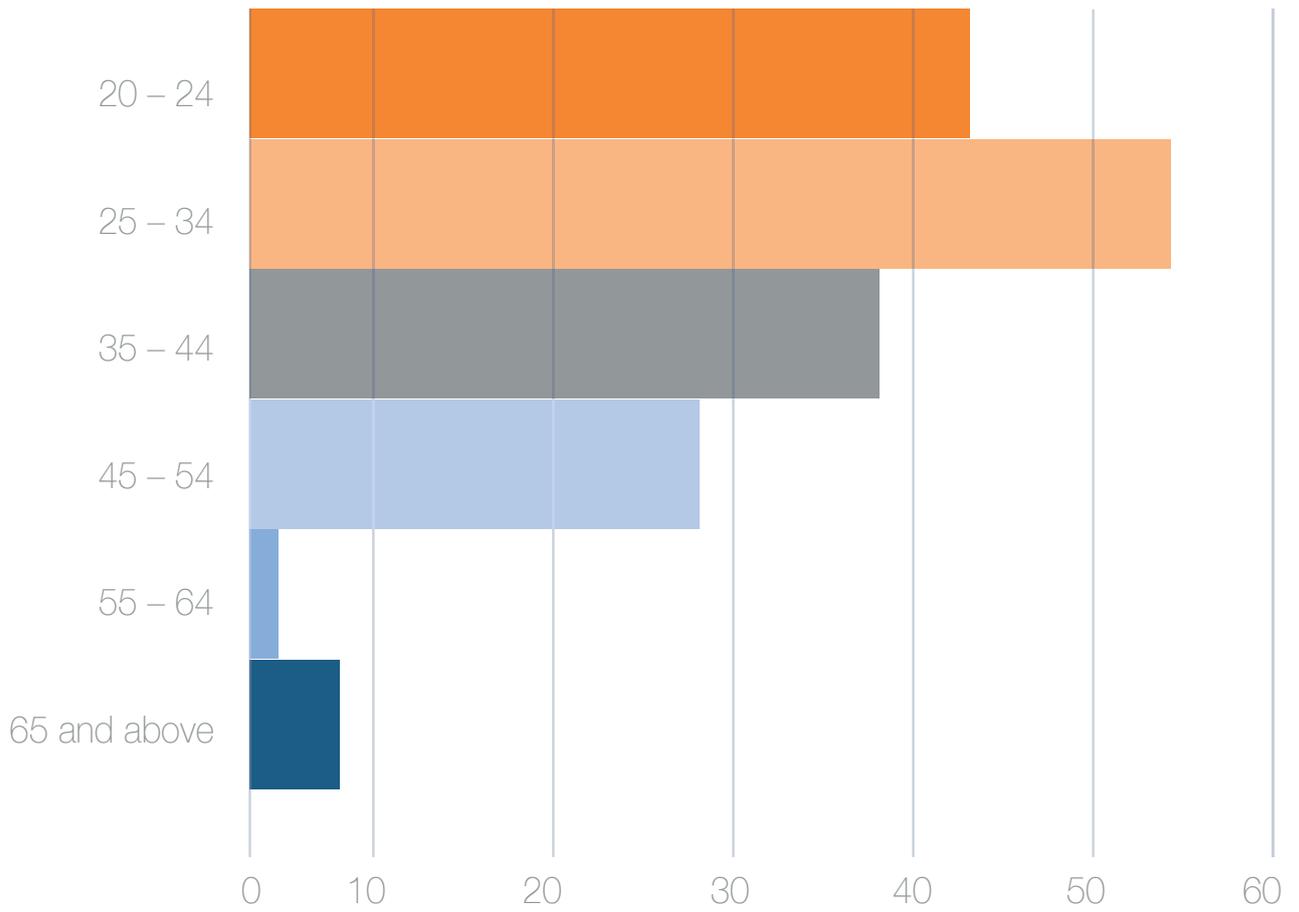
Gender



- Male
- Female

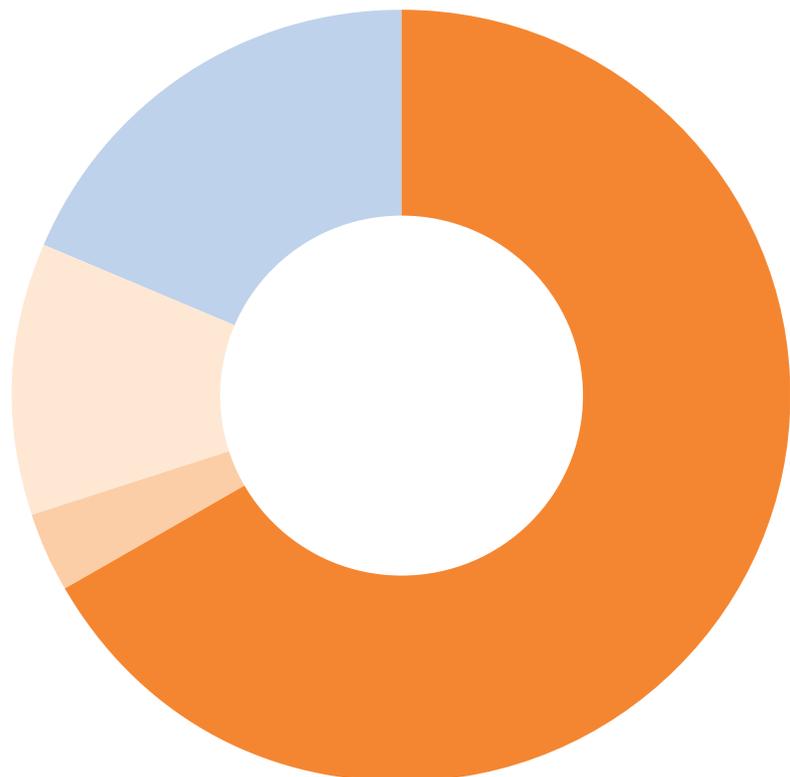
* Other describes where we have been unable to determine from their answer whether the individual is a paid or a non-paid domestic worker

Age



Ethnicity

- British/White British
- Black/ Black British
- Eastern European
- Other



Income

Only 52 respondents gave their income, of whom 29 per cent were on benefits or a pension, 15 per cent earned £13,000 or less, 25 per cent earned £13,000 to £20,000 and 27 per cent earned between £20,000 and £30,000. Only two respondents gave incomes above £30,000.

Figure 5

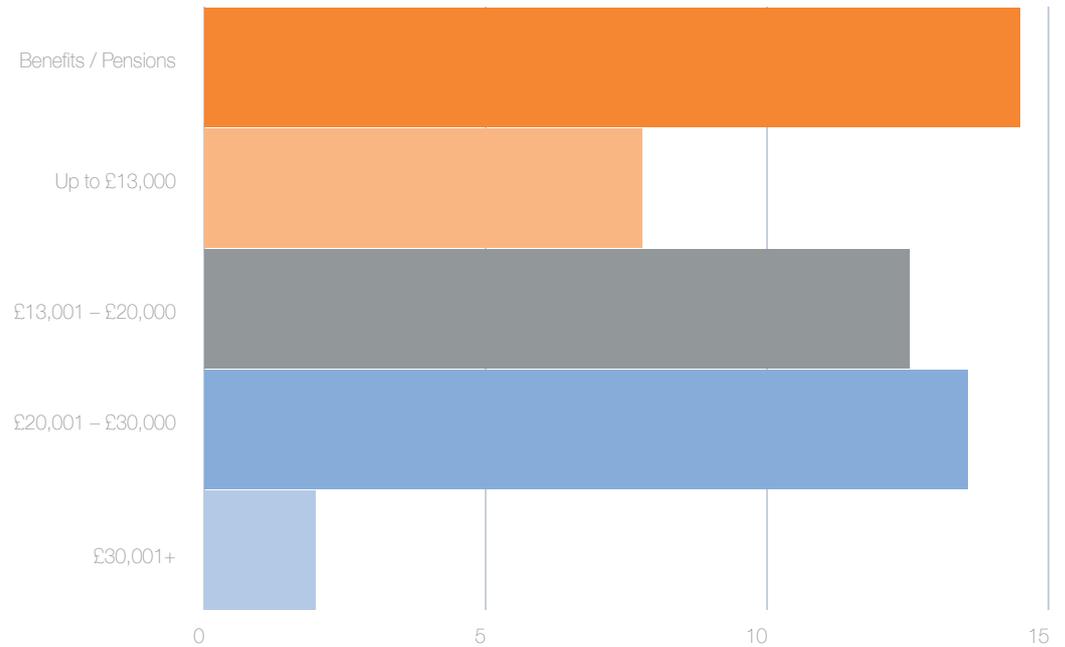
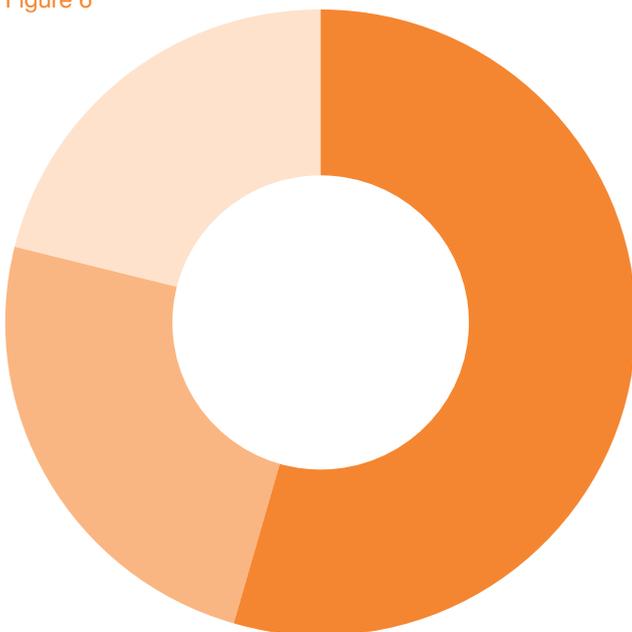


Figure 6

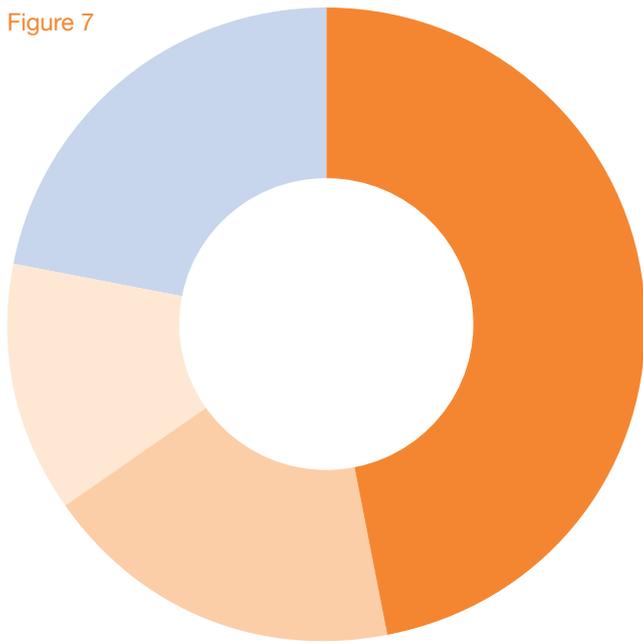


Are you a regular customer?

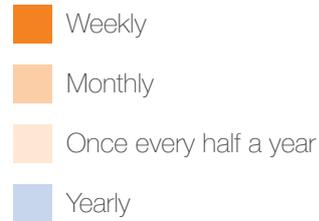
The majority of the 120 respondents (65.5 per cent) were self-defined regular customers of cheque cashing shops. Money straight away was the most commonly cited reason for using cheque cashing shops (78 per cent) followed by not having a bank account (24 per cent) and then being close to where the respondents live (10 per cent). However, among those who used the service regularly (once a month or more) 58 per cent did so because they didn't have a bank account. Only 2 per cent said they used the services because they didn't want a bank account.

- Yes
- No
- Fairly regular

Figure 7

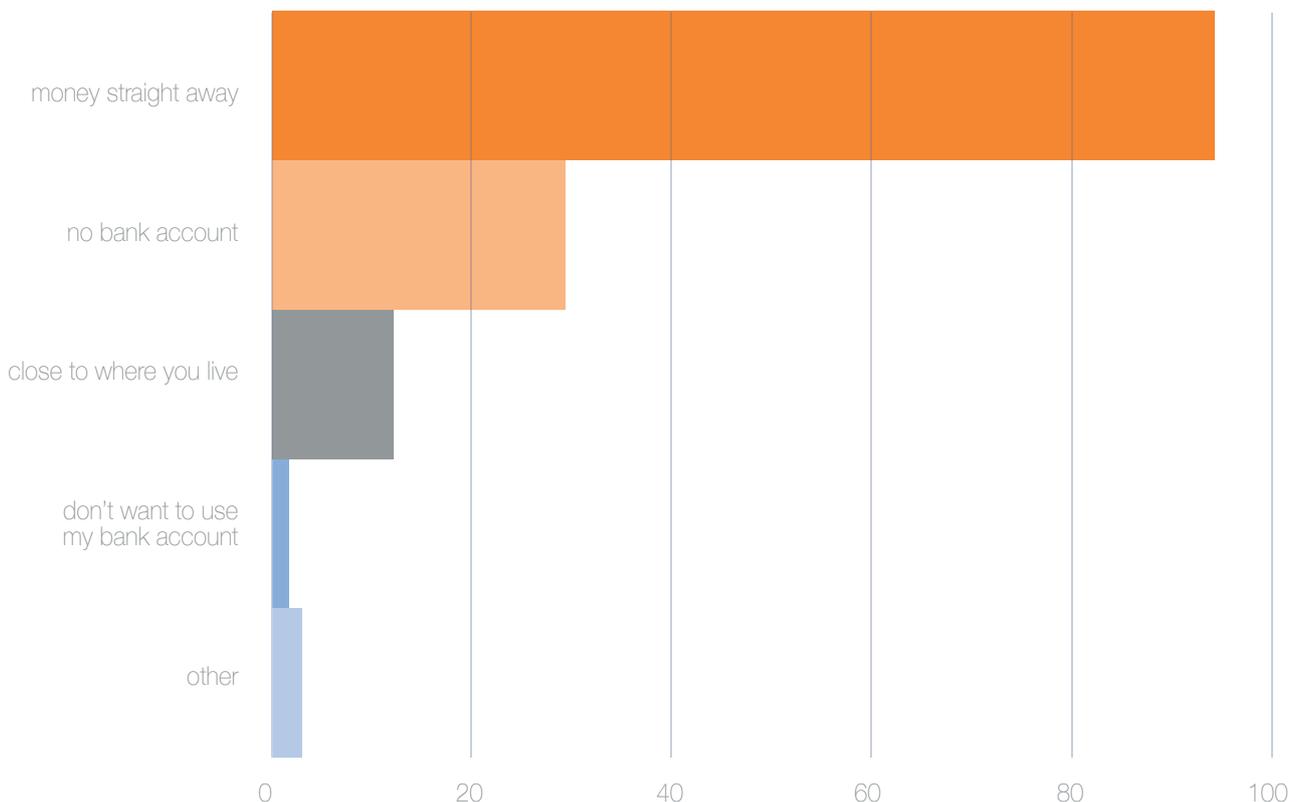


How often do you use cheque cashing services from this shop or others like it?



What are some of the advantages of using a cheque cashing shop for you?

Figure 8



If the cost of cashing a cheque increases what will you do?

60 per cent of respondents in total would still use a cheque cashing service if the price rose (including 50 per cent of those who use it regularly). 28 per cent would use a bank and 12 per cent would find another service. Among those without a bank account (29 in total) 69 per cent (20 in total) would continue to use the service and 24 per cent (seven in total) would

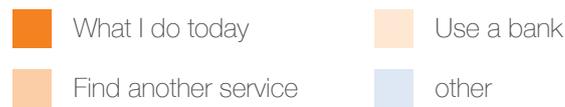


Figure 9

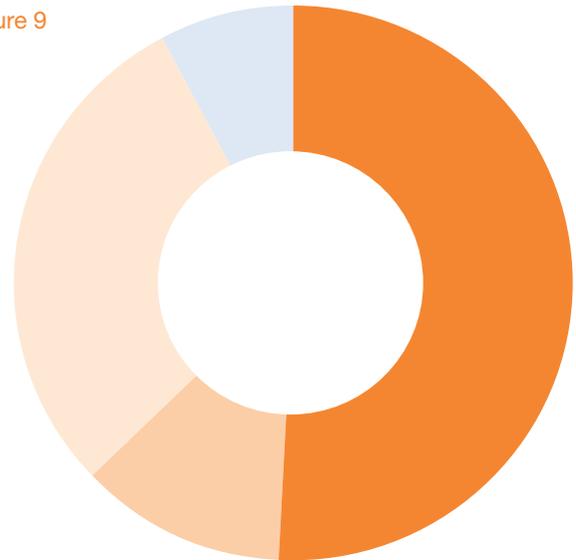
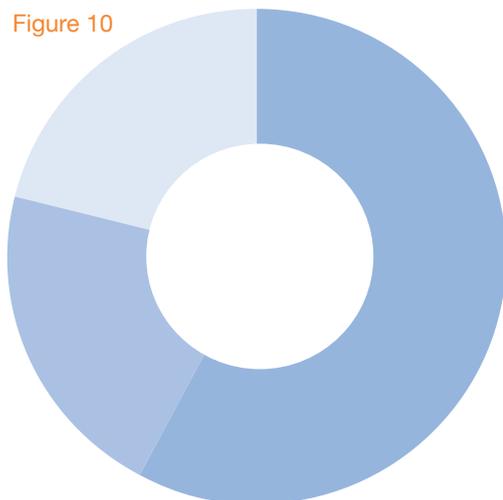


Figure 10



Does being able to get the money from your cheque in the next weekday from your bank sound

58 per cent of respondents liked the idea of being able to get the money from a cheque in the next weekday from their bank account, and 47 per cent liked the idea of being able to use a smart phone to pay-in a cheque.



Do you like the idea of being able to use your smart phone (if you have one) to pay a cheque you've received into your bank account?

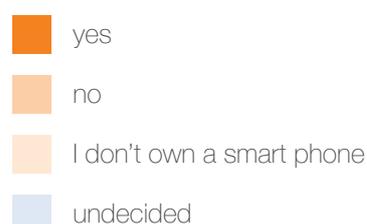
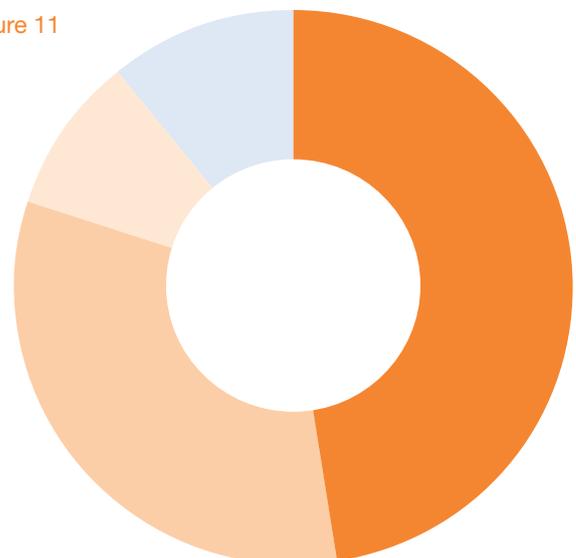


Figure 11



If you couldn't access your cash in store straight away would you use

61 per cent of respondents would use another service or a bank if they couldn't access the cash straightaway in store, demonstrating the importance of quick access to cash for cash chequing customers.

Figure 12

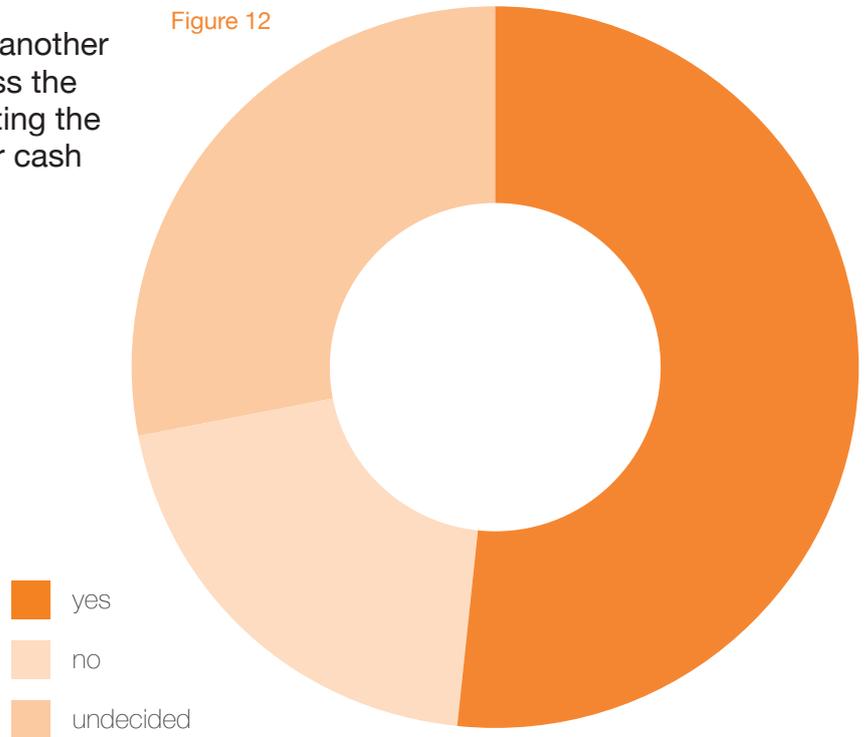
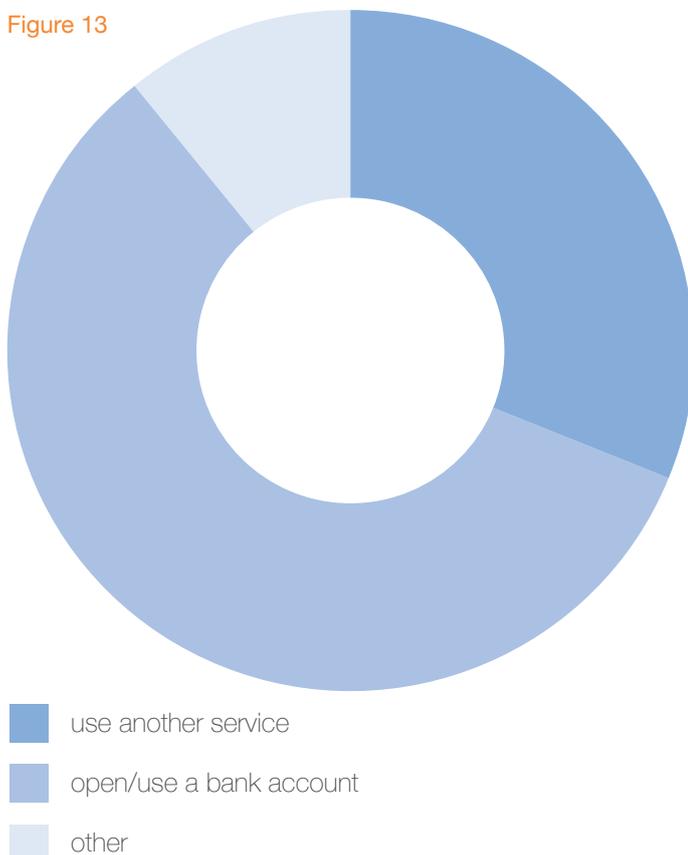


Figure 13



If cheque cashing was no longer available to you what would you do?

Analysis

The ages and genders of customers of the third party cheque cashing industry are consistent with the evidence provided by the representatives, in that it is male-dominated between 24 and 34. Most were employed, but a significant amount of customers were recorded as unemployed or as a full-time mother or carer, which did not come through in the representative interviewing. It is significant that cheque usage, and cheque cashing, is being used by this cohort of people, particularly as benefit payments are not made to individuals by cheque.

The largest proportion of those employed was recorded as skilled labourer (24.2 per cent). This is consistent with representative interviews which mostly all expressed a bias towards C2DE social grades (skilled manual workers, semi/unskilled manual workers, and casual/no earners). Cheques, as it has been pointed out by Payments UK⁵³ are still very important for sole traders who may also be skilled or unskilled manual workers. One explanation that comes up regularly in these findings is that someone being paid on a Friday by cheque may wish to use the cash value of it straight away, so even if they do have access to a bank account may still use a cheque cashing shop to speed up the process.

On country of origin (ethnicity), survey data also closely matches evidence from the representative interviewing showing mostly British with a significant proportion of Eastern European. Similarly with regular custom, most of those surveyed were recorded as regular which is consistent with representative interviewing.

Most representatives pointed out that customers used their services for convenience and as a primary financial service, which also seems consistent with survey data. This shows most using cheque cashing as a means of receiving the money on their cheque straight away, with just under a quarter recorded using

those services primarily because they have no bank account (see figure 8). While this could potentially suggest that despite the premium paid on using the cheque cashing service it is a price worth paying for instant access to funds, most regular users did so because they had no bank account. It is significant that just 16 people who self-defined as regulars didn't have access to a bank account. This suggests that the majority of self-defined regulars did have a bank account, strengthening the view that speed and convenience is the main driver for regular customers.

Across all of those surveyed, the largest proportion (46.7 per cent) use cheque cashing services weekly. This is most likely because of the pay frequency among those surveyed. This is particularly interesting because of the assumption that the "weekly pay packet" is a thing of the past⁵⁴. In actual fact 42 per cent of those in the lowest two quintiles are paid weekly and only 51 per cent of those earning under £10,000 a year receive their earnings monthly⁵⁵.

It's also significant that the next visit frequency in the survey is yearly (21.7 per cent), not monthly (18.3 per cent) as might be assumed. This means that use of a cheque cashing shop is more likely to be done by someone coming in once a year, perhaps to take the cash on a cheque gift or tax rebate, than someone who is paid monthly as most people paid electronically are used to in the UK. This becomes of particular interest when we consider that Universal Credit, which replaces six other forms of benefit payment, will be paid monthly, primarily in order to help people out of work become "work-ready".

Also interesting is the 12.5 per cent of people who are using a cheque cashing shop once every six months. Unlike with weekly, monthly and yearly there is no obvious single reason why a person would need to use a cheque cashing shop to this timeframe. One possible reason for this is the concern that cheques are only

53 Cited in this article: <http://news.bbc.co.uk/1/hi/business/8414341.stm>

54 Cited in this article: <http://www.independent.co.uk/news/uk/politics/new-monthly-universal-credit-scheme-to-go-ahead-says-ids-8145249.html>

55 Keohane, Nigel and Ryan Shorthouse 'Sink or Swim: The Impact of the Universal Credit' (London: Social Market Foundation, 2012). Available here: <http://www.smf.co.uk/wp-content/uploads/2012/09/Publication-Sink-or-Swim-The-impact-of-Universal-Credit.pdf>

valid for six months. In actual fact a cheque is valid for as long as there is a debt between issuer and payee (though some banks state that they reserve the right not to pay a cheque that is older than six months⁵⁶). In any case this commonly held belief may contribute in some part to the frequency of cheque cashing of this cohort, though the reason was not stated in any of the findings.

For those whose wages are paid by cheque, speed of access matters. It's worth remembering that for some people not having a bank account is a choice, as well as for some people an imposition. We recorded a very small percentage of people who said they use the services primarily because they didn't want a bank account, but this may in reality be a secondary reason since they find banks less convenient for their needs. Nevertheless, one possible competitive advantage that third party services have over banks for this customer base may remain, even with the movement to cheque image processing.

This last point is corroborated by the fact that 60 per cent of respondents would still use a cheque cashing service if the price rose (including the 50 per cent of those who use it regularly). It is interesting to find that if the price of cashing a cheque rose, only then would 28 per cent use a bank account. Just 7 per cent of those without a bank were recorded as saying they would get a bank, but this won't take into account the difficulties they may find getting a bank account. Aside from a price rise, 65.5 per cent of those surveyed are recorded as saying if cheque cashing was entirely unavailable to them, for example in the case where local sites close down, then they would aim to open a bank account.

What has been established in the representative interviews is that there is a reluctance among them to raise prices, mainly on the grounds that cheque cashing is already a small part of their business and they don't want to squeeze it any further, risking the loss of customers. That said, many representatives struggled to think of alternatives to passing costs on to customers should cheque imaging add costs to their

business operation. It is very interesting and significant to note from the evidence here that the vast majority of cheque cashing customers would still use the service even if prices rise. Knowing this will impact the business planning for many representatives. Ambiguity does remain for those customers who say if prices rise, or they cannot use the service for other reasons (say, shop closures), they will open a bank account, particularly those who at the moment are unable to open a bank account. There is a strong case to be made for the fact that if prices do rise, more than 60 per cent of existing customers will continue to use the service, all things being equal.

A similar point should be made about the 58 per cent of respondents that liked the idea of being able to get the money from a cheque in the next weekday from their bank account. Firstly, while this group of people like the idea of money getting into an account quicker this could merely be because this is what they expect from the cheque clearing process. It doesn't necessarily tell us that they will stop using cheque cashing and deal primarily with a bank. On the other hand however it does mean that banks, with the introduction of cheque imaging, will be able to compete to a certain extent on speed with the third party cheque cashing service.

Also, with the 47 per cent that liked the idea of being able to use a smart phone to cash a cheque, this does not necessarily indicate a desire to do so, nor the ability. While in principle they may like the idea, they may come to find that smart phone applications are not user-friendly and decide to reject using it. However, on the other hand, that nearly half of those surveyed liked the idea does give banks a prompt to start to communicate cheque imaging on the smart phone to their cheque using customers.

Finally, what we have established in the surveys, as well as the interviews, is that while there are clearly some trigger points for stopping the use of third party cheque cashers, there are a significant number who really don't know what they would do if cheque cashing was no longer an option for them.

56 See here for example: https://supportcentre.natwest.com/app/answers/detail/a_id/1495/~how-long-are-cheques-valid-for%3F

Cheque imaging and third party cheque cashing customers

What will the impact of cheque imaging be on cheque cashing customers?

Representative attitudes

All representatives had heard of cheque imaging and all but one had spoken to their own bank about it. One major worry for them was the increase in fraud attempts. Previous research by Vasilis Vlachokyriakos pointed out the main types of payment fraud relating to cheques:

(i) counterfeit cheques, a cheque printed on a different paper from the bank's; (ii) forged cheques, a stolen cheque that a fraudster uses with a forged signature; and (iii) fraudulently altered cheques, genuine cheques which have been written by legitimate owners of the cheque but that fraudsters have altered such as the payee's name or the amount. A final form of cheque fraud is the deliberate writing of a cheque that will ultimately be "bounced" by the issuing bank due to there being insufficient funds. Such frauds take advantage of the "float", that is, the time between the negotiation of the cheque and its clearance at the cheque-writer's bank⁵⁷.

Judging by the responses of representatives in our research, and from the experts we interviewed in other jurisdictions, relating to cheque image processing, there is a fourth type of payment fraud that they now have to be mindful of: the double deposited cheque. This, as previously mentioned, potentially involves the payee sending an image of a cheque they receive to their bank and starting the process of accessing the funds in their bank account, but still holding the physical cheque that they can then take into a third party cheque cashing shop from which they can immediately receive the cash value.

When representatives were asked whether they saw any cost implications to their business as a consequence of cheque image processing, many foresaw some costs and some anticipated passing those costs onto customers. Mostly, representatives told us no costs would increase for cheque cashing. "From our point of view we've a compliance team already set up. Only our agents would suffer. They may have to put money aside for any changes. They may have to put charges up", "depends on the fraud element. Yes if there are increases in fraud then the costs are going to go up", "no cost implications", "we're not looking to charge customers anymore because this will drive them away".

On having to buy in a system set up for cheque cashers to use with cheque imaging, some were unsure about the potential costs. It's entirely likely that the optimism (that costs won't have to be passed on to customers) is because there is uncertainty around the total costs of the changes. "We don't anticipate cost implications to the business directly as a consequence of cheque imaging, but we have to make sure we are not being defrauded somehow. We have to work out whether it's worth us investing in tech or whatever to take part in changes. That could involve scanning the cheque and sending it off ourselves and that could take extra time and effort. The biggest cost, though, is in mitigating fraud. No other ideas yet". "On business changes, it will be imperative to have access to a database of cheques that are cashed. It would be nice to have this for free but there'll be a cost on this so we don't process cheques already submitted to the bank. As for our debt levels, if we are not able to cross reference on a database naturally we'll see an increase in debt. Our debt levels as consequence of fraud are zero, we have a small proportion of cheques returned, but our experience says it's easy to recover this. That would jump up significantly if we didn't have access to a database".

⁵⁷ Vlachokyriakos, Vasilis, 'Personal Decentralized Digital Cheque Clearing', (Newcastle: Newcastle University Open Lab, 2011). Available here: <http://openlab.ncl.ac.uk/vasilis/files/2013/04/vasilis-dissertation.pdf>

When we asked about options other than passing costs on to customers, as a consequence of cheque imaging, the representatives were a little more pessimistic. When we asked about preparation for business model changes, one representative said: “we will just have to invest – you have to pass the costs on”, “there really aren’t other options. We’re working with hundreds of pounds per week. Can’t afford to lose an average cheque per week. We can’t absorb any losses. If fraud was a concern we just wouldn’t be able to be in that market”, “there are very few options, really. Almost none. Because it’s a very small part of our business, it’s not like we have lots of staff we can lay off, so there are very few options than to pass on to customers”.

Asked if they felt faster clearing by their banks is something their customers appreciate, there were varying responses: “I think they’ll take advantage of any system that is available to them”. “Faster clearing is the ultimate priority for our customers. Does speeding clearing up by a couple of days tip someone to stop going to the Cash Shop, or is that still not fast enough? My gut says it is still not fast enough. Cheque imaging doesn’t get rid of the inconvenience of getting a bank account”, “faster access is why they come to us – some customers have other accounts anyway”.

Asked if they felt there would be a customer exit as a consequence of cheque imaging, most agreed there would be some but not enough to have a major effect on their business because of the continued demand for instant cash. “I think, unequivocally, our customer number will not increase. It ends up being a different option to a third party or bank. It will definitely decrease the number of cheques, but I wouldn’t venture towards a figure on the extent of this”, “probably a smallish percentage of clients will stop coming to us, but you have to remember many clients might be overdrawn and can’t afford banks recouping their money at that time. Many clients don’t trust the tech involved in this. There will be an element who are happy but there are many who get their cheques on a Friday and want to access that money before the weekend.”

One representative, while admitting not knowing what the possible cost implications were going to be, did see one possible positive for his business as a consequence of the changes. “It will certainly save the staff a trip to the bank, so can save money there. 12 staff at 30 minutes a day, that’s an additional 30 hours of productivity we’ll have back”.

When asked about what some of the solutions should be, and who should be held responsible for bringing about those solutions, answers were very clear. “Banks, they may be causing cheque cashers to close down. Which doesn’t help people who use them as an alternative to banks”, “banks and building societies are the ones who need to make sure the negative consequences are reduced”, “we all have an obligation to feedback and input into this research. Everyone has a role. Banks have more of an important role than perhaps they feel that they do. In terms of treating fairly customers they may feel no obligation to them, but they should have a tacit worry that changes don’t have an inadvertent impact on vulnerable customers”, “it’s being done because it needs to be done. Banks have not been held accountable for sitting on money for 5 days due to an archaic approach. No consideration for our part of that business. By implication no benefit from what our customers derive from it”, “I think it’s progress, and progress is good, but obviously I’m worried from a business aspect if it affects our business negatively, and that can’t be good for customers if we end up not cashing cheques or putting up prices because of the increasing fraud risk”.

Asked frankly what they felt about cheque image processing, particularly whether it was inevitable, they on the whole saw it as part of a wider pattern in payments systems. This view, however, wasn’t unanimous. “Costly and unfair. If banks have this attitude against businesses that have done no crime, that’s unfair. Once upon a time the industry was done by loan sharks, done down the pub, put cheques in a hat, but it is not like that now. But it could return”, “I think the impact will be modest at first, but they were expected, particularly with the advance of technology. It is important for

banks to understand the potential impact on customers who choose not to use cheque imaging, because I'm sure it is significant", "all negative from our point of view. Impact on number of customers and potentially our debt. Can't say anything positive about it. I'm not outside of business, I know things have to move on, I just think it's a bad idea".

Viewpoint from C&CCC

We spoke to Gordon Madgwick, Director of Operations at the Cheque and Credit Clearing Company about cheque imaging and the impacts, both positive and negative, it might have. On whether cheque imaging was inevitable, he told us: "To a certain extent it is true that cheque imaging was not inevitable. But the government has saved the cheque and a part of that is to work out how to make the cheque clearing faster. It's important to say that the UK does not lead the field in cheque imaging. The Check 21 Act in the US, to make clearance faster and more positive for the end user, is the way forward. America has led the way and we are catching up. France also does cheque imaging depending on the value of items. China, India and South America have also gone that way, too."

Asked his view on the criticism that cheque imaging is inherently a bad idea, Mr. Madgwick said: "it's difficult to understand this view. All the benefits are with the customers, they are getting the funds faster. There were consultations with the government, and numerous opportunities to discuss the pros and cons of the changes. This isn't just new to the UK. Certainly, even with cheque imaging, there are cheque cashers in the US, and they are still there [...] The cheque (paper cheque) in itself doesn't change – people will still write out paper cheques and give or post them to recipients but when the cheque is paid in, that is when the image is created. Customers will not need to change their habits – they will still be able to pay cheques into their bank accounts in the normal way; over the counter, by post, at an ATM. Alternatively, some banks may allow their customers to create an image of the cheque and send it to them using a

mobile banking app or, if it is a business, using a scanner linked to their online banking. The important thing is, though, all customers benefit from the faster clearing times – that was very important to us when we designed the system".

We asked Mr. Madgwick about the possibility of introducing a shared database for digitised cheques in order to reduce the risk of unintended consequences, as suggested by one of the cheque chaser representatives. He told us: "we have of course considered this but the truth is it just won't work for the needs of cheque cashers as they currently operate. The central image infrastructure of the new system can send a message to cheque cashers via their bank if a cheque is a duplicate, but not until the day after deposit at the earliest. It is same the situation for all cheque depositing customers. This is because a cheque is not a real-time payment. The timing will also depend on what arrangements they have in place for their bank to notify them of a 'no pay' (duplicate cheque). This is one of the reasons we have been encouraging cheque cashers to liaise with their own bank so that they can be advised of any potential fraud issues as soon as possible."

Analysis

What comes through very strongly is the cost implication for businesses after, and presumably just before, the introduction of cheque imaging. The real concern is how the third party cheque cashing industry will be able to foot these costs without passing them on to customers. For some representatives it is impossible to think of a situation where costs aren't passed on this way, simply because the cheque cashing part of their business is a relatively small one.

Even where competition in the industry has consolidated (which representatives, importantly, didn't acknowledge as being anything to do with payday loan rule changes, as we assumed before carrying out the research), the perception is that it won't make the period after cheque imaging any easier for this industry.

Other representatives were clearly worried about their own competitive advantage if prices went up and told us that under no circumstances can this happen, but even then the majority of representatives we spoke to struggled to foresee any other way, telling us instead that they would have to find another way to absorb the costs. This perhaps confirms the view that in order to maintain these businesses as money service businesses (MSBs) diversifying the product range is vital. For one thing, if in the event of the introduction of cheque imaging there are significant costs to MSBs this will make cross-subsidising for cheque cashing services easier.

Judging by representatives' responses, there are four possible future scenarios for the third party cheque cashing industry after the introduction of cheque imaging, varying in their likelihood of coming to fruition:

1. Cheque cashing remains but becomes more expensive. In this instance, price competition will become even more important than it currently is for customers and a large number of customers who do have access to a bank account will no longer see the price being worth paying for instant access. They will perhaps even see the reduction in clearing time as a fair balance. For those unbanked (either by choice or other reasons) being able to use cheques will become a lot harder. Paying a fee to redeem the cash will continue to be a part of their 'poverty premium' and the lack of a range of other financial services will continue to be a significant burden.

2. Cheque cashing remains as one part of a diverse number of other products. In this instance it is entirely feasible businesses can avoid passing on costs to customers through diverse product range and cross-subsidising. Another possibility is that through use of cheque imaging by the cheque cashing industry, labour hours can be reduced to the extent where costs associated with anti-fraud measures are returned through no longer having to transport cheques to a bank every day. For this reason cheque cashing representatives are encouraged to balance both the costs and savings for their business as a consequence of cheque imaging.

3. Cheque cashing remains but shrinks considerably. Given that for some of the small-medium sized cheque casher representatives the total amount of their business dedicated alone to cheque cashing was between 5-30 per cent, business models might change significantly in the next few years anyway resulting in some services closing down. Money service businesses will no longer concentrate on cheque cashing but rather on a more profitable part of that business, such as currency exchange. The effect this will have, which is already happening anyway according to representatives, is that particular businesses will see a sharp increase in cheque cashing customers because of the closure of local competition. The new volumes of people visiting particular businesses might mean those businesses are better able to absorb the costs associated with cheque imaging such as anti-fraud measures. While there may be a reduction in service competition this has as much to do with customer use anyway. For customers, prices may not have to change.

4. Cheque cashing services come to a close altogether. Some businesses will see the way the market is going and decide to close the cheque cashing element of it altogether. Consumers and businesses are using fewer cheques and clearing will be done faster, so their unique selling point will shrink. Provided alternatives for former cheque cashing customers are communicated properly, including access to basic bank accounts, the closure of the third party cheque cashing industry need not have detrimental effects. Those who are unbanked by choice may have to open a bank account out of necessity.

Based on our analysis, we see number 4 being the least likely scenario because despite the pessimism of the representatives, the majority did not feel any changes would ultimately endanger their industry altogether. This is particularly the case with representatives for whom cheque cashing is a significant part of their business. Number 3 has a strong likelihood but to a large degree depends on the success of efforts towards number 2, which would be the best option for cheque cashing services. Number 1 will depend on

what ultimately is decided about the systems needed to detect fraud with cheque imaging and so assessing its likelihood is difficult at the moment until more information is established.

Interviewee attitudes

When we asked cheque casher users about cheque imaging none had heard of it and so were unable to express an opinion one way or another. At this point we showed participants a storyboard detailing what cheque imaging would involve. We then asked whether the prospect of faster clearing would benefit them and whether using a bank account for faster access appealed to them. “Not sure. Though I know having a bank account is the fastest way of getting my money”, “it won’t affect me because I would much prefer to have the cash quickly in my hand”.

Asked specifically about accessing cash the next weekday and whether this would affect their use of third party cheque cashing, the responses still suggested this would not be quick enough. “I think 48 hours is too long”, “even if it was quicker in the bank I would prefer to still use here”, “it sounds very appealing to me”, “I would like to use this service. I don’t like cheque cashers because they are too expensive”.

When we asked about whether using a smart phone application would be useful, particularly as people using it wouldn’t need to enter a bank branch, one line we heard summed up the possible concern people had about digital services making financial transactions easier: “Yes it sounds interesting, but I would need a bank account”.

When asked about using a cheque cashing shop even if prices rose, there were very mixed responses from participants. “It would depend on by how much more. If it was by £1 or £2, I would continue to use it. If it was £10 then that wouldn’t work”, “this would not be good for me. We want the money now. It costs a little money but that’s the way it is here”, “I would consider opening a bank account – if the cheque cashing shop started charging 6 per cent fees then I would change”, “I would look for cheaper services”, “I don’t really want to use here anymore, it’s too expensive”.

When we asked whether they would continue to use a cheque cashing shop if the only shop was further away, due to unforeseen circumstances such as shop closures or the shop decided to withdraw the cheque cashing business, we found for some people this was a real barrier (time, for many of the participants, being of the essence), while for others more travel was a necessary evil for a service they require. “I would use a bank instead”, “I would still use cheque cashers because I have to, I have no choice”, “if it takes too long to get to another shop it is not worth it”, “I don’t have a car so I wouldn’t be able to do that. Takes time and money to get there and I can’t spare the time because of my work”, “I don’t mind travelling or getting a bus to somewhere else, I just need the money as soon as possible”.

We asked what participants would do if cheque cashing was no longer available to them at all, all else being the same. “I can wait one week but then that’s it”, “you don’t even want to know. It should be available, though. After all that’s how I am paid.”

After describing to participants what cheque imaging was, and to see whether it was something that was appealing to them, we asked what they thought some of the possible risks of moving to such a system would be, to see if their insights mirrored others, particularly representatives of the third party cheque cashing industry. “I would guess some people might steal the cheques somehow”, “it is faster so there is no problem. I can’t think of any risks right now”, “I personally think it’s riskier carrying around an actual cheque”.

Finally we discussed with participants whether they felt that they would personally be using cheques for the foreseeable future, or whether they felt they would soon be moving to another form of payment (at this point establishing that most people using cheques were doing so because that’s how they were paid). “I am just cashing my cheques for the next two weeks while I wait for my National Insurance number”, “I will always be using cheques while I am in the UK”, “I will still be using cheques for six more months. I need a bank account but they won’t let me – I think this is because I changed my name”, “I would use them for as long as I

can. I prefer cash in hand”. Interestingly, one participant responded by saying: “I would want to use cheques for as long as I could, and as long as it stayed as cheap as it is now.”

Analysis

What comes through very strongly in the customer interviews is the need to have access to the value of a cheque in cash quickly. At the moment the time it takes to get a cheque cleared through a bank is considered too long, and with cheque cashing the necessity of quick access to that cash outweighs the burden of paying a premium for the service, though this is not to say that these participants don't have a cost-focus.

On prices rising the range of responses were very significant. Firstly, from a response from one participant, it was interesting to hear a figure estimated in pounds and pence as to what is an acceptable price rise (£1-2) and unacceptable (£10). As can be gleaned from the appendix, the pricing structure is done as a percentage of the price value but for consumers often the simplest way of measuring value for money is by working out a figure.

In the context of what cheque cashing representatives have already said about the changes, and whether they feel they will have to put up prices, there is no indication of what the possibilities are, particularly because there is a great reluctance to put up prices but a general feeling of concern for how any additional costs can be absorbed without being passed on the consumer. It is, however, in our estimation fair to assume that if costs are passed on to customers and the clearing time is reduced that many will start to see opening a bank account as the only reasonable thing to

do (especially with increased communication about basic bank accounts).

One participant comment that sticks out, relating to whether it would affect them if the cheque cashing service was further away, is about not being able to spare time and money because of work. It became very clear undertaking these interviews that having the convenience of doing a variety of transactions in one place, in the way a money service business like cheque cashing shops can do, is a lot more cost-effective for someone working long hours than, say, cashing a cheque in one place and sending money home in another. It is perhaps a competitive advantage of cheque cashing shops that they are able to identify themselves specifically as being a financial service centre for people who have non-traditional financial needs. One question that might be asked of banks is whether they feel themselves as being the first thing some people think of if they need to send money back to their home country?

If we were to generalise the customers of third party cheque cashing shops, and what might happen to them upon future changes to cheques, namely imaging, it would be reasonable to say that for some of them using a bank account will now be more appealing, even advantageous (which evidently suggests that for some customers not having a bank account is a choice), and for others the need for cheque cashing services and what they can provide (instant access and a central point for all non-traditional financial needs) will remain. This summary would remain the same even if prices of using cheque cashing services were to rise, which is the biggest concern of representatives (due to increased risk of fraud).

Conclusive Remarks

This research provides a detailed description of the use of mainstream and alternative cheque cashing facilities which will be useful in understanding what the potential impacts of cheque imaging will be. The subsequent analysis looks at the demographics of cheque users and develops a unique insight into the customers of the third party cheque cashing industry. With the introduction of electronic payments, the use of cheques has decreased but still remain vital for a significant number of people. We found during the research that between 2008-2014 the rate of decline in the volume of cheques slowed. However 2015 figures show it has returned to near level of peak decline at a rate of 11-12 per cent per year. In contrast, the rate of decline in the value of cheques has slowed considerably from 19 per cent in 2008 to 8 per cent in 2015. Interestingly, however, a number of third party cheque cashing shops are reporting a slight increase in the use of their cheque services, largely as a result of market concentration. So while the cheque cashing industry as a whole will feel the effect of decreasing cheque usage, particular outlets – often ones that offer other services such as money transfer and second-hand goods – have seen a minor resurgence in demand.

Our analysis shows that in 2015 adults aged 65 and over wrote 21 per cent of all cheques written by consumers. Those between the ages 55 to 64 wrote a further 15 per cent of consumer cheques. Between January 1 2014 and January 1 2015, 51 per cent of adults aged 65 and over wrote cheques, with 31 per cent of them writing cheques at least once a month or more frequently. By contrast, 84 per cent of 16 to 34 year olds now say that they never write cheques. Interestingly this entirely changes when we specifically look at users of the third party cheque cashing industry: some 62 per cent of customers were between the ages of 24 and 34. When we asked representatives of the industry to estimate the age group for their customer base, the medium and larger sized shop representatives said that customers tended to be between 18 to 35 years old.

Our research finds that 29 per cent of cheque cashing customers are on benefits or a pension, 15 per cent earned £13,000 or less, 25 per cent earned £13,000 to £20,000 and 27 per cent earned between £20,000 and £30,000. Only two survey respondents gave incomes above £30,000. The majority self-defined as regular customers. Access to money straight away was the most commonly cited reason for using cheque cashing shops (78 per cent) followed by not having a bank account (24 per cent) and then being close to where the respondents live (10 per cent). Among those who used the service regularly (once a month or more) 58 per cent did so primarily because they didn't have a bank account. Only 2 per cent said they used the services primarily because they didn't want a bank account.

In 2011, the Treasury Select Committee published a report looking at the future of cheques which carried a section on the arguments used for and against their abolition. It was supposed that the closure of the cheque clearing system would produce savings for banks in the future “as the industry pays substantial fixed costs when providing cheques to customers”. However there was a considerable reaction against abolishing cheques altogether. The solution, between keeping cheques in circulation and reducing associated costs, was to be found in cheque imaging – which would allow a consumer to receive the principle value of a cheque in a quicker time than with the current clearing process.

To assess what effect this would likely have on existing customers of the third party cheque cashing industry, to see whether they would change their provider, 58 per cent of respondents liked the idea of being able to get the money from a cheque in the next weekday from their bank account, and 47 per cent liked the idea of being able to use a smart phone to pay-in a cheque. Whilst we still don't necessarily get the sense that this will lead to a material change for consumers because there might be other reasons for why they don't have a bank account, it does give a sense of what attracts some people to cheque cashing and away from bank account usage.

In the round, we believe that a good deal of existing cheque cashing customers will take a keen interest in cheque imaging – over time – and see the reduction in clearing time (from the current time, which most banks will advertise as being around four working days) as something attractive to them. However we don't believe this will necessarily be enough to draw all of those people away from being cheque cashing customers. While there certainly is a clearing time reduction, it is not the same as the immediate service provided by a cheque cashing shop. As this research shows, access to the cash – even with the associated cost premium – is the most important reason for why cheque cashers attract custom.

With regards to sole traders and their use of cheque cashing services, in our interviews with industry representatives we found that while they do use the service it is difficult to determine to what extent as they deal in personal not business cheques. We must therefore assume that sole traders using third party cheque cashers will be affected by the introduction of cheque imaging in the same way as the customers interviewed and surveyed.

The additional question, here, that we have to ask ourselves is: will there be a third party cheque cashing industry for those existing and future loyal customers to use? Our analysis leads us to believe that cheque cashing will remain but will shrink in size considerably as a consequence of cheque imaging. However given that for some of the small and medium sized cheque casher representatives the total amount of their business dedicated alone to cheque cashing was between 5-30 per cent, business models might change significantly in the next few years anyway resulting in some services closing down. This is likely to lead to market concentration. The new volumes of people visiting particular businesses might mean those businesses are better able to absorb the costs associated with cheque imaging such as anti-fraud measures. While there may be a shrink in service competition this has as much to do with customer use, anyway. For customers, prices may not have to change – but this is largely predicated on the

industry to find other ways to subsidise their businesses, such as placing a greater focus on foreign currency exchange, money transfer or the selling of second-hand goods.

It's important to note that in the US, with its visible third party cheque cashing industry and existing cheque image clearing system (after the introduction of The Check Clearing for the 21st Century Act, or Check 21 Act), the initial changes to cheques were positive to cheque cashers. They could scan their cheques and present them electronically, no longer having to lose labour time through cheque transportation costs. Although there were some additional costs for scanners and software, the impact of fraud hasn't been enough to cancel out the positives.

While it is beyond the scope of this research to dictate how firms should respond to our findings, third party cheque cashers may wish to consider how they might use the introduction of cheque imaging to their own advantage. As one representative of that industry told us about cheque imaging: "It will certainly save the staff a trip to the bank, so [we] can save money there. 12 staff at 30 minutes a day, that's an additional 30 hours of productivity we'll have back". It would also be in the industry's best interest to explore ways they can influence or raise attention to the issue of small sum fraud claims in the small claims court for SMEs. Doing so would eventually, over time, reduce the concern they have about the potential for increased fraud attempts and cheque "double depositing" upon the introduction of cheque imaging.

Cheque imaging presents an opportunity for more people who might otherwise be resigned to using alternative financial services, who perhaps do not want to pay the associated premium, to see mainstream services as a realistic option for them. A faster clearing time would certainly appeal to some of the needs raised in this report such as quick access to the principle value of a cheque. But there are other issues on the periphery of this debate that need addressing. For example, during the cheque cashing customer interviews we found

on a number of occasions examples where a bank account was sought after but denied for a variety of reasons. Some of those reasons were, on the face of it, inadequate. We cannot prove one way that it was the individual bank or bank clerk's fault, or a misunderstanding on the part of the applicant, but either way we recognise a problem that could be contributing to the "poverty premium" (where people, by virtue of their income or the level of social or financial exclusion they face, pay the most for essential services and goods). We need to be quite clear in explaining to these customers about the rules on accessing a basic bank account. Consumers who face an ID or verification issue need to know that if they are refused access to banking facilities on one day that it doesn't mean they'll never be able to get access to those facilities in the future. We mean quite specifically those people we interviewed who told us they couldn't get access to a bank account because they didn't have a National Insurance number or because they were currently renting accommodation.

As for cheque imaging, the next steps could be to prepare an information campaign addressing the benefits of cashing cheques through a bank account with its much faster clearing time than currently, with a particular focus on those on low incomes or who may well be using third party cheque cashing services because they feel they have little choice otherwise. The advantages of cheque imaging, namely the ability to receive the principle value in a reduced timeframe, must speak to the people for whom it will benefit the most in society.

Cheques are by no means a modern form of payment but they serve an important purpose for a large proportion of UK consumers. Many are still paid in cheque and many of those people, while not exclusively, will be on low incomes. It's important that with any change to a service or product that we pay special attention to any possible unintended consequences that may occur. We hope this research report addresses some of those possible consequences with regards to cheque imaging and helps firms to avoid them.

Appendix

How much do cheque cashers charge?

In our evidence session with representatives of the third party cheque cashing industry we asked how much they charge customers to use their services and cash a cheque.

Their answers are:

“On average about 5.5 per cent of the value of the cheque”

“Flat 3.9 per cent of face value of the cheque, flat £1.99 item fee”

“2.99-5.99 per cent – though the average is 4-5 per cent. We have a pricing structure. Gauged on value of cheque”

“4-6 per cent”

“Standard charge: £3 fee unless it is a low value cheque. And 6 per cent. If it is less than £20, reduce the fee to £1.50”

“It varies. The standard rate is cheque cashing service to our agents who take their own risk: 1 per cent. Some are on better than that. One of our agents on a 1 per cent contract, we provide compliance, goes through our banking facility. If one agent deposits a cheque on Monday into our bank account, we see that cheque on Tuesday, then send money back to our agent in their account on Thursday. We keep 1 per cent. This is an average. Some agents are on better terms because of the amount and volume that they do”

“4.5 per cent”

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