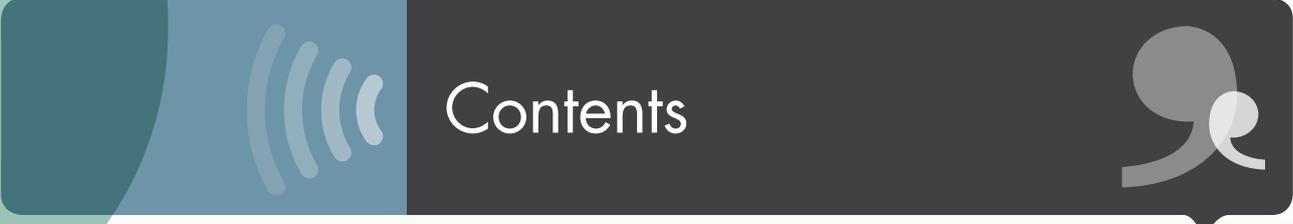


The decline of cheques:  
**Building a  
bridge to the  
digital economy**

MAY 2012

Final Report on the APCA public consultation  
"The role of cheques in an evolving payments system"





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This paper has been prepared by the Australian Payments Clearing Association (APCA) for the purpose of reporting on the outcomes of community consultations undertaken in late 2011 and early 2012.

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1.0

## Key Points



Australian consumers and businesses are moving away from cheques and using electronic payments. This trend will likely continue.

The move towards a digital economy will further magnify the challenges associated with declining but persisting cheque use.

The payments industry believes that cheque replacement will happen over time. The challenges that result can best be managed by providing a bridge for existing cheque users to enjoy the benefits of the digital economy.

On this basis, APCA makes a series of Recommendations and Commitments. APCA will work with policymakers and stakeholders towards the goal of a payments system that can best support the emerging digital economy.

### Recommendations and Commitments

On the current evidence, APCA sees no immediate need for major structural change to the Australian cheque system. It is predominantly the market that is best able to address the future needs of current cheque users as cheque usage declines.

APCA will:

- Investigate ways to improve the efficiency of cheque processing.
- Continue to work with Government and superannuation sector stakeholders on the SuperStream reforms.
- Provide relevant assistance to the work of the National E-Conveyancing Development.
- Develop a new payments system roadmap in 2012.
- Develop an industry policy position on enhanced messaging for electronic payments in 2012.
- Undertake preliminary research on the use of cash in Australia to obtain a more holistic understanding of payments use in Australia and explore possible policy responses for industry and government.
- Develop an education campaign on the benefits of existing telephone, electronic and online payments.
- Establish a Milestones Project Steering Committee in mid-2012 to monitor cheque decline and take up of alternatives. It will issue its first six-monthly report in early 2013.

APCA recommends that:

- Federal, state and local governments develop cross-government policies for payments use that promote electronic payments.
- Payments be considered within future digital inclusion and digital economy policies.
- Policymakers and law reform bodies address regulatory barriers currently preventing a movement to electronic payments.
- Financial institutions review current EFT payment options and consider ways of improving access to these options, where necessary, for their customers, especially small businesses and not-for-profit organisations.
- Financial institutions consider initiatives to provide assisted computer payment facilities in branches for customers to make online payments.





2.0

## Introduction



Dear payment system user,

In June 2011, APCA, as the Australian payments industry self-regulatory body, undertook to sponsor a public debate on the role of cheques in an evolving payments system. We sought widespread involvement to better understand the needs and expectations of the community as cheque use continued its long-term decline in Australia.

We received that widespread involvement, with 89 written submissions, 124 emails and numerous telephone inquiries. We are heartened by the willingness of Australians to “have their say” on this important issue and with the quality of the input and maturity of the debate.

In sponsoring this process, APCA has arrived at a number of important conclusions. One is that cheque decline and replacement will primarily happen through operation of the market. Based on current evidence, we conclude there is no immediate need to consider closing the cheque clearing system or imposing a similar structural change to address cheque replacement.

We have also gained a much deeper understanding of the payment needs of those who currently rely on cheques – including older Australians, those living in rural and regional Australia and not-for-profit organisations. There are issues of awareness and access that the payments industry can play a role to help address.

Lastly, we have concluded that future usage of cheques cannot be viewed in isolation. There are significant changes happening in our society and economy. We are moving towards a “digital economy” and payments have been, and must continue to be, a part of that. The issues of current cheque users are intertwined with their participation in the emerging digital economy.

Greater use of electronic payments is a necessary bridge to the digital economy and is a key issue for APCA going forward. There are important Recommendations and Commitments made in this report that will move this process forward. Nevertheless, APCA fully recognises that it will be through market developments and proprietary innovations that many in the community will experience this transition and the benefits it can offer.

We send our genuine thanks to those organisations and individuals who contributed their time and energy to fully engage and “have their say” on this important and timely issue.

Yours sincerely,

Russ Rechner

APCA Chairman



# Findings

## 3.1

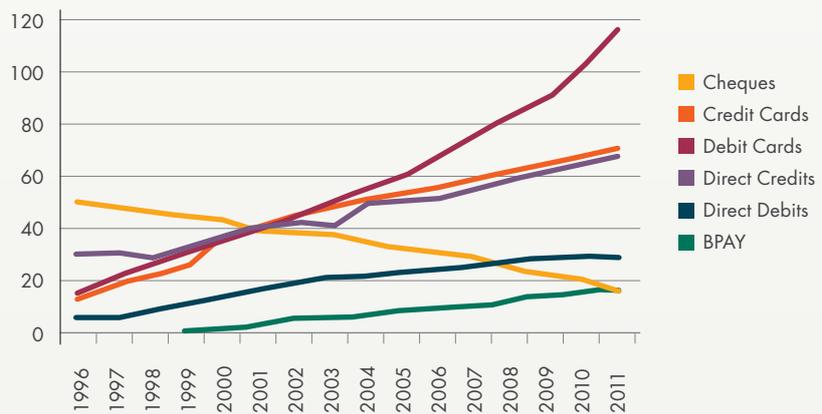
Australian consumers and businesses are moving away from cheques and using electronic payments.



Over the past decade, cheque use has dropped by almost 60% in Australia.

More and more Australians are choosing to use electronic payments over cheques. In the 1990s, cheques were the main form of non-cash payments in Australia. Over the past decade, cheque use has dropped by almost 60% in favour of direct entry, card and other electronic payments. In the past three years alone, cheque use has declined by over one-third, even though most financial institutions in Australia continue to offer cheques to their customers. It is Australia's consumers and businesses who are choosing to use electronic payments.

**Figure 1** Volume of Australian Non-Cash Payments, per Head of Population, 1996-2011



Source: RBA.

Given this strong trend, APCA, as the payments industry self-regulatory body, conducted a consultation on the future of cheques in Australia. The aim of the consultation was to provide both "cheque providers" (financial institutions that issue cheques) and "cheque users" (Australian consumers and businesses that make and receive payment by cheque) with greater certainty. More information on the consultation process and details on the issues raised are located in the appendices of this report.

In the main, the consultation found that providers and users of cheques alike expect the decline of cheques to continue. Previously, APCA found that about 5% of Australians are reliant on cheques. These users are concentrated amongst particular groups and sectors of users (including older Australians, those in rural and regional Australia and industries such as real estate) that will continue to rely on cheques for some time.



# Findings



3.2

Cheque replacement will happen over time but there will be some challenges to manage.



APCA believes that the market for payments is flexible and responsive and that the future of cheques can be primarily addressed through the operation of market forces. Australian providers can continue to offer cheques to meet future demand. Within this market-based approach, based on current evidence, we conclude there is no immediate need to consider closing the cheque clearing system or imposing a similar structural change to address cheque replacement.

Relying on a predominantly market-based approach enables providers and users to make their own decisions about future provision and use of cheques. However, declining cheque volumes will see unit costs rise for cheque providers. It is therefore likely that users may be charged fees for cheque services. These may include cheque services for which they have historically paid little or nothing.

Users will also find it increasingly difficult to make or receive payments by cheque as cheque use declines generally. Cheque users are therefore likely to experience some inconvenience or disruption. Importantly, these cheque users remain concentrated within particular demographic groups and industry segments. These groups and segments face certain barriers in moving away from cheques.

This generates particular challenges that should be addressed by industry, government and stakeholders. Together, our focus should be to encourage cheque users to embrace electronic alternatives. It is on this basis that APCA makes its Recommendations and Commitments.



## National E-Conveyancing

Conveyancing describes the preparation and exchange of documents associated with a property transaction ahead of a land title alteration. The process has traditionally been highly paper based. E-conveyancing aims to provide an electronic business environment for completing property transactions before they are electronically lodged with Land Registries. The National E-Conveyancing initiative began in Victoria in 2002 and is currently supported through COAG.

During the consultation, it was apparent that particular sectors of the economy or particular types of economic transactions remained reliant on cheques. These included superannuation contributions and rollovers, and real estate transactions such as conveyancing. In these sectors, specific initiatives are already being advanced, such as the Government's "SuperStream" under Stronger Super and the National E-Conveyancing initiative, to promote electronic alternatives to cheques. APCA will continue to assist with these initiatives as appropriate. APCA also recognises that competitive offerings are emerging in the marketplace which will also help address these issues.

For their part, cheques providers recognise that benefits may well be gained by implementing initiatives to bring down the costs of cheque processing. To this end, industry is currently investigating ways to reduce the unit cost of cheques, including the use of imaging technology and truncation.

The consultation has identified a number of initiatives to introduce efficiencies and reduce adverse impacts. Beyond this, the consultation process identified a significant new issue impacting the wider Australian community: the role of payments in supporting the emerging digital economy.

## SuperStream

The Commonwealth Government has committed to the elimination of cheques within the superannuation system through its SuperStream initiative. This initiative will introduce e-commerce standards for superannuation contributions and rollovers, commencing in July 2013. The direct entry system is one of the designated payment methods with enhanced data being linked through a unique identifier in the direct entry message.

# Findings



3.3

Electronic payments are a critical enabler of the emerging digital economy.



There are enormous economic and societal benefits to be gained from the digital economy. Over the past two decades, the Internet has evolved from “a network of researchers and geeks to a day-to-day reality for billions of people”.<sup>1</sup> Two billion people are now connected to the Internet and almost \$US8 trillion annually is exchanged through e-commerce. A 2011 McKinsey report into the Internet economy estimates that the Internet accounted for one-fifth of all GDP growth over the past five years in developed economies.<sup>2</sup> A recent Allen Consulting report similarly estimates that a 10% increase in Australian households being online lifts private consumption (and therefore GDP) by \$2.4 billion.<sup>3</sup> Maturity of the Internet correlates with rising living standards, drives jobs growth and is fundamentally transforming economic activities, in particular traditional economic activities.<sup>4</sup>

As a result, the Internet is becoming a key focus of national economies, policymakers and business leaders as they seek to unleash its full potential for even greater economic and societal improvement.<sup>5</sup>

The Internet is the key element of the digital economy. However the digital economy can also encompass other technologies such as mobile phones and sensor (GPS) networks.<sup>6</sup> The digital economy covers a wide range of commercial and governmental activities. These range from social networking and online retailing to “e-health” and distance education.

1. Pelissie du Rausas et al 2011, p.1.

2. Ibid.

3. Allen Consulting 2010.

4. Indeed, the rise of electronic payments over the past fifteen years has paralleled the growth of the Internet, mobile phone and sensor technology, suggesting both sets of improvements have benefitted from similar technological advancements and related changes.

5. Pelissie du Rausas et al 2011.

6. The Internet and mobile worlds are converging through the wider use of Internet-enabled smartphones. The digital economy will therefore increasingly include consumer demand for mobility and the need for mobile applications and mobile phone payments to enable commerce.

## Innovations

Australia has recently seen a spate of new payment innovations. PayPal chose to launch its new POS device “PayPal Here”, in Australia, as well as US, Canada and Hong Kong. It enables a smartphone to be used as a card reader. Domestically, many of our financial institutions now offer contactless cards, mobile banking and, increasingly, mobile payments.

Amongst the more popular activities within this emerging digital economy are e-commerce and online banking. Many Australians currently engage in these activities. According to Allen Consulting, “banking” and “bill payment” are amongst the most regular online activities undertaken by Australian households.<sup>7</sup> These are closely followed by the online purchasing of goods and services, such as tickets, accommodation and digital content, as well as participation in online auctions. The Productivity Commission Report on Retailing estimates that online sales will increase in Australia by between 10% and 15% per annum and stood at \$12.6 billion in 2010.<sup>8</sup>

**Table 1** Household Engagement with Various Online Activities, 2009, Per Cent

Activity	Use Regularly	Used (but not regularly)
Email	97	2
Banking	76	8
Bill payment	71	9
News updates	59	15
Map / directions	51	22

Note: Respondents were able to choose more than one Internet activity. Source: Nielsen cited in Allen Consulting (2010).

Payments are already a critical component of the digital economy. Our payments framework has Australia well positioned to support the emerging digital economy. Consumers have access to the “pay anyone” function within nearly all online banking offerings (which often relies on APCA’s direct entry system) as well as various scheme-based and proprietary offerings. In some situations, these offerings have already replaced cheques.

A digital economy requires suitable electronic payments. As the digital economy grows and deepens, as it becomes more important to individual lives and the economy, payment alternatives to support the digital economy will need to be there as well. Without payment offerings that support all aspects of the broadening and deepening digital economy in Australia, the economic and societal benefits will not be achieved.

Promoting the digital economy has become a key concern for governments. Over the past 15 years, Australian governments have committed themselves to overcoming the “digital divide” and increasingly promoting enhanced information communications and technology to support overall economic growth and societal well-being.<sup>9</sup> Indeed those confronted by the digital divide are also those who continue to use cheques including older Australians and those who live in rural and regional Australia.

7. Allen 2010, p.11.

8. Productivity Commission 2011, p.73.

9. Notley and Foth 2008.



The most recent iteration of this policy intent is the Commonwealth Government’s commitment to be a leading digital economy by 2020.<sup>10</sup> The National Digital Economy Strategy was released in May 2011. With this, the Commonwealth Government committed itself to:

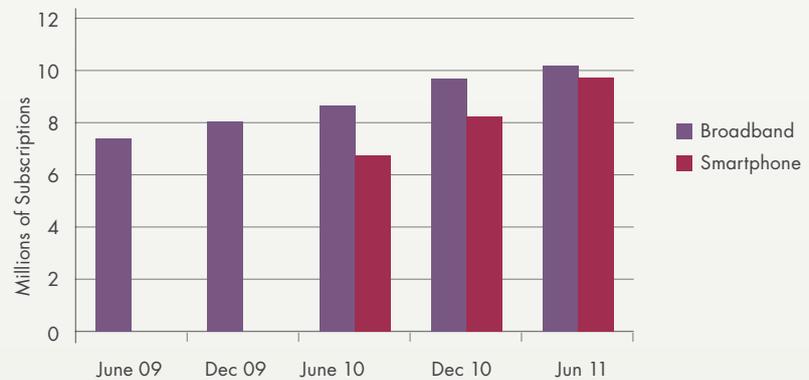
*“(A) strategy (that) provides a series of measurable targets and actions to increase national productivity, ensure Australia’s continued global competitiveness and improve social wellbeing.*

*The eight ‘Digital Economy Goals’ focus on the areas of:*

- *online participation by Australian households*
- *online engagement by Australian businesses and not-for-profit organisations*
- *smart management of our environment and infrastructure*
- *improved health and aged care*
- *expanded online education*
- *increased teleworking*
- *improved online government service delivery and engagement*
- *greater digital engagement in regional Australia.”*

A number of these focus areas, in particular online participation and engagement by households, businesses and not-for-profits as well as online government service delivery, require a payments component, so that value can be transferred between parties.

**Figure 2** Broadband and Smartphone Subscriptions, Australia, June 2009 - June 2011



Source: Australian Bureau of Statistics, Internet Activity – Australia, 8153.0.

10. DBCDE 2011.

APCA believes it is through competition amongst the providers of payment services and products, that innovations will emerge.

Australia is internationally recognised as having a leading payments system.<sup>11</sup> Australians are relatively high users of debit and credit cards and many are banking online. Our governments are also interacting with us more and more online and in many instances actively moving away from cheques. Australians often pay bills online and increasingly make “pay anyone” payments through their online banking packages, displacing previous cheque use.

The vast majority of Australians already have their wage, salary or benefits paid directly into their transaction account through the direct entry system. Australia is also a highly “banked” economy – with estimates that about 97% of adults have a transaction account.<sup>12</sup> This stands in contrast with the United States, for instance, where cheques are still commonly used to pay wages and salaries, and where 15% of the adult population is considered “unbanked”.<sup>13</sup>

Despite this progress, more can be done to maximise the benefits of Australia’s digital economy. This includes developing and maintaining a regulatory architecture for payments where there is the appropriate balance between, and support for, efficiency, security and competition. Importantly, APCA believes it is through competition amongst the providers of payment services and products that innovations will emerge that meet the evolving needs of users in a rapidly changing digital economy.

Clearly, enabling the payments system to support the digital economy should be a goal for Australia. In doing this, clear long-term targets should be set for example where Australia should rank in terms of take up of electronic payments versus cash and cheque payments against its peers. Policymakers, industry and other key stakeholders should agree to these targets, as has been done with the National Digital Economy Strategy.

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11. Denecker et al 2009, p.7; Capgemini et al 2011, p.8.

12. CSI 2011.

13. Hung and Yoong 2012.

# Findings



3.4

There remains a need to promote and enable greater participation in the digital economy.



## Dual Authorisations

Often, not-for-profit organisations are required by their constitutions or legislation to have dual authorisation of payments. This has led to these organisations relying on “dual signatures” on cheques to make payments. But cheques are not needed for this. Increasingly, online banking offerings enable dual authorisation, where each authoriser has their own password.

In enabling the digital economy, it is important that the advantages brought by the digital economy are shared. This has been one of the key findings of APCA’s consultation on cheques.

As discussed, the consultation found that particular groups of society remain reliant on cheques to make and receive payments. These include the aged, those in rural and regional Australia and not-for-profit organisations. These groups are likely to have the most to gain from the digital economy.

There were various reasons given for the continued strong reliance on cheques. One reason was a lack of awareness of suitable alternatives to cheques. There were other misconceptions for instance in terms of relative safety or convenience (see box for example).

Another reason cited for the continued reliance on cheques was the lack of access to the fundamental technology some electronic alternatives require. This is becoming less of an issue as Internet access, for example, spreads to older users and to users in rural and regional Australia. High-quality and affordable Internet access will be critical for these groups. Public policy initiatives such as the NBN and those associated with the digital economy, more generally, will help address the issue of access, as will commercial service and connectivity offerings. These developments will provide access to existing and future electronic payment alternatives.



APCA believes that individuals and organisations should be able to choose between payment alternatives and that these choices should not be unduly restricted or imposed.

The consultation also found that there were particular payment needs of users not provided by current alternatives to cheques. Some see the inability to add detailed information to an electronic payment as an inhibitor. However, in some key sectors, such as superannuation and real estate, there are industry initiatives or competitive offerings currently underway to address some of those needs.

For the most part, those reliant on cheques acknowledged that moves to reduce barriers and provide access to appropriate payments alternatives would be worthwhile. Beyond awareness, access and alternatives, there were barriers identified that prohibited the use of alternative payment methods – for example specific statutory or administrative practices within the public sector and particular professions that require payment by cheque. APCA believes that individuals and organisations should be able to choose between payment alternatives and that these choices should not be unduly restricted or imposed. It is not about “taking things away” but about “building bridges” to enable the uptake of more efficient and effective alternatives.

Finally, while APCA’s consultation did not expressly focus on the use of cash, Australians reliance on cash is dropping significantly.<sup>14</sup> In looking holistically at payments within the emerging digital economy, the future use of, and demand for, cash in Australia will need to be considered.

It is important for Australia’s economic and societal well-being that everyone is provided with opportunities to participate in, and take advantage of, the benefits of the digital economy. A payments system that enables those opportunities equally for providers and users alike is a key part of that.



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14. Bagnall and Flood 2011.

# Findings



3.5

The payments industry can do more to support the transition to the digital economy.



To work towards payments that support the digital economy into the future, there needs to be the involvement of a wide range of stakeholders.

APCA believes that these are complex issues with no easy answers or magic bullets. Furthermore, it recognises that many of the solutions will be found competitively and the payments system and regulation must support and encourage this competition. To work towards payments that support the digital economy into the future, there needs to be the involvement of a wide range of stakeholders; the payments industry, policymakers and others who use the payments system.

APCA will work together with policymakers and stakeholders to ensure the Australian payments system fully supports the needs of payment providers and users in the digital economy.

This working together is realised in the following Recommendations and Commitments. Together, they outline a plan of action for addressing the decline of cheques and building a bridge to the digital economy.



# Recommendations & Commitments



4.1

## Managing the Decline of Cheques



On the current evidence, APCA sees no immediate need for major structural change to the Australian cheque system. It is predominantly the market that is best able to address the future needs of current cheque users as cheque usage declines.

Providers and users can continue to make their own decisions about cheque use, though it needs to be understood that users may be charged fees as a result of increase in marginal costs. There are particular groups and sectors where cheque usage continues. The other Recommendations and Commitments in this report seek to encourage a transition for them towards electronic payments.

**APCA will investigate ways to improve the efficiency of cheque processing.**

APCA is currently working with its members to examine imaging and truncation of cheques. This has been introduced in other countries and has helped to reduce the marginal costs of cheque processing.

**APCA will continue to work with Government and superannuation sector stakeholders on the SuperStream reforms.**

Superannuation remains one of the main business sectors where cheques are still used. The Government's SuperStream reforms aim to remove cheques from the superannuation system. APCA has participated on the SuperStream Working Group and will continue to provide appropriate assistance. APCA sees significant value in promoting electronic payments in superannuation and recognises competitive offerings that are emerging in the marketplace will be an important part of the solution.

**APCA will provide relevant assistance to the work of the National E-Conveyancing Development.**

The property and real estate industries are other sectors where cheque use remains reasonably high. The National E-Conveyancing initiative provides a platform for the electrification of aspects of property transactions in Australia. APCA welcomes this work and will provide any relevant assistance that may be needed to fully implement this initiative.

# Recommendations & Commitments



4.2

Realising the Full Benefits  
of the Digital Economy



## APCA will develop a new payments system roadmap in 2012.

In 2008, APCA released its first Low Value Payments Roadmap. This document set out a vision and roadmap for the evolution of Australia's low value payments, including cheques and direct entry. It was here that the Role of Cheques consultation had its origins. APCA has since committed to a new payments system roadmap in 2012, which will provide a renewed vision and direction for the future evolution of Australia's low value payments system.

## APCA will develop an industry policy position on enhanced messaging for electronic payments in 2012.

The ability to attach data to a cheque is seen as one of its positive features. Enabling data rich electronic payments has generated significant interest in global standard ISO 20022. APCA released a voluntary ISO 20022 schema for the Australian direct entry system in late 2011 and is progressing the development of an industry policy position on ISO 20022 in 2012.

## APCA encourages Federal, state and local governments develop cross-government policies for payments use that promote electronic payments.

Governments have often been enthusiastic in their embrace of electronic payments, noting the efficiency and other benefits associated with their use. However the adoption of electronic payments has been uneven, particular across areas such as local and state government. APCA recommends that governments discourage cheque usage and encourage and promote electronic payments.

## APCA will undertake preliminary research on the use of cash in Australia to obtain a more holistic understanding of payments use in Australia and explore possible policy responses for industry and government.

Cash use is declining in Australia and further research on the replacement of cash with electronic alternatives will help inform a holistic policy approach to low value payments evolution in Australia.



# Recommendations & Commitments



4.3

## Enabling Full Participation in the Digital Economy



APCA recommends that payments be considered within future digital inclusion and digital economy policies.

Payments need to be a part of the emerging digital economy policy agenda. To this end, APCA will liaise with financial institutions, the government and representative groups to improve access to the electronic payments system particularly for welfare recipients, low income earners, and the elderly.

APCA recommends that policymakers and law reform bodies address regulatory barriers currently preventing a movement to electronic payments.

There remain legislative and regulatory barriers to electronic payments, for instance where legislation requires payment by cheque. To address this, APCA will establish a legal working party with state legal representative organisations and the government to undertake further research to identify legislative issues arising from the decline of cheques.

APCA will develop an education campaign on the benefits of existing telephone, electronic and online payments.

The consultation found that many cheque users are unaware of the comparative benefits of electronic and other alternatives to cheques. An education campaign will be targeted at those groups identified in the consultation who still use cheques and remain unaware of viable alternatives. This would focus primarily on services for:

- The elderly;
- Not-for-profit organisations; and
- Rural communities.

APCA recommends that financial institutions review current EFT payment options and consider ways of improving access to these options, where necessary, for their customers, especially small businesses and not-for-profit organisations.

APCA recommends that financial institutions consider initiatives to provide assisted computer payment facilities in branches for customers to make online payments.

# Recommendations & Commitments



4.4

Monitoring and Reporting



APCA will establish a Milestones Project Steering Committee in mid-2012 to monitor cheque decline and take up of alternatives. It will issue its first six-monthly report in early 2013.

APCA proposes to instigate regular reporting on the evolution of the digital economy along with data about the changing way we pay. This will encompass the publication of a set of clear milestones or indicators that measure the payment industry's contribution to the digital economy. This will not prevent individual financial institutions making their own decisions about the future provision of cheques nor are they necessarily conditions that must be met prior to any future industry decision on the cheque clearing system or other structural change to address cheque replacement.

The milestones / indicators can be gleaned from the results of the public consultation exercise, including:

- a). Implementation of effective electronic property settlement processes;
- b). Implementation of improved Internet availability to remote communities;
- c). Implementation of automated superannuation processing;
- d). On-going and targeted education campaigns promoting electronic alternatives to cheques;
- e). Improvements to the way data can be attached to electronic payments;
- f). Removal of government, regulatory and legal provisions that mandate payments by cheque;
- g). Continued development of strategies by members to assist customers deal with the digital divide, for example through:
  - a) Assisted payment facilities at branches
  - b) Programs to assist small business and not-for-profit organisations with setting up electronic payment facilities;
- h). Continual monitoring of cheque data (including volume); and
- i). Monitor and benchmark uptake of electronic payments as part of the move towards a digital economy.

These measures tie in with the other Recommendations and Commitments. Work will need to be done on specifying realistic but meaningful metrics.

APCA will publish a regular six-monthly review marking progress against these milestones / indicators. When sufficient progress has been achieved, APCA will make the appropriate decisions on the future for multilateral cheque clearing in Australia.

# Appendix



## 5.1

### APCA's Consultation Process



APCA decided that seeking community views was essential to industry decision-making on the future of cheques in Australia. To this end, APCA undertook a wide-ranging consultation throughout 2011 and early 2012.

The objective of the consultation process was to engage with stakeholders on the topic of cheque decline and how community payment needs could continue to be met. The consultation process also identified the problems consumers will face as cheques usage and acceptance continues to decline.

In preparing for the public consultation, APCA surveyed its members on cheque use by customers, including small businesses. A consumer survey was also commissioned to identify who in the community used cheques.

The research, published in the "Role of Cheques in an Evolving Payments System" Consultation Paper, found that only 5% of those consumers surveyed relied on cheques as an essential payment method. However, of those who still used cheques, the majority were the elderly, pensioners and/or rurally isolated.

APCA issued the Consultation Paper on 8 June 2011. This included a call for submissions, which were accepted by 12 August 2011. During June, July and August of 2011, a series of meetings were also held with relevant representative bodies.

The public consultation sought the views of a wide range of stakeholders. Particular emphasis was placed on seeking the views of those sectors of the community with higher than average use of cheques. Representative bodies of these stakeholders took part in round table meetings and individual face-to-face discussions. At these meetings, the nature and scope of the work being undertaken was discussed, while APCA obtained feedback on the issues raised in the consultation paper.

By August 2011, APCA had received 89 written submissions from a mixture of individuals, not-for-profit organisations, industry representative groups, financial institutions, ASIC and the Reserve Bank of Australia, as well as 124 emails and 15 telephone calls from individuals.

Following the close of the formal consultation period, APCA provided further briefings to a number of key stakeholders to seek feedback on the common themes identified by APCA in the formal consultation and to ensure that no important issues had been overlooked.

# Appendix



5.2

## Summaries of Submissions



The section provides a summary of submissions received by APCA. It includes formal written submissions, emails and telephone comments as well as comments received through individual and group discussions. All written submissions and a summary of emailed comments are available for review at the APCA website.

Emailed submissions and phone calls were, unless expressly requested otherwise, treated as confidential. However, all views were actively considered.

### 1. General Comments on the Use of Cheques

Many respondents recognised that there was a permanent decline in cheque use, and provided their views on where this might cause problems for certain users who still depended on cheques as a method of payment. Many recognised the inevitability of cheques eventually disappearing but called for action to be taken to ensure alternative payment methods were available to prepare for this eventuality.

During the consultation period, APCA received a significant number of personal emails and telephone calls, mostly from older Australians. These individuals, relying on particular media stories, often expressed concern that the public consultation process was solely about the removal of cheques. These individuals were informed that the consultation was looking more widely at the issue of the future of cheques and no decision had been made on the removal of cheques.

On the other hand, some respondents called for the abolition of cheques, arguing that cheques were an expensive and inefficient method of payment. The RBA, in its submission, recognised the decline of cheques and called for “approaches to managing the decline in cheques in an orderly manner”.

The Federal Treasury, in discussions, noted that electronic payments were preferred to payments by cheque, but there was no cross-government policy to mandate this. Individual departments and agencies where cheque use for payments is high, such as the Australian Taxation Office and Department of Human Services, remained keen on promoting electronic payments.

### 2. Public Awareness of the Features of Cheques

Submissions revealed that many respondents were not aware that current electronic alternative payment methods were available that could replicate some of the features of cheques. For example, a common view was that the constitutions of small clubs precluded the use of electronic payment methods due to their requirement for dual authorisation, unaware that dual authorisation could be done through particular electronic payment offerings.

Many individual respondents were also of the view that cheques were intrinsically safer than payments made electronically or by credit or debit cards, despite evidence of the security of electronic alternatives.

Comments were made that many aspects of cheques remain unique and not obviously replicable, such as physical, face-to-face instant exchange of payment, the addition of data and ability to pay despite limited information of the payee.



### 3. Public Policy and Demographic Challenges

The consultation process confirmed the research undertaken by APCA that the sectors most dependent on using cheques as a method of payment were the elderly and rurally isolated.

Community groups representing the elderly identified that cheque use persisted due to the perceived safety of cheques, lack of computer literacy, and the needs of the elderly for whom cheques provide a degree of financial independence. Any increase in the cost of cheques to users was also raised as a concern, given that many cheque users are on fixed and low incomes.

The vulnerability of the elderly and, in particular, those whose mental or physical capacity is compromised, was raised as a series of related issues. One issue was that cheques could be initiated without leaving home, where alternatives such as withdrawing cash from an ATM exposed elderly persons to a greater likelihood of physical harm.

Similarly, cheques afford a degree of protection for the elderly by enabling them to direct specific payments to particular payees direct without relying on third parties to access their accounts. This is particularly an issue when the elderly person is suffering from some form of physical incapacity, such as failing eyesight, that can make use of internet banking difficult. The policy challenge for elderly persons to maintain control over their personal finances is also related to the wider social problem of financial abuse of the elderly.

Concerns were also expressed in some submissions about the impact any increased processing costs for cheques might have, if passed on to customers, on the vulnerable members of society such as the elderly who are often on low and fixed incomes. The RBA, in its submission did note the capacity for financial institutions to charge for cheques to recoup some of the high costs associated with processing.

A related issue concerning the use of cheques by the elderly is that organisations, such as charities and church groups, often rely on donations from these individuals for financial support. One body representing fundraising organisations noted that many of its member organisations rely on cheques for donations, with some organisations reporting that over 70% of their donations were paid by cheque.

Respondents noted that Australia's ageing population will see a greater demand for assistance in managing the affairs of the elderly, potentially compounding many of these issues.

Alternatively, some submissions noted that the next generation of those entering retirement will be more computer literate, less familiar with cheques as a payment method and likely benefit from advancing technology.

In addition to the issues related to the elderly, welfare organisations noted that their clients who were itinerant and homeless often have no established banking arrangements and can only be paid by cheque. This includes recent arrivals to Australia who are without a bank account and with little experience of banking.

Often welfare organisations use cheques to make emergency payments and offer no or low interest loans for the purchase of essential household goods.





## 4. Current Technology

The unreliability of telecommunications in rural and isolated areas was identified as a significant barrier to using electronic alternatives to cheques. Related developments to address this issue, such as the roll-out of the National Broadband Network, was identified as potentially addressing this issue in the future.

### 4.1. Real Estate Transactions

The Real Estate Institute of Australia reported that its members relied extensively on cheques in property settlement transactions and for deposits at auctions and to a lesser extent, deposits on rentals. Payments for rents were however increasingly being made electronically, reflecting the younger age of renters.

### 4.2. Superannuation Transactions

A number of small not-for-profits reported during the course of the round table consultations that they were required to pay employee superannuation funds by cheque, despite a preference to pay electronically. The reasons for this were due to requirements of the superannuation fund or the difficulties in setting up EFT arrangements or being able to reconcile payments with accounts.

Superannuation industry representatives recognised the need for use of electronic payments and highlighted their support for the “SuperStream” initiatives of the Federal Government, which will require superannuation contributions and rollovers to be made electronically.

### 4.3. Payee Identification

A number of organisations noted the limitations of electronic payment alternatives when few details of the payee are known. Electronic payments generally required knowledge of the payee’s account details while a cheque could be paid when only the name and postal address of the payee were known.

### 4.4. Messaging

A number of respondents commented on the ability of cheques to have additional data attached so that the purpose of the payment is easily determined and reconciled with an invoice. While some organisations are able to link payments with an attached electronic document or online link providing more details, many felt that a system that enabled more information to be attached to a payment would be helpful.



## 5. Improving Payments System Efficiencies

As cheque use continues to decline, processing them becomes relatively more costly. Many cheque processing costs are fixed, and decreasing cheque numbers will increase the unit costs.

Views were expressed that the industry should consider initiatives to improve the efficiencies of current cheque processing to lower the costs.

As well, respondents recognised the impact higher costs would potentially have on pricing. In its submission to this public consultation, the RBA suggested that the industry should consider the issue of the cost of cheque processing and ways of recouping those costs. The RBA has published data on the relative costs of differing payment methods in 2007, and found that the average cost of cheques for consumers, merchants and financial institutions was \$7.69, as compared to \$1.21 for credit cards, 0.67 cents for EFTPOS and 0.55 cents for cash.

## 6. Legal Issues

Legal issues concerning cheques were also identified as important matters to be addressed. There remain instances where the use of cheques is required by particular laws. As a result, payers are unable to use alternatives.

One example of this can be found in Section 20 of the Health Insurance Act (1973) which provides for cheque as a sole method of payment in certain circumstances.

It was also noted in the consultations that the perceived safety, security and liability associated with electronic payments versus cheques were often an important factor in payers deciding to use a cheque rather than an electronic payment. The Cheques Act provides a statutory allocation of liability in the event of fraud to protect a customer's interests. Electronic payments are similarly structured so that customers do not ordinarily bear any loss due to theft or fraud. However these protections are not through statute but rather through normal commercial practice underpinned by the E-Payments Code and industry self-regulatory rules and codes.

# Appendix



5.3

## Key Stakeholder Groups Consulted



ABACUS

ACOSS

Agforce

ASFA

Australian Bankers' Association

Australian Chamber of Commerce & Industry

Australian Financial Integrity Network

Australian Industry Group

Brotherhood of St Lawrence

Good Shepherd

Business Council of Australia

Choice

COSBOA

Council on the Ageing (National)

Finance Sector Union

Insurance Council of Australia

Law Society of NSW

Real Estate Institute of Australia

Victorian Law Institute

# Appendix



## 5.4

### Submissions Received



Date Received	Name of Persons or Organisations	Location
9 June 2011	Confidential Submission	Ballarat VIC
9 June 2011	Paul Myers	Karabar NSW
10 June 2011	J. B. Anderson & K Prenter	Wodonga VIC
12 June 2011	Mrs D Prophet	Nunawading VIC
13 June 2011	Miss P. A. Callinen	Bentleigh VIC
13 June 2011	Rodney & Anne Stone	Walkley Heights SA
14 June 2011	Ms J Grassell	Tolga QLD
15 June 2011	M Balkin	Double Bay NSW
15 June 2011	Redmond Byrne	Buderim QLD
21 June 2011	Mr D. G. Jones	Concord West NSW
20 June 2011	W & L Flach	Waramanga ACT
22 June 2011	Derek Fraser	Sydney NSW
29 June 2011	Ms D Rickard, ASIC	Canberra ACT
29 June 2011	Alan Swales	Epping NSW
1 July 2011	Hylde Rolfe	Watson Bay NSW
4 July 2011	Woolhara HH Society	Double Bay NSW
4 July 2011	Ms Jean Porteous	Helensburgh NSW
5 July 2011	Ms Ana Scarf – NWCNSW	Sydney NSW
5 July 2011	Mr & Mrs Homberg	Wendouree VIC
6 July 2011	E. E. duCasse	Nambucca
6 July 2011	Mr Bob Meadley	Narromine NSW
7 July 2011	Mr Max Hancock	Maleny QLD
7 July 2011	Ms Peggy Scott	Woonona NSW
8 July 2011	Mr Peter Healy	Port Macquarie NSW



Date Received	Name of Persons or Organisations	Location
10 July 2011	Ms Rosemary Curry	Wodonga VIC
10 July 2011	Mrs Pattie Straw	Lavington NSW
11 July 2011	Mr & Mrs Hanrahan	Wodonga VIC
12 July 2011	Mrs Marion Gordon	Bathurst NSW
13 July 2011	Mrs Beryl Bray	Wodonga VIC
14 July 2011	Rotary Club of Walcha	Walcha NSW
15 July 2011	Mrs D Smith	North Albury NSW
15 July 2011	Sue Hetherington	Brisbane QLD
15 July 2011	Housing Industry Association	Canberra ACT
16 July 2011	Mr David Bellair	Rosanna VIC
16 July 2011	Mrs Lorna Hayden	Trangie NSW
18 July 2011	Ms S Sholz	Lavington NSW
18 July 2011	Mr Stan Francis	Robertson QLD
19 July 2011	Mr David Cant	West Albury NSW
19 July 2011	Wagga Wagga DHS	Wagga Wagga NSW
19 July 2011	Mizuho Corporate Bank	Sydney NSW
20 July 2011	Ms Moya Potts – CWL	Sydney NSW
20 July 2011	Mrs H. J. Vandenbroek	Lavington NSW
21 July 2011	Ms Lyn Smith – QUOTA	Walcha NSW
22 July 2011	QUOTA International of Sydney	Epping NSW
22 July 2011	Mrs Diane Michel	North Ryde NSW
22 July 2011	Mr Malcolm Fowler	Woy Woy NSW
23 July 2011	Mrs Norma Lovelace	Oxley QLD
24 July 2011	Ms Bessie Hart	Bellambi NSW
24 July 2011	Pan Pacific and South East Asia Women's Association Aust. Inc	Beecroft NSW
24 July 2011	D. I. Marshall	The Gap QLD
25 July 2011	Mr Ray Dyason	Albury NSW
25 July 2011	Mr Daniel W. Hales	Epping NSW
25 July 2011	J Gowan	Armidale NSW
28 July 2011	The Law Society of NSW	Sydney NSW
26 July 2011	Ms Nancy Gallagher	Sydney NSW



<b>Date Received</b>	<b>Name of Persons or Organisations</b>	<b>Location</b>
26 July 2011	Ms Nancy Gallagher	Sydney NSW
26 July 2011	R. M. Smith	South Tamworth NSW
26 July 2011	The Hon. Tony Windsor	Tamworth NSW
26 July 2011	K. G. Murphy	Healesville VIC
27 July 2011	Mrs Neata Purdy	Baradine NSW
27 July 2011	Ms Jennifer Crew	Armidale NSW
27 July 2011	Richard Wilkins	
27 July 2011	Shirley Haley	Forest Lake QLD
27 July 2011	National Council of Women of Australia Inc Ltd	Kambah ACT
27 July 2011	Victorian Farmers Federation	Melbourne VIC
27 July 2011	Friends of the Old Teachers' College	Armidale NSW
27 July 2011	Reserve Bank of Australia	Sydney NSW
28 July 2011	Mrs Beverley Puls	Como WA
28 July 2011	B Morgan	South Melbourne VIC
28 July 2011	Law Institute of Victoria	Melbourne VIC
28 July 2011	Law Society of NSW	Sydney NSW
28 July 2011	Country Women's Association of NSW	Potts Point NSW
28 July 2011	Fundraising Institute of Australia	Chatswood NSW
29 July 2011	Australian Securities and Investments Commission (ASIC)	Canberra ACT
29 July 2011	Ms Diane O'Mara	Gulgong NSW
29 July 2011	Mrs P. G. Miller	Beechworth VIC
29 July 2011	National Seniors Australia	Brisbane QLD
29 July 2011	Farm Tee and Landcare Ass.	Melbourne VIC
29 July 2011	Campbelltown and Airs Historical Society	Campbelltown NSW
29 July 2011	Mag-Tek Pty Limited	Hornsby NSW
29 July 2001	AMP (Confidential)	Sydney NSW
29 July 2011	Reserve Bank of Australia	Sydney NSW
29 July 2011	ABACUS	Sydney NSW
29 July 2011	Agforce	Brisbane QLD
1 August 2011	CWA of Australia	Gladstone QLD



<b>Date Received</b>	<b>Name of Persons or Organisations</b>	<b>Location</b>
1 August 2011	Board of Hockey	Armidale NSW
2 August 2011	W Smith	Morven VIC
2 August 2011	Mrs Pat Burgess	Chelmer QLD
3 August 2011	Insurance Council of Australia	Sydney NSW
3 August 2011	Mr J Pereira	Mt Colah NSW
3 August 2011	Neil A. Salvano	Eaglemont VIC
4 August 2011	Woolworths	Bella Vista NSW
8 August 2011	Ms Leanne Newson	East Ivanhoe VIC
8 August 2011	Finance Sector Union	Melbourne VIC
18 August 2011	Australian Bankers' Association	Sydney NSW
12 August 2011	Commonwealth Bank	Sydney NSW
12 August 2011	ANZ	Docklands VIC
12 August 2011	Australia Post	Melbourne VIC
12 August 2011	COTA	Brisbane QLD
12 August 2011	Indue	Toowong QLD
12 August 2011	REIA	Deakin ACT
12 August 2011	ACSWA	Osbourne Park WA
25 August 2011	The Queensland CWA	Samford QLD
25 October 2011	Jan Hahn	Tamworth NSW



6.0

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