

Payments and settlements systems

Although a large proportion of transactions in the UK are still made in cash, a steadily increasing proportion is taking place electronically – with the humble cheque also being used less and less as the years go by. Similar trends are happening in other countries, with electronic methods of payment continuing to gain ground at the expense of cash and cheques. Despite this, the amount of currency in circulation continues to increase in most countries.

Table 1: Banknotes and coin in circulation

	Total value (US\$bn)		Value per person (US\$)	
	2005	2009	2005	2009
United Kingdom	73.03	85.98	1,212.4	1,391.4
United States	793.99	928.23	2,673.9	3,021.3
Eurozone	687.37	1,194.66	2,131.3	3,630.0
Japan	711.51	925.14	5,568.7	7,255.4
Russia	75.41	153.08	533.9	1,078.7
China	318.74	606.59	244.5	455.6
India	95.32	171.27	86.1	146.4

Source: Bank for International Settlements 'Red Book', March 2011

Regulators have become increasingly concerned about ensuring that payment systems remain robust and do not threaten financial stability. The BIS Committee on Payments and Settlements Systems has developed a set of core principles to ensure that the systemically important payments systems continue to function effectively in times of crisis. These principles include requirements for adequate resourcing, the development of risk management procedures as well as addressing key interdependencies between different payment systems.

The clearing process in the UK involves the transmission and settlement of payments between bank accounts, and comprises a number of separate components, all of which are overseen by the Association for Payment Clearing Services (APACS). This is the link to the APACS website (www.ukpayments.org.uk).

There are three key elements to the UK's clearing process:

- Bankers Automated Clearing Services (BACS) handles bulk electronic clearings, including direct debits, direct credits standing orders.
- Clearing House Automated Payments Scheme (CHAPS) handles high value electronic funds transfers.
- Cheque and Credit Clearing Company (CCCL) handles paper transfers, and mainly cheques.

Table 2: Customer use of payment instruments in the UK (% of total number of transactions)

	2005	2006	2007	2008	2009
Credit transfers	21.4	21.2	21.0	20.9	20.6
Direct debits	19.6	19.8	19.9	20.2	19.8

Cheques	13.9	12.3	10.7	9.2	8.1
Card payments	45.1	46.6	48.4	49.8	51.5

Source: Bank for International Settlements 'Red Book', March 2011

In addition there are also separate networks dealing with payments by plastic card through credit, debit and ATM networks.

As the use of cheques by the general public has declined, payments by plastic card have continued to increase, and these now account for more than half of total payments made in the UK. Cheques accounted for only 8.1% of all payments in 2009, having more than halved in usage over the past decade.

Preferred methods of payment vary from country-to-country and clearing and settlements systems have been tailored to meet local requirements. In contrast with the UK, cheques remain in common use in the USA and France. On the other hand Germans make much more use of direct debits and credit transfers, while the Swiss prefer credit transfers with little use of either cheques or direct debits.

Table 3: Payments and settlement systems by turnover

	Number of transactions (millions)				
	2005	2006	2007	2008	2009
United Kingdom					
CHAPS Sterling	29.6	33.0	35.6	34.6	31.9
Cheques/credit	126.0	110.7	98.4	96.6	82.2
BACS	2,412	2,504	2,580	2,579	2,490
United States					
CHIPS	71.5	77.9	87.3	92.0	84.8
Fedwire	132	134	135	131	125
European Union					
TARGET	76.3	83.4	99.1	89.0	87.6
EURO1 / STEP 1	46.4	47.7	54.4	64.2	58.3
STEP2	45.6	66.0	311.3	383.3	430.2

Source: Bank for International Settlements 'Red Book', March 2011

New technology will continue to influence the mode through which payments are made by the general public. For example, the new generation of mobile phones offers links to credit and debit accounts, offering the technology to replace not just cash, but perhaps ultimately to replace plastic cards themselves. In the meantime, such transfers are cleared through the various card networks.

In general the number of participants in clearing systems has progressively declined over the years, as bank mergers have reduced the number of firms needing to access payments services. In the UK direct membership of APACS comprises just the leading banks, but with many other financial institutions enjoying indirect participation through one of the direct members.

The Bank for International Settlements publishes its 'Red Book' annually, providing extensive statistical analysis of clearing and settlement systems around the world:
<http://www.bis.org/publ/cpss95.pdf>

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