

Cheque Use and Payment Systems in UK Retailing

The Centre for Retail Research was commissioned by Visa Europe to investigate **the major trends** in payment systems used in retailing and **the actual costs** that payments systems impose upon retailers. The research was not focused on cheques, but it just happened that the report came when there was a lot of media debate about cheque use.

Key retailers such as Boots, Dixons (DSGi), BP, Spar and (from August 2007) Sainsbury's have stopped taking cheques and our view is that within two years the majority of stores will refuse cheques.

This is because very few customers now use cheques, they are administratively inconvenient, and carry a high fraud risk for retailers. Chip and PIN carries a low fraud risk, so debit cards are currently where the action is.

We estimated the costs of different payment systems for Visa. Cash was the most expensive, after allowing for bank charges, security and count costs etc.

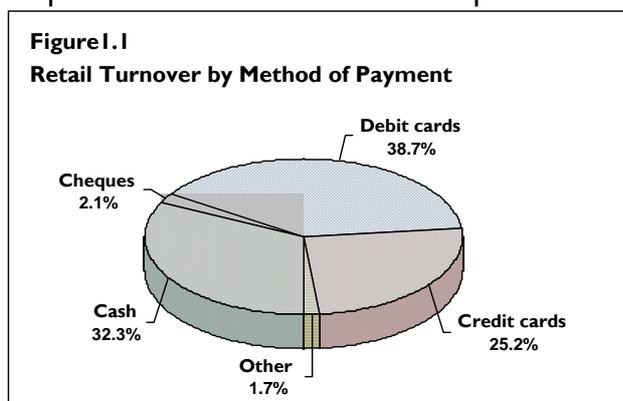
To do this work, we interviewed

- a representative cross-section of the public in London, Nottingham and Leeds.
- 500 large and small retailers who collectively were responsible for 34% of UK retail turnover. The results were weighted by sales turnover of the retail respondents, to avoid the results being dominated by small businesses.

Only part of this study is in the public domain so we are not able to let you have a copy.

Conclusions

- By 2006, cash spending in the retail sector (32.3%) was now lower than debit cards (38.7%). Electronic methods (debit+credit cards) in total were responsible for 63.9% of retail receipts.



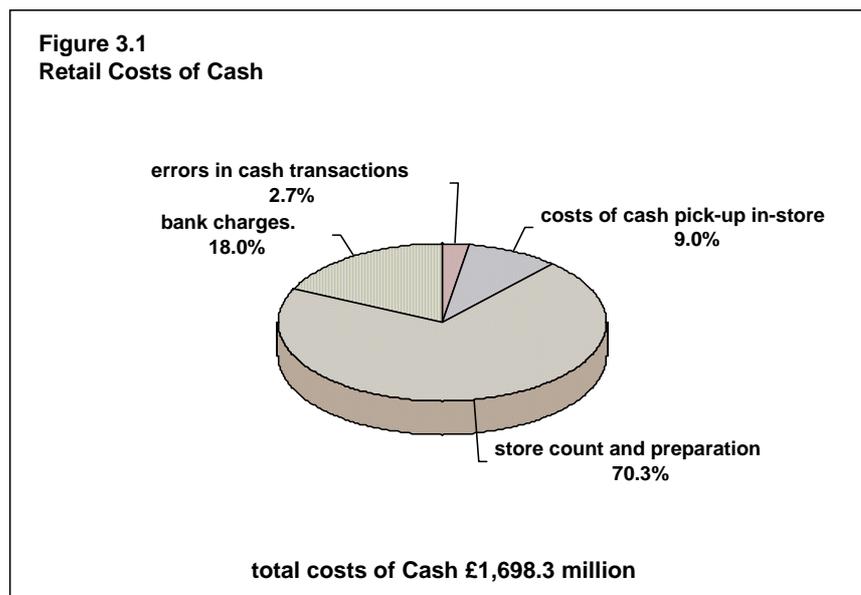
- Cheque use had fallen by one-half or more in two years to 2.1% of retail receipts and was expected to fall further.

- The increased use of debit cards had been prompted by: (a) shopper concerns about high levels of debt and (b) Chip and PIN being seen as more modern, safer and faster.
- Retailers are not trying to prevent *any* use of cheques. For many stores they are costly, vulnerable and time-consuming. People can still send gifts to their grandchildren using cheques. Note however that most Scandinavian countries have stopped using cheques.

Costs of payment

This Report, for the first time ever in the UK, calculated the full acquisition, handling and banking costs of all major payment methods. Every method of making payment carries some form of cost. Although cash is often thought of as being costless (for retailers), it needs to be counted, checked, kept under strict security and can be stolen. The Report found that cash is the most costly to handle (2.75% of retail cash receipts), whilst credit cards and debit cards combined were the cheapest (1.10% of card receipts). Cheques cost 1.96% of cheque receipts.

- The costs of cash were 2.75% of total cash takings. Internal fraud of cash by staff cost a further £505 million.



- The costs of cheques were 1.96% of cheque takings, with a high level of fraud perceived.
- Debit and credit cards use the same technology and their combined costs were 1.10% of plastic card takings.



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