



Your money is safe with Government Task Force (?)

The Office of Fair Trading (OFT) recently announced it is to review the way that the major banks are operating to confirm that they are complying with rules introduced in 2002 to improve competition in the banking for small business sector. With criticism of the OFT from the Audit Commission this month on the length of time the OFT spends on its investigations hopefully this particular review will not last forever.

Whilst representatives of small businesses generally accept that matters have improved over the last three years there remains a number of concerns including the time taken for payments in the UK banking system to clear. Five years ago the Cruikshank Report (2000) declared 'that the UK payments system did not appear to deliver price transparency, good governance, non-discriminatory access, efficient wholesale pricing or innovation'. At that time this HM Treasury commissioned report recommended that a new framework for competition, including licensing and regulation, was necessary to deal with the problems. So what has happened since the Cruikshank Report to speed up the payment system?

Well, not a lot really - the banking industry immediately cried 'unfair' and over the next three and a half years prevaricated with government. The outcome in 2004 was the formation of a Quango - to be called a 'Task Force' - well it had worked for Maggie Thatcher. 'The Payment Systems Task Force' - chaired by the OFT, has a four year mandate, meets not less than four times each year and reports annually. Reporting to the Task Force are various working groups focusing upon particular issues including 'innovation in payments'. The UK banks' three day payment system was established in the early twentieth century, it worked for the banks so their attitude appeared to be 'why change it!'

The Task Force's First Annual Progress report was published in May 2005 proudly trumpeting an 'agreement to reduce clearing times on electronic payments between banks following telephone or internet instructions, as well as standing orders' has been reached. Spin per chance. This agreement gave the banks six months to sort out what they are going to do and a further two years to deliver the system. The six months is now up and the timescale appears to have slipped already. Of course this study does not address the issue of cheque clearing times - in May it was hoped another working party could be established to look at this from October 2005. On the 7th November they announced a Working Party was being established for this task with first report 'Summer 2006' - a suitably vague timescale.

So what are the implications for us all?

- Nothing will change in the short term, the banks will continue to benefit by £30m per annum (OFT figures for 2003) in interest earned during the time-lag between payments leaving one account and before reaching another.
- In 2008, at the earliest, we may be able to make / initiate electronic transactions with the payments being received the following day by the beneficiary - but there is a threat that we will have to pay for this 'privilege'; rather as we do for same day CHAPS payments.
- The cheque clearing system with its three working day payment cycle and five working day 'cleared funds' cycle is with us for the foreseeable future.

What can we do?

We cannot speed up the payment cycle but there are a couple of basic actions we can all take;

- Ensure that, when you have freedom to choose, you always initiate payments on Monday to Wednesday - not on Thursday or Friday. Thursday or Friday payments take not three but five days including the weekend to reach the recipient.
- Ask your bank for your money back! When communicating with your bank raise the issue of who is getting the interest and how much have they benefited from your transactions over the last twelve months. HSBC and LloydsTSB have taken a lead and refund the lost interest, what we need is for the other banks to follow. Make it an issue when negotiating terms with your bank.

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