

# CHEQUE-MATE, SINGAPORE



Blue-Sky Ideas to  
Eliminate Cheques



# SUMMARY

## **Singapore's Smart Nation project is driving solutions across three broad areas: digital economy, digital government and digital society.**

As part of this push, the government is promoting digital payments on a large scale; however, cash and cheques still comprise 40% and 28% respectively of payments volume. Reducing the use of cheques, or eliminating them entirely, would be a practical first step towards the government's push towards a "Digital" society. Indeed, the government's target is that Singapore be cheque-free by 2025.

It is our view that this will require a digital solution that matches the versatility that cheques bring – including the ability to pay in the future. Moving from paper cheques to digital cheques is one option – however, what's needed is blue-sky thinking. One option policymakers and banks could consider to meet the zero-cheques goal is our proposal of an Intent to Pay (I2P) solution, which could be used for informal and contract-backed agreements.

This digital alternative would be easy to use and could be built on top of the existing FAST scheme. It would eliminate the disadvantages of cheques such as fraud, processing costs and administration expenses.

# 01. CHEQUERED PROGRESS

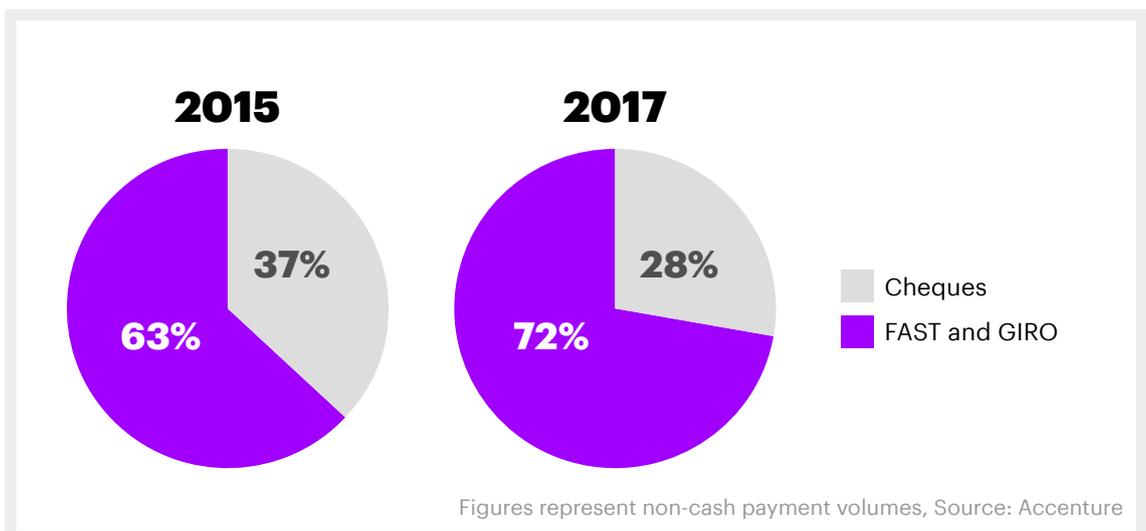
**Singapore's Smart Nation project is a government-driven initiative to use technology in three broad areas to ensure the country's competitiveness through the 21st century (see box on next page). In part, this extends to promoting digital payments over cash and cheques.**

Digital payments have a range of advantages: they are near-instantaneous, cheap, user-friendly and convenient, and they reduce the risk of loss or theft. Cash and cheques, on the other hand, come with expenses such as printing, storage, security, distribution and disposal.

Yet cash and cheques have their advantages. That is one reason Singapore still envisions a role for the former – albeit a smaller one: its goal is that cash withdrawn from ATMs declines as a proportion of the volume of digital-payments from 40 percent in 2017 to 20 percent by 2020.<sup>1</sup>

We will look at alternatives for cash in a subsequent article in this series of papers on payments. For now, our focus is on alternatives for cheques – and here the government's goal is even starker: it wants Singapore to be cheque-free by 2025.<sup>2</sup>

The country is already headed down that road, with cheques declining in popularity as a means of payment (see chart), and with the government forecasting that cheque-usage by 2020 will comprise just 15 percent by volume.<sup>3</sup>



That echoes cheques' decline elsewhere. In India, cheque volumes amounted to 4.6 percent of all payment instruments in 2018<sup>4</sup>, down from 43.5 percent in 2012, according to the Bank of International Settlements (BIS).<sup>5</sup> China has nearly eliminated the use of cheques, with volumes declining from 4 percent in 2012 to just 0.2 percent in 2017, according to BIS data.<sup>6</sup>

**Compared with those countries, then, Singapore has some way to go, which raises the question: what active measures could it take to drive cheque-use to zero?**

**Singapore's Smart Nation initiative was launched in 2014. It envisions using technology to improve people's lives, to make businesses and government more efficient, and to ensure better services.**

The government describes Smart Nation as "integral to Singapore's next phase of nation-building", and sees its impact across three broad areas:

- **Digital Economy:** using technology to make industries and businesses more efficient, and to ensure they create better jobs and new opportunities.
- **Digital Government:** using technology to build agencies that are innovative and world-leaders in delivering services.
- **Digital Society:** improving citizens' digital literacy so that they can more easily access services, and can make the most of all that a digital society can offer.

Using digital-payments to eliminate cheques and cut the use of cash is part of the government's effort to build a strong digital infrastructure under a Strategic National project whose aim "is to enable citizens, businesses and government agencies to make simple, safe and seamless digital payments".

# 02. INTRODUCING INTENT TO PAY (I2P)

**For those who want alternatives to cash, Singapore has a range of options: from traditional card-based solutions such as stored-value cards to faster payment solutions including PayNow and Request to Pay (RTP).**

With PayNow, the payer sends money to the payee; with the latter, the payee sends an RTP to the payer, who authorizes the transfer. In both cases, the payee receives the money immediately.

There is also PayLater, which allows users to pay a single consolidated bill at a future date.<sup>8</sup> In essence, PayLater is a forward-dated PayNow instruction, but one that doesn't allow the payee to see the payment until it arrives.

Yet there is no digital solution that matches the central elements of cheques. A cheque's ultimate purpose is to provide confidence to both parties that, after a certain period has elapsed and/or an event has taken place, the cheque can be encashed. This deferred payment characteristic has made cheques a fixture of the global payments landscape for centuries and it remains useful in many areas, including rentals and property sales.

Any such replacement, then, must provide for a transparent and conditional transfer. In the absence of an electronic replacement people will likely keep using cheques in Singapore after 2025 despite their numerous shortcomings: they are subject to fraud, for instance; they can bounce; and, once used, banks need to store them for years.

Getting to zero cheque-use by 2025 will require a digital option – a solution with the benefits of cheques yet without their downsides.

We call that solution Intent to Pay, or I2P: it is an electronic instrument that has the benefits of a cheque (“I want to pay you, but I don't want to pay you now”) without the disadvantages.

Although I2P does not yet exist, developing it would not be complicated, as we believe the current FAST system can be enhanced to support such an instrument. We also believe it would accelerate the decline of cheques and ensure that Singapore meets its 2025 goal.

# 03. HOW I2P WOULD WORK

We separate the Intent to Pay solution into two categories, depending on its use:

- **I2P:** a new instrument that is a solution for cheque payments, and that can be issued via a mobile app or through internet banking, and that is built on top of the existing FAST system.
- **Smart-I2P:** an I2P that is linked to a contract, such as a property deal or a rental agreement, and that is executed when the underlying contract is fulfilled

In both cases, the pathway is similar. It starts with the **initiation** stage, when the formal I2P is created between the two parties. An agreed **maturity** is set – say, 10 days, after which the contract would lapse. The initiation could be similar to the way a PayNow instruction is carried out, but one that in this case would be future-dated and accompanied by a notification to the recipient that an I2P has been issued.

Next is the **agreement** stage, when the recipient acknowledges the issued I2P and concurs with its terms. At that point the I2P moves to the **accepted** stage. After that, the recipient is able to realize or confirm the I2P and move it to the **realised** stage, at which time payment is made automatically.

## Features

1. **Initiation:** A formal I2P is drafted between buyer and seller when an offer to purchase is made
2. **Maturity:** Agreement will lapse in say 2 weeks
3. **Agreement:** When both party agrees, it will move to approval stage. Otherwise, I2P will be cancelled.
4. **Approval:** I2P will be initiated
5. **Confirmation:** Transaction is made and landlord will receive the deposit



## Possible outcomes

1. Agreement is withdrawn by either parties and the I2P will be cancelled
2. Agreement is confirmed between both parties and the I2P will be initiated
3. Agreement time lapsed and I2P will automatically be cancelled even if buyer/seller agrees/withdraws after deadline



## Benefits

- **Tokenisation** – Where payments can be initiated through email address or phone numbers, making customer registration easier
- **Zero cheque fraud** – Eliminates the chance for landlord to realize cheque even when agreement time lapsed
- **Near real-time settlement** – When I2P is initiated, funds will be transferred immediately

Source: Accenture

Each case has three possible outcomes: one or both parties withdraw, in which case the I2P/Smart-I2P is cancelled; both parties confirm the agreement, and the I2P/Smart-I2P goes ahead; or the maturity lapses, at which point both parties receive an alert, and the I2P/Smart-I2P is cancelled automatically.

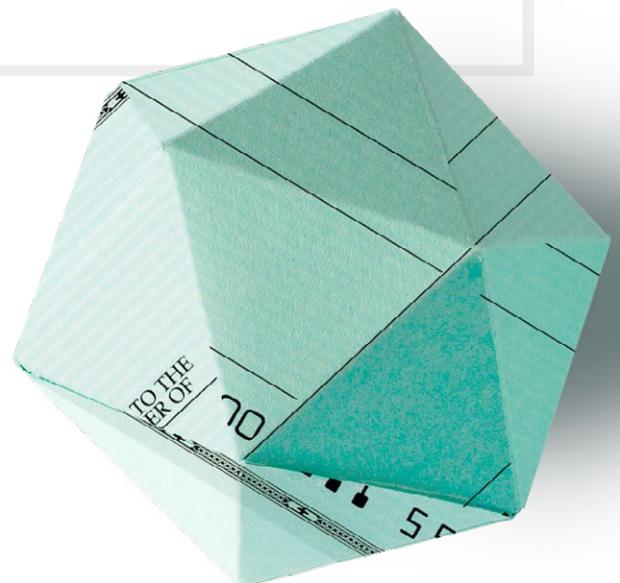
Take a prospective rental agreement, which requires, among other things, an intent to pay that is locked in, and a fixed amount in a specified currency that will be paid on a certain future date – but that will not be triggered until one or more conditions are met.

The prospective tenant sends a Smart-I2P to the landlord via the existing FAST system that has been enhanced to support this instrument, with maturity set for a week. Separately, the tenancy agreement is discussed and executed, and the agreement is e-stamped via the current e-stamping mechanism, incorporating the Smart-I2P reference number.

The e-stamping system can use this reference to send a notification to the involved banks in the Smart-I2P to automatically trigger the execution of the Smart-I2P, resulting in immediate payment.

### The benefits with both I2P and Smart-I2P are significant:

- **Tokenisation:** because payment is made via the I2P system, it is easy for both parties to register, and detecting fraud is simple.
- **Easy to use:** the I2P system is simple for prospective tenants to use and cuts the risk that they will forfeit their deposit to the landlord – a longstanding risk for prospective tenants in Singapore’s rental market.
- **Near real-time settlement:** once the I2P is confirmed, funds are immediately transferred.



# 04. CAN AN I2P-TYPE SOLUTION HELP REPLACE CHEQUES?

**Answering this requires looking more closely at the features that cheques offer, and that explain why they are still widely used.**

The tables on the following pages capture some of these characteristics, and maps them to existing digital-payment options including the proposed I2P solution.

In doing so, it explains how an I2P-type solution could mitigate most of the gaps that replacing cheques would bring, and why it could offer the same features and convenience of cheques – but without the downside risks.



<b>Cheque-writer (Drawer)</b>	<b>Remarks on each characteristic</b>	<b>Digital-payment (Y, N, Partial)</b>	<b>I2P (Y, N, Partial)</b>
<b>Post-dated cheque</b>	Post-dated cheques are useful for assuring the payee	P	Y
<b>Stop cheque</b>	A cheque allows a drawer to stop the payment after the cheque is given; this is useful as the drawer can issue post-dated cheques while still not having made up their mind	P	Y
<b>Deferred funding</b>	A cheque allows time to prepare funds after the cheque is given; this is useful (in conjunction with the stop cheque characteristic) as the drawer can issue a cheque in a business negotiation without having to worry about losing money	P	Y
<b>Blank cheque</b>	A blank cheque is useful especially when the amount to pay is unknown at point of issuing e.g. a property transaction	N	Y (terms, including the amount, can be negotiated during acceptance)
<b>Correcting cheques</b>	It is easy to make corrections on amount, payee, etc. by countersigning	N	Y (terms can be updated or corrected during acceptance)
<b>Bearer instrument</b>	A cash cheque as a bearer instrument, (without a named person) is useful when the drawer does not know the exact name of the payee	N	N
<b>No pre-setup required</b>	There is no need to remember or set up an account number, a phone number or a UEN number	Y (through the proxy addressing)	Y (through the proxy addressing)
<b>Tracking</b>	This is done with cheque numbers, whose sequencing allows for better control and tracking, which businesses like	Y	Y (the entire cycle from acceptance to realization can be tracked – a feature that brings total transparency)
<b>CVY cheques</b>	CVY cheques are a special case of cheques used to deposit property conveyancing monies into a special account in order to prevent fraud	N	N

<b>Cheque Recipient</b> (Payee)	<b>Remarks on each characteristic</b>	<b>Digital-payment</b> (Y, N, Partial)	<b>I2P</b> (Y, N, Partial)
<b>Flexible crediting</b>	With cheques, the payee can delay deciding which account to credit; with digital-payments, the account to credit is pre-defined	N	P (terms including account to credit can be negotiated during acceptance)
<b>Hold cheques</b>	Cheques can be held without depositing, which is useful, for example, for facilities-booking in MCST or as a form of assurance; with digital-payments, this would require two transactions – one to credit, and one to refund	N	Y (this is a basic feature of I2P)
<b>Transferability</b>	Cheques can be transferred to another person or company as they are negotiable and transferable under the BOEA (Bills of Exchange Act)	N	N
<b>Bearer instrument</b>	A cash cheque as a bearer instrument is useful when the payee has to pass the cheque on to someone else	N	N
<b>Blank cheque</b>	The payee can hold the blank cheque, and fill up the amount later at the time of deposit	N	N (though a blank I2P can be issued, we envision that that the terms including the amount be agreed during acceptance for transparency)

<b>Additional mindset convenience offered by cheques</b>	<b>Remarks on each characteristic</b>	<b>Digital-payment</b> (Y, N, Partial)	<b>I2P</b> (Y, N, Partial)
<b>Tangible</b>	For example, printing cardboard cheques for charity events or awards ceremonies	N	Y (imagine being able to issue an I2P on stage showing it on the big-screen – this provides greater assurance than a cardboard cheque)
<b>Easy to collect</b>	This is useful, for example, for paying for school excursions	Y	Y
<b>Personalization</b>	Trademarks, logos and a company name, for example, can appear on a cheque	N	N
<b>Paper trail</b>	Businesses like having a paper trail for record-keeping purposes	N	N (we believe the paper trail is no longer a convenience, and that an electronic trail is better)
<b>Process control</b>	For businesses, the cheque-control process includes triple layers and numbered cheques	N	N

# 05. TOWARDS A DIGITAL, CHEQUE-LESS FUTURE?

**Singapore is rightly regarded as a pioneer in the realm of digital-payments, and has progressed in its efforts to reduce the use of cash and cheques.**

In doing so it has a number of advantages, including an excellent payments infrastructure, a proactive regulatory environment and a reputation as an innovative hub.

Yet without an electronic alternative to cheques, meeting the 2025 goal of zero cheque-use could be difficult. Creating an I2P system or near-equivalent, on the other hand, would make meeting this goal much more likely.

In the second part of this series, we will present alternatives for one other barrier on the road to eliminating cheques and the cheque-clearing system: the USD cheque, which is used in Singapore in certain circumstances.

Finally, as mentioned at the start of this piece, Singapore's other effort is to reduce the use of cash. In the third part of this series we will look at options to propel the country towards that goal too.



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- <sup>2</sup> Ibid.
- <sup>3</sup> Ibid.
- <sup>4</sup> Benchmarking India's Payment Systems, Reserve Bank of India (June 2019). See: <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/BIPS04062019CE3C72E9873244ED8BAAE9C8FC5955A8.PDF>
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- <sup>6</sup> Ibid.
- <sup>7</sup> Smart Nation: The Way Forward, Smart Nation and Digital Government Office, Singapore (November 2018). See: [https://www.smartnation.sg/docs/default-source/default-document-library/smart-nation-strategy\\_nov2018.pdf](https://www.smartnation.sg/docs/default-source/default-document-library/smart-nation-strategy_nov2018.pdf)
- <sup>8</sup> See, for example: <https://www.grab.com/sg/grabpay/pay-later>

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