

## Slow Death For Checks

by [Steve Brown](#)

We recently watched the long-running game show "Who Wants to Be a Millionaire." For readers who aren't familiar with the now-syndicated quiz show, it's based on the British program of the same title and requires contestants to correctly answer a series of questions of random difficulty in order to win the ultimate cash prize. At the start, players are given a series of lifelines to help them with questions they can't answer or are unsure about. The purpose of these lifelines is to allow contestants to get further ahead in the game than they might otherwise.

This got us thinking about a topic that's surely on the mind of many bankers: whether there's reason to extend paper checks a lifeline or whether the time has come to encourage businesses to abandon ship.

The slow death of paper checks was set in motion several years ago with the passage of the Check 21 Act, which allows banks to use electronic images of checks instead of paper. The law came about after the FAA grounded planes following the Sept. 11, 2001 terrorist acts and billions of dollars in checks couldn't be delivered in a timely manner.

Since then, the number of paper checks in circulation has been dropping, but various studies show they are far from obsolete. The 2013 AFP Electronic Payments Survey found that the "typical organization" makes 50% of its B2B payments by check, down from 81% in 2004. The report found that companies are often reluctant to adopt e-payment methods for a host of reasons, including the difficulty of convincing suppliers to accept e-payments and a shortage of IT resources for implementation.

A recent report from Visa paints a similar picture when it comes to check use by small businesses. Asked about the best and most efficient payment tool for their business, 40% of respondents to the 1Q 2014 survey said checks. That's only slightly down from the 41% a year earlier who named checks as their preferred payment method.

What's notable from the Visa study is that credit card and debit card use are on the rise for payments. In this year's 1Q, 44% of small businesses polled said they prefer to make payments with a credit card or debit card, compared with 32% who cited these payment options a year earlier.

It's clear from the data that there is still a good chunk of business owners that use paper checks, but this is already changing given heavy adoption of smartphones for all manner of banking interactions. Perhaps it is time to start encouraging business customers to make the switch to electronic payments. Consider polling them to see what it would take to convince them to abandon paper checks entirely, or at least decrease their use. You might find you've got a critical mass interested in taking advantage of electronic options. If that turns out to be true, you can adjust accordingly and likely realize cost savings in the process.

The use of paper checks is declining, but for now at least it appears many businesses are clinging to the last vestiges of a time gone by. Keep monitoring payments developments though and be prepared to change course swiftly, because the payments space is in a great deal of flux. Many small

businesses are shifting to services like Square and others, so it seems highly likely that checks will soon all but disappear.

## **BANK NEWS**

### **Concerned**

A survey by the Business Roundtable finds company CEOs have cut back plans for sales and capital spending as they expect the economy over the next 6 months will see lower than potential growth.

### **Less Fee Income**

Bank of America reports it has given up \$6B in annual revenue after eliminating overdraft charges on debit card purchases and the sale of ID theft protection amid heightened regulatory scrutiny.

### **Basel III**

FOMC Governor Tarullo indicates the Fed believes banks that rely on short-term wholesale funding should see a capital surcharge since doing so leaves the banks "vulnerable to runs that threaten the firm's solvency."

### **Biggest Barriers**

A KPMG banking industry outlook survey of 100 bank executives in the US finds the primary areas these executives say are the biggest barriers to growth for their bank over the next year are: regulatory and legislative pressures (41%); lack of customer demand (25%); pricing pressures (20%); risk management issues (19%); increased taxation (18%); US dollar strength (17%); staying on top of emerging technologies (14%); inflation (12%); labor costs (12%) and a lack of qualified workforce (11%).

### **Planned Growth**

A Bank Director survey of directors and senior bank executives of banks across the country finds the following areas for planned growth in the next 12 months: organic loan origination (85%); acquisition or merger (45%); investment outside of core banking in fee based business (22%); branch acquisition (20%) and other (8%).

### **Cutting Back**

At a hearing before the Senate Committee on Banking, ABA Chairman Jeff Plagge said 58% of banks have held off or canceled the launch of new products amid increased regulatory risks or costs, while 44% have cut back consumer products or services they offer, given a higher compliance and regulatory burden.

### **Retail Consolidation**

Entrepreneur magazine reports changing customer behaviors have some experts predicting that as much as 50% of US malls may be gone in the next 10 to 15 years.

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