

TRANSACTION JOURNAL

Certainty of Fate

Banking Code Changes

November 2007 will see expectations raised with respect to accountability and availability of funds during the clearing process, as the recommendations from the Office of Fair Trading Task Force on Payment Systems are adopted and thereafter incorporated in the in the Banking Code of Practice in early 2008.

Payments Industry

Payments are a crucial part of business life, an essential underpinning to all forms of economic activity, and a sector which affects everyone - employers, employees and consumers.

A variety of payments are made every day with the expectation that these payments are secure and reliable. Most consumers are unaware of what happens behind the scenes, but, by their very nature, payment systems require a high degree of co-operation by different stakeholders for a payment system to function.

Proof of Transactions

Businesses and organisations typically have insufficient processes in place to be able to reconstruct full payment details, should cheques be mislaid before their fate is determined.

OFT Response to Banking Codes Review 2007 (Feb 2007 - OFT 903)

http://www.oft.gov.uk/shared_oftr/oft/reports/financial_products/oft903.pdf

21. Since the last codes review, the Payment Systems Task Force has successfully secured agreement to a number of key improvements to clearing times.¹² Industry has agreed the following standard maximum clearing times for current and basic bank accounts, and savings accounts:

- a maximum time limit of T¹³+2 on clearing for 'value'¹⁴
- a maximum time limit of the start of business¹⁵ on T+4 on clearing for 'withdrawal'¹⁶
- a maximum time limit of T+6 for withdrawal will apply to savings accounts
- a maximum time limit of the end of T+6 on clearing for 'fate'.¹⁷

¹² See Payment Systems Task Force Cheques Working Group Report November 2006

¹³ Where T is the day of transaction. The precise definition of 'T' will need to take account of branch cut-off times, deposits at ATMs, post offices or by post, and will need to be made clear in each account's terms and conditions. All references are to clearing days, excluding bank holidays and weekends. All of the proposals may be suspended under certain defined 'force majeure' circumstances (for example if a non-clearing day has had to be declared).

¹⁴ Value is when customers start to earn interest on money deposited via a cheque or reduce the amount of overdraft and any consequent interest applied.

¹⁵ The definition of 'start of business' differs between individual financial institutions and also depends on the channel by which the money is accessed.

¹⁶ Withdrawal is when customers are able to withdraw money which has been deposited by cheque.

¹⁷ Fate is when customers know that money paid to them by cheque cannot be taken out of their account as a result of the cheque being dishonoured' provided they are not a knowing party to fraud.

Record Keeping

Once cheques enter the clearing process, banks and building societies have stringent record-keeping obligations, not least on behalf of professional bodies such as solicitors, accountants and public administrators, to retaining or return original or acceptable digital copies of cheques to meet client accounting responsibilities. All financial organisations are responsible for keeping accurate records. Under Proceeds of Crime legislation, the inability to produce details of payments in the event of a police investigation into money laundering will incur a large fine. With the physical movement of large volumes of cheques entering a clearing process these have to all be stored for both research and investigation, providing confidence in the clearing system.

Sometimes items can be delayed within the clearing process. These not only present a dilemma for the payer and payee, they affect the overall service and reputation of the banking industry. Restoring the information status quo for missing payment transactions or providing proof of a transaction or a batch of transactions is a costly affair in terms of productivity for the bank and fees incurred for businesses or organisations.

Reducing exposure to dishonored payments

With changes in the Banking Code that set the time available to reclaim unpaids to T + 6 days, the ability to process payments rapidly to reduce exposure is a significant factor. Reducing the lead time through a direct interface at tellers, or the ability on receipt of payment data to upload this into existing accounting systems, has the potential to indemnify the banking industry against potential increase in losses through the risks associated with unpaids or returned cheques.

Cheque clearing in Great Britain involves the processing and transportation of six million paper items every day between different Banks

OFT November 2006

Annual Volume of Cheques (UK)

	Drawn on branch in:					
	Great Britain		Northern Ireland		United Kingdom	
Deposited in:	million	per cent	million	per cent	million	per cent
Great Britain	1,861	96.5	10	0.5	1,871	97
Northern Ireland	10	0.5	50	2.5	60	3
Total (United Kingdom)	1,871	97	60	3	1,931	100

Source - Cheques Working Group Report (November 2006 - OFT 868)