



The Changing Nature of Checking

payments industry update

Summary: Checking accounts are long beyond their heyday, but that doesn't mean that they don't still hold value for CFIs. We review the decline of the physical check and the staying power of checking accounts — and how to keep them relevant to small and medium-sized business customers.

In 1995, there were 2.6MM payphones in the US. Payphones were so popular and widely used that most people had prepaid phone cards that allowed them to use public phones without the need to carry coins. Today, there are fewer than 100K payphones left in the US, and in many places, they are completely extinct. For example, New York City removed its very last payphone in 2022 and placed it in a museum. If many young children were to cross paths with a payphone, it is quite likely they would have no idea what it is.

When we think about how quickly payphones moved from being a frequently used item to virtual irrelevance, we can't help but think of the similar trajectory of checks. In 2022, the Federal Reserve reported that there were only [about 3.4B checks written in the US](#), down from close to 19B in 1990.

Decline in Usage

While checks haven't gone the way of the Dodo, their usage has steadily declined over the past two decades as people have embraced electronic payment alternatives. Roughly [45% of Americans never wrote a single check](#) last year, with usage particularly low among people under the age of 54. Even though consumers have a waning reliance on checks, they continue to be a staple form of payment for small- and medium-sized businesses, and checking accounts remain a valuable source of revenue for financial institutions.

Remaining Relevant

Despite their declining popularity as a vehicle for personal payments, checking accounts [remain the most common B2B payment method](#) and are still a key tool for small businesses to both make and receive payments. According to a recent study from Cornerstone Advisors, 55% of people in the US still wrote checks in 2022. However, as fintechs and nontraditional banks vie for this business and take advantage of people's increasing reliance on quicker and more convenient payment methods such as PayPal and Zelle, community financial institutions (CFIs) should rethink their approach to checking accounts.

Cornerstone found that fintechs and digital financial institutions have been aggressively capturing new checking account business, accounting for [47% of all new checking accounts](#) opened so far in 2023, up from only 36% in 2020. The largest decline in new checking account openings since 2020 has been experienced by the bulge bracket banks, who have seen their share of new accounts drop to 17%, down from 24%, with regional banks falling to 21%, from 27%. CFIs have so far seen little decline during the same period.

As CFIs strive to keep checking accounts relevant and to use them to maintain ties to small- and medium-sized businesses, here are a few things to keep in mind:

- **Make digital banking easier.** Though younger generations write fewer checks than older generations, 72% of new checking accounts in 2023 have been opened by individuals between the ages of 21 and 42.

Given this reality and the fact that people in this age range are heavy users of electronic and mobile payments, CFIs need to ensure that checking accounts are easy to use and incorporate tools such as digital payment capabilities and even financial monitoring capabilities.

- **Don't discount physical checks just yet.** Checks are still an attractive payment form for small businesses within certain demographics, such as contractors, real estate agents, and landlords — or small mom-and-pop type operations without internet access.
- **Increase business checking features.** One way of making business checking accounts more attractive is to bolster them with additional services and features, such as the inclusion of integrated international payments, complimentary invoicing software, and basic payroll management tools. Robust business checking account offerings can serve as a springboard to get small business customers to consider adopting additional services offered by your institution, such as advisory services. One way of doing this is by embracing the services of third-party APIs.
- **Encourage a shift from physical checks to digital.** Educating small business customers about the benefits of beginning to gravitate away from traditional check utilization through the use of digital payments is a good way to encourage them to embrace payment tools with longer-term staying power. One way to do this is to educate business customers about the cost advantages of digital payments versus traditional checks, as well as the time savings that automated payments can mean for their organizations.

There is no doubt that the popularity of checks — like payphones — peaked years ago. However, checking accounts can still serve as a valuable tool for CFIs to attract small business customers, keep existing customers engaged, and funnel people toward additional services offered by your institution.

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ECONOMY & RATES

Rates As Of: 10/30/2023 05:38AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.59	0.04	1.17
6M	5.55	0.02	0.79
1Y	5.40	-0.04	0.69
2Y	5.07	0.02	0.64
5Y	4.84	0.22	0.83
10Y	4.91	0.34	1.04
30Y	5.06	0.36	1.10
FF Market		FF Disc	IORR
5.33		5.50	5.40
SOFR		Prime	ORER
5.31		8.50	5.32

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