FINANCIAL SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Andrew Tyrie MP
Chairman
Treasury Select Committee

14 June 2011

Dear Andrew

TREASURY COMMITTEE INQUIRY INTO THE FUTURE OF CHEQUES

I am very glad that the Treasury Select Committee has reopened its inquiry into the future of cheques. I have received a substantial volume of correspondence and representations from Hon Members about this issue, principally expressing concern about the potential impacts on those who are reliant on cheques. I would therefore like to make my views known to the Committee.

As you know, the Payments Council announced in December 2009 that cheques would be phased out by October 2018, but that this would happen only if suitable alternatives were developed. The Council said that it was better to manage the decline of cheque use rather than risk a disorderly break-up of the cheque clearing system. It therefore set a target date for closing the cheque clearing system to encourage the transition to other forms of payment.

Regrettably, the announcement was made without an assessment of the costs and benefits, or a plan or timetable for managing the process, or an indication of what alternative payment instruments might need to be created. These things are only now being developed. The result has been to create a great deal of uncertainty and alarm across the country, particularly among those for whom other existing forms of payment may be unsuitable – elderly or housebound people, schools, clubs and charities, rural communities, small businesses, and others.

The Payments Council has said that cheque use is in terminal decline, based on the trend since 1990, when cheque use peaked at 4 billion transactions (although business use evidently continued to grow until 1997). The annual volume of cheques has fallen to 1.1 billion in 2010, of which more than half were personal cheques. Given the lack of alternatives to cheques for many groups such as those noted above, however, the volume of cheques used – while lower – is still likely to be significant. On average every adult writes 13 cheques and receives four cheques a year, and the proportion of individuals making cheque payments rises with age - more than half of men and women aged 65 and above write cheques regularly.

Whilst I accept that a complex system that is designed to process more than 4 billion cheques a year may become unsustainable at significantly lower volumes, there seems to have been no assessment of whether a redesign to accommodate lower volumes may be more cost effective than developing new alternatives. The clearing system, as well as being costly, can also be slow and I have received numerous representations asking the Government to intervene on this point already.

Any alternative system should replicate the flexibility and ease of use of cheques, whilst improving processing times, and be cost effective. It will need to have been tested in practice, and be widely available, widely acceptable and widely adopted by users who do not currently have a suitable alternative. Until this is demonstrated, I do not believe that there is a credible and coherent case for abolishing cheques. The Government is keenly monitoring the progress of the cheque replacement programme and is considering whether it may need to intervene to protect vulnerable individuals and businesses if there is any threat that cheques may be withdrawn without suitable alternatives being put in place for all.

I hope this is helpful and I look forward to seeing your report and recommendations.

I am placing a copy of this letter in the Library of the House.

Yours sincerely,

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MARK HOBAN MP
FINANCIAL SECRETARY TO THE TREASURY