



Commonwealth
Bank

Winding down Australia's Cheque system

Response to Treasury Consultation Paper

2 February 2023

Public

The Commonwealth Bank of Australia (CBA) welcomes the opportunity to respond to the Treasury consultation paper (CP) *Winding down of Australia's cheque system*. CBA strongly supports the orderly, coordinated closure of Australia's cheque system. There are many benefits to consumers from moving to other ways to pay, including lower costs, immediacy of payment, and richer data for both payers and payees.

The timetable for legislative change forms a critical part of the transition plan for ending cheques and should be communicated and set well before the end date for cheque issuance. Early elimination of legislative barriers by Federal, State and Territory Governments is necessary to provide customers with sufficient lead time to transition to alternative payment methods. Given the consumer and productivity benefits, CBA considers that Treasury's proposed timeline should be the latest dates for ending cheques, as long as the conditions for a smooth transition are met.

CBA is working closely with customers, particularly businesses and government agencies that are larger users of cheques, to ensure a smooth transition away from cheques. We are committed to working with AusPayNet and the Australian Bankers Association (ABA) on industry solutions including customer education and ensuring sustainability of shared service arrangements. However Australian Government led communication is needed to ensure consistent messaging across industry and all levels of government about the need for the change, the transition path, and the alternatives to cheques.

Response to questions

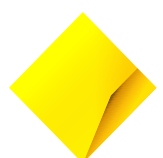
Q1. Are the conditions to enable a smooth transition, as outlined above, appropriate? Are there any other principles not outlined above that should be prioritised in the transition?

CBA is broadly supportive of the proposed conditions, although we note that 'Governments eliminating key legislative barriers' and 'Governments ending their own cheques issues' will underpin the effectiveness of many of the other conditions.

Education and support for cheque users by financial institutions, industry associations and consumer groups will be essential to achieving a smooth phase out of the cheques system. However, central guidance and communication by the Australian Government will ensure clear, consistent and trusted messaging that can be reinforced by all levels of government and the private sector.

CBA agrees that appropriate alternatives to cheque use is a key condition to achieve a smooth transition away from cheques. While cheque alternatives have been, or are being, developed for the great majority of cheque use cases, there are a number of 'edge' cases with very specific circumstances. Although CBA will continue to work with our customers to find appropriate solutions to the specific edge cases that are not solved by existing functionality, a more practical condition for the transition would be "Appropriate alternatives for *reasonable and material* existing uses of cheques". We note there may not be perfect solutions for every unusual case, and for some edge cases, commercial realities result will lead to behavioural change so that these cases no longer occur.¹

¹ For example, property transactions might be restructured so that specific property settlement 'edge' cases are avoided.



Q2. Is the sequencing of the transition appropriate? Is there an alternate manner of transition that would better enable a smooth transition? If so, please explain.

Q3. Is the timing of the sequencing appropriate? Is there an alternate timing of the sequencing that would better enable a smooth transition? If so, please explain.

CBA supports the objectives of the Government's proposed staged transition plan. However, we consider that separate dates to cease issuing different types of cheques may increase customer confusion. A single date for the cessation of issuing cheques (personal, business, government and bank) would improve clarity of communication and increase the focus and motivation for customers to make the switch, including to update legacy systems. Separate dates may allow for work arounds, for example, switching to a cheque type that continues to be available that would prolong the process.

CBA also considers that dates in the transition plan should be the latest dates for the change. This is consistent with the Australian Government's Strategic Plan for the Australian Payments System which states the Government end date will be 'no later than' 2030. A genuine end date for when cheques are to become obsolete is necessary to prompt behavioural change. However, industry should retain the flexibility to move earlier if the conditions for smooth retirement are met. Prolonging the availability of cheques until a specified end date with an increasingly strained supply chain may actually lead to a more disorderly exit.

The end dates are conditional on necessary legislative changes. We note the Strategic Plan for the Australian Payment System Roadmap states 'End 2028 to remove legislative and other barriers that entrench the use of cheques, and phase out Government usage of cheques'. Legislative change needs to occur well before this time in order for banks and cheque users to be able to meet the proposed timeline. All levels of government should lead the community in prioritising necessary changes to remove the need to use cheques.

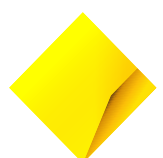
Q4. What are the roles of government and industry in ensuring a smooth transition?

CBA considers that Government and industry have essential and complementary roles to play to ensure a smooth transition for customers and the broader economy.

Government

The main roles of governments are to:

1. Reform legislation that encourages or mandates the use of cheques, in particular amending the Cheques Act so that bank cheques go 'stale', well before the end date of cheque issuance.
2. Make consequential legislative amendments such as to the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF) and the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No.1) (AML/CTF rules).
3. Reduce cheque use by government agencies. This will send important messages to the community about government support for the transition. Anecdotally, our business customers have indicated reluctance to change their systems while they continue to receive cheques from government.
4. Provide community education and support, potentially through advertising campaigns. The messaging from industry and government needs to be coordinated and consistent, with uniform messages about the need for the change, the transition path, and the alternatives to cheques. Leadership and guidance from the Australian Government will ensure that public messaging is consistent across all tiers of government.



5. Progress relevant reforms that will support the transition to digital alternatives:
 - a. Reforming unclaimed money regimes to ensure businesses have another alternative for paying money if a customer refuses to provide bank account details.
 - b. Assisting customers with digital inclusion and access, which will support communities in the transition.
 - c. Engage foreign government agencies to encourage the use of non-cheque alternatives for payments to Australians.
 - d. Delivering reforms including the mandatory scams and ePayments codes and payments licensing regime to increase community confidence in digital transactions.

Industry

The main roles of industry are to ensure appropriate alternatives for cheque payments, promoting and educating the community on alternatives, and coordinating responses to particular cheque use cases. Industry awareness initiatives could be modelled on similar previous campaigns, such as the PIN@POS campaign relating to the replacement of signatures with PINs for credit and debit cards.

Banks provide many options to consumers as they transition away from cheques, including the New Payments Platform (NPP), PayID, PayTo, debit/credit cards (including tap to pay and digital cards), BPAY, electronic funds transfer (EFT), gift cards and International Money Transfer. The availability of electronic conveyancing and PEXA/Sympli has substantially reduced the demand for bank cheques. Some of these alternatives are available at a lower or no cost to retail users when compared to cheques.

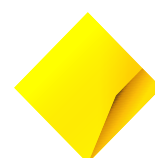
Industry has a role in promoting the numerous benefits for customers of using these alternatives such as increased payment speed, increased security, reduced cost, more information to payers and payees, and for some transactions, confirmation of payee, additional scams/fraud protections, and chargeback options. For businesses and government agencies with high cheque volumes there are often opportunities to make process changes that could be more efficient and take advantage of current accounting applications, enterprise resource planning (ERP) software and digital services.

CBA is constantly improving our products to help smooth the transition away from cheques, including:

- For business, near real time payments using NPP are now allowed up to a limit of \$150m.² As a result, most commercial use cases for cheques are already addressed.
- Introducing a refund portal which removes CBA's reliance on bank cheques to pay remediation.
- Improvements in international money transfer.
- Improving accessibility of alternative products.

An orderly sunset of cheques can be achieved through banks individually managing the decline of their operations. Nevertheless, there is a role for industry co-ordination to deliver community education, and where solutions could be better delivered through industry collaboration. For example, the amendment of legislation to allow bank cheques to go 'stale' could result in a large volume of customers depositing unpresented bank cheques which may require industry coordination to reduce customer disruption. The role of suppliers in providing critical services which support the cheque ecosystem will also be relevant to any proposed government or industry timeframes. CBA is currently working with AusPayNet and the ABA on developing industry-wide responses to the phasing out of cheques.

² See: <https://www.commbank.com.au/business/online-banking/commbiz/fast-payment.html>



Q5. What are the barriers banks and other participants face in ensuring their customers have a smooth transition away from cheque use?

Habitual use by customers and entrenched practices by businesses, reinforced by legislation, will be a barrier unless there is clear communication, reform and role modelling by governments to create the impetus for change. The industry will find it increasingly difficult to maintain services due to reliance on critical suppliers, and as cost-to-serve and the unit cost of cheques increases with diminishing cheque use.

Q6. Will the system and its users be ready to transition earlier than the intended end-date of 2030, noting the principles outlined above?

The ongoing sharp decline in cheque use indicates that the ending of the cheque system could occur sooner if enabling legislative amendments are made and financial institutions, governments and business make the necessary changes to transition to alternative payment methods. As transitioning away from cheques will help achieve greater efficiency, productivity and security in Australia's payments system, an earlier retirement of the cheques system will allow these benefits to be realised sooner.

Chapter 1: Cheques system

Q7. What are your views on the sponsorship arrangements between cheque processing banks and the other ADIs in the cheques framework? How will a withdrawal of these sponsorship arrangements impact your ability to bank or process a cheque?

CBA does not have sponsorship arrangements for cheque issuance or acceptance by other ADIs.

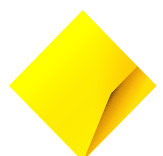
Q8. What are your views on the role Bank@Post could play in the cheques transition?

CBA makes an important investment in the Bank@Post service, which enables the significant infrastructure and trusted position of Australia Post to be used to give CBA customers additional face-to-face banking services, including cheque deposits. Bank@Post operates in around 3,400 locations, including 1,800 in rural and remote Australia.

It is important that there be consistency in messaging across financial institutions and Bank@Post about the winddown of the cheque system. Australia Post will therefore need to be a key part of the communications program for the ending of cheques – such as providing communities with information about the reasons for the change, the timelines and alternative payment methods. Alignment of availability of Bank@Post services with the agreed Government transition plan will ensure consistent experiences for customers.

Q9. Is there value in retaining some or all of the processes and obligations in the Cheques Act 1986? If so, for how long?

CBA submits that the Cheques Act should not be repealed in its entirety in 2030. Instead, CBA considers there is a need to retain some of the processes and obligations in the Cheques Act to provide legal certainty for financial institutions. For example, the statutory defences for collecting institutions, such as



defences against actions in conversion or money had and received may need to be retained for the length of any statute of limitation period – which may be well after 2030. The Cheques Act also provides for certain conflict of laws rules relating to foreign cheques (s117). These rules may require further consideration, depending on how foreign cheques will be serviced after the transition plan is implemented.

Separately, we note to facilitate the closure of the cheques system, several amendments to the Cheques Act will be required. The Cheques Act will require amendment to enable bank cheques to 'go stale', and section 66 (Deposit Institution to present cheques promptly) and section 67 (Drawee institution to pay or dishonour promptly) will require amendments so banks can cease acceptance of cheques according to the agreed timetable. To do this in an orderly way, older bank cheques could have a long lead time before they go stale (say 12 months), while bank cheques issued in the future could be set to go stale more quickly (say six months).

Q10. At what volumes of cheque use would the shared service arrangements no longer be cost effective?

The underlying economics of cheques are such that declining volumes already create sub-scale operations that directly contribute to increasing average unit costs of issuing and accepting cheques. The costs of using cheques (both issuing and accepting) will continue to increase, including contracts with material vendors, and fixed costs for processing cheques with suppliers. Price signals reflecting these costs should be passed on to end users to continue to incentivise a reduction in cheque use.

Q11. How should foreign cheques be serviced? What is required to switch receipt of foreign cheques to alternate payment methods?

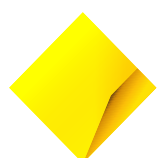
As the CP notes, most Australian banks (including CBA) no longer accept foreign cheque deposits, and other jurisdictions are winding down acceptance of foreign cheques. Foreign cheques are associated with increased risks and costs and are relatively slow compared with alternatives such as International Money Transfers (IMT).

CBA is constantly improving the IMT service which will facilitate the change from foreign cheques including:

- Enabling the Australian dollar leg of an IMT to be processed through the NPP, with richer data available.
- Reducing and standardising IMT fees across all digital channels.
- Allowing customers to have real-time tracking on digital platforms of payment movements using Swift Global Payments Innovation tracker.
- Extending the processing window for overseas financial institutions making AUD payments to Australian CBA customers to nearly 24 hours every business day, enabling faster receipt of international funds by CBA customers.³

Although a domestic industry digital solution could be developed for clearing foreign cheques, there are higher risks associated with paper-based products that are not offset by any benefits compared with

³ See: <https://www.commbank.com.au/articles/newsroom/2023/02/international-payments.html>



electronic payments. Digital clearing does not remove the requirement for the physical cheque to be issued from sender to beneficiary, lodged with the recipient's bank and then await response and payment (up to 45 days for collections).

To help reduce the prevalence of foreign cheques, CBA recommends the Australian Government engage with major jurisdictions (particularly USA, the UK and EU) to encourage their government agencies to provide non-cheque alternatives as a default to non-resident customers, and provide easy ways for non-resident payees to switch payments to alternatives. As the CP notes, some overseas government agencies, particularly in the USA, automatically send payments by cheque and make it difficult to change payment types.

Chapter 2: Personal use of cheques

Q12. Are there any other drivers for the current use of personal cheques in Australia?

As the CP notes, use of personal cheques is largely driven by personal preference, habitual use and individual capability. Most reasons for personal preference can be addressed by alternative solutions. For example, cheque users who wish to have a physical product to make a payment, such as to include in a birthday card as a gift, can alternatively use cash or a gift card. For cheque users that prefer to maintain anonymity of bank account details, PayID enables customers to keep their bank account details private when paying and receiving funds.

Education will be needed to assist the cohorts of the community that continue to rely on cheques to teach them how to use alternative payment methods so that they can maintain their financial independence. CBA will engage with relevant community groups on how best to do this for our customers, however a whole of industry approach is needed to ensure that all these individuals receive the support and education that they need.

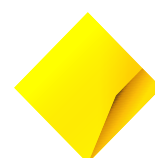
Q13. Are the alternative payment methods put forward by the banks acceptable? Do they address the limitations around digital inclusion and distrust?

CBA is aware of the concerns around using digital payments, particularly in the current environment of scams. CBA has made numerous improvements in digital payments to increase safety such as sharing scam intelligence in near real time with other entities such as telecommunications providers and blocking suspected SMS scams and fraudulent payments.⁴

To increase trust and confidence using digital payments, CBA has introduced technology initiatives to support customers such as industry-first NameCheck⁵ technology for money transfers and new caller

⁴ See: <https://www.commbank.com.au/articles/newsroom/2023/12/commbank-vodafone-combat-sms-scams.html> and <https://www.commbank.com.au/articles/newsroom/2023/10/cba-extends-scam-disruption-technologies.html>

⁵ The NameCheck service means CBA searches the entered account details when a customer makes a first-time payment, and indicates whether the account details appear correct. See: <https://www.commbank.com.au/articles/newsroom/2023/05/namecheck.html>



verification via the CommBank app and Caller Check⁶ to give customers peace of mind that CBA is genuinely contacting them.

Q14. Do the proposed solutions adequately support those without a bank account? If not, please elaborate with reference to potential solutions.

We note that 99.3 per cent of the adult population had a bank account in 2021.⁷ We also note that cheques may not be particularly useful to individuals without a bank account, as in many situations a financial institution will require a cheque to be deposited into a bank account.

While CBA understands the desire to provide payment solutions to those without a bank account, we consider encouraging broader financial inclusion, including through access to banking services, as a better solution. This will have other whole-of-economy benefits such as reducing money laundering, tax evasion, CTF risks, and reduced risk of robbery and theft. CBA is assisting by improving the accessibility of our banking products.

Q15. Are there any other use cases without adequate solutions? If so, please specify.

CBA is committed to working with the community to understand use cases and make adequate solutions available. For example, by making sure all our digital banking products are accessible or enabling authorised third party access.⁸ However there may be some reluctance to change when customers have been using cheques as their primary form of banking. Consultation with relevant community bodies will be required to coordinate an industry approach to supporting these more vulnerable groups. Government support for clear and consistent communications through relevant channels using trusted organisations/members of the community to assist will be critical.

Q16. When is an appropriate time for current users of personal cheques to identify and safely transition to alternatives?

Alternative ways of paying are available now, and education and processes are already underway by banks such as CBA to help customers transition to cheque alternatives. A simplified government end date supported by public awareness campaigns will signal the need to change and assist habitual cheque users to develop the capability and confidence to move to alternative ways of paying.

Measures for digital inclusion

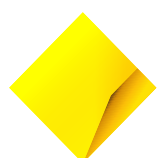
⁶ CallerCheck enables customers to determine if a phone caller is genuinely from CBA, protecting against fraudulent calls purporting to be from CBA. This gives customers confidence in their digital interactions with the bank. See:

<https://www.commbank.com.au/support/security/callercheck.html>

⁷ Source: World Bank. This is the most recent figure and relates to the population aged 15 and over. See:

<https://data.worldbank.org/indicator/FX.QWN.TOTL.ZS>

⁸ <https://www.commbank.com.au/about-us/accessibility.html>



Q17. Is internet and mobile access still a substantial hurdle to winding down the cheques system? Are there any other substantial barriers for consumers to transition from cheques?

CBA notes the challenge of digital inclusion to engaging in digital transactions more generally, and the initiatives being undertaken by industry and government to address this issue. While there is a need to enhance the digital capabilities of Australians, in the interim, Commbank customers have access to non-digital alternatives such as bank branches and Bank@Post, including in regional Australia, and phone banking.⁹ CBA continues to offer the largest branch network in Australia and in July 2023 CBA announced a commitment to keep all our regional bank branches open until at least the end of 2026, a three year pledge.¹⁰

Q18. Do the Government and industry initiatives provide adequate support to the community to successfully transition away from cheques? If not, what other kinds of support would be required?

As noted earlier, coordination and alignment of communication and timelines between industry and governments is critical to a successful, orderly transition. This will be assisted by having a single date for ending cheque issuance, rather than multiple different dates. A joint, consistent communication campaign is needed to help cheque users change payment behaviours through education of the benefits of digital payments and the overall timeline for the retirement of cheques.

Chapter 3: Commercial use of cheques

Q19. Are there other reasons why cheques are being used in an institutional or commercial setting? If so, please provide more detail.

In general, CBA agrees with the cheque use cases discussed in the CP. CBA is working with customers to address these cases, particularly for customers that have legacy systems that link with cheque use. A clear final end date for cheque usage will create motivation and momentum for the investment required to upgrade legacy systems.

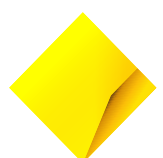
We note where legislation in only one State requires cheques, a business may use cheques nationally to ensure nationally consistent processes and enable one technology solution to be used across the country. This increases the importance of all State Governments reforming any legislation that mandates or encourages cheque use.

Some commercial use of cheques may be driven by the ability to print information on the cheque or attached paper that enables payment reconciliation – the NPP can replace this reason for cheque use, as lengthy payment information can be attached to a payment using NPP. Modern systems such as the NPP enable relatively data-rich payments that can enable automated reconciliation and support financial institutions in meeting financial crimes transaction monitoring obligations.

Some businesses might be using cheques to obtain a cashflow benefit due to the delay in clearance, but reductions in cheque clearance timeframes are making this a less viable reason.

⁹ <https://www.commbank.com.au/digital-banking/phone-banking.html>

¹⁰ See: <https://www.commbank.com.au/articles/newsroom/2023/07/commitment-to-regional-Australia.html>



Q20. How significant are the barriers to reducing commercial uses of cheques? What timeframes, support or legislative change is required for businesses transitioning away from cheque use?

CBA agrees that commercial cheque use is driven by a combination of legislated obligations and entrenched practices. To move to a different payment method, many businesses will need to make associated process changes to their systems, accounting, financial control, standard operating procedures and policies. Therefore, it is important that legislative reform is undertaken as soon as possible to provide organisations with sufficient lead time to make these changes. After legislative reform, cheque users will need to have reasonable timeframes to make necessary process changes before cheque use will stop – including businesses communicating with customers that expect to be able to make payments to the business by cheque or receive cheques from the business. Longer lead times to perform these activities will reduce risk of errors in the transition, make it more likely that unusual cheque use cases are addressed, reduce customer anxiety and allow the change to occur more smoothly.

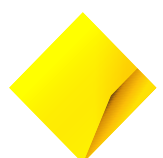
We make the following specific comments about legislative changes:

- Legislation may currently require payments to be made to customers even where no banking details are held. For example, an entity may be required to pay a customer within 30 or 90 days without exception, which may mean the business need to pay the customer by cheque if the customer fails to provide their bank account details. Any legislation imposing this requirement (even if cheques are not mentioned specifically in the legislation) will likely need amendment.
- As the CP suggests, State and Territory unclaimed money regimes should be reformed, making it easier for businesses to avoid having to pay by cheque when customers fail to provide bank account details – instead businesses should be able to transfer money to the unclaimed money regime in a low cost way. Some potential changes to lost money regimes could include:
 - Reducing or removing any minimum thresholds;¹¹
 - Allowing businesses to pay money to the regime more quickly when the customer is unable to be located (or fails to provide bank account details);¹² and
 - Governments searching for 'lost' customers more proactively.
- Appropriate amendments to AML/CTF Act and Rules, including removing reference to cheques in the AML/CTF Act.
 - Currently, banks including CBA have an exemption from reporting to AUSTRAC for the cross-border movement of bearer negotiable instruments (which includes cheques). This exemption ceases to have effect on 30 June 2026. However, AUSTRAC is expecting banks to update their systems and controls to enable the reporting of cheques from 1 July 2026, even though it is likely that the volume of cheques will be very small by that date. The resources required to amend systems and controls and update policies and processes is disproportionate to the risks associated with cheques and the Government's proposal to wind down cheques. Therefore CBA recommends the current AML/CTF reform process removes the requirement to report the cross-border movement of cheques before 1 July 2026.
- Legislative change is needed to implement improvements to the assignment of medical benefits to replace existing processes that use cheques.

We understand AusPayNet has done work on identifying legislation that requires the use of cheques.

¹¹ See ASIC RG 277.193.

¹² Some lost money regimes may require businesses to hold onto money for a substantial period before it can be paid to the relevant regime. See ASIC RG 277.192.



Chapter 4: Government use of cheques

Q21. How significant are the barriers to reducing government use of cheques? What timeframes, support or legislative changes are required for agencies transitioning away from cheque use?

Government agencies ceasing cheque use will be important in signalling the retirement of cheques to the community. As noted in the CP and consistent with CBA data, government agencies are some of the larger users of cheques. We are working with our government customers to help them with the reduction in cheque use (both issuance and acceptance) however, similar to other businesses, legislative requirements and the need to update legacy systems are common barriers. Migration to digital solutions can have significant benefits to the community as outlined in the example below.

Example: Department of Health and Aged Care

As noted in the CP, the Department of Health and Aged Care is a significant user of the cheques system, partly driven by legislative obligations associated with health benefit payments.

Currently, when a medical practice wishes to reduce the cashflow burden on patients, the practice may request the customer pays (out of pocket) for the gap above the Medicare benefit schedule and request the customer authorises an assignment of the Medicare benefit to the practice. The benefit assignment is undertaken by Medicare issuing a rebate cheque to the patient, who in turn provides the cheque to the medical practice.

This process results in the Department being a significant issuer of cheques, and causes operational costs and cashflow problems for medical practices because patients often delay sending the cheque to the practice or fail to pass the cheque on at all. Replacing this process will reduce costs and friction for medical practices, patients and Government.

The Department should consider legislative change which enables adoption of modern digital solutions and authentication methods, including biometric solutions embedded in mobile devices to facilitate a seamless assignment of benefit consistent with other government policy objectives such as the phasing out of cheques from the Australian economy. To enable the phasing out of cheques, the Department should also consider introducing “gap” payments being made directly to providers in selected situations such as pharmacy and imaging/radiology who choose to take up electronic claiming solutions. Such a move will:

- address the significant provider cashflow challenges posed by the current 90-day cheque process;
- materially reduce the cost of issuing cheques and often cancelling unrepresented cheques;
- deliver on the broader government objective of phasing out cheques from the Australian economy; and
- avoid patients incurring large out of pocket expenses whilst awaiting rebates to be processed.

Q22. What coordination is required between the Commonwealth, State and Territory governments to coordinate a transition away from cheques?

It is important for all levels of government to work together on ending the cheque system. We have observed that where some states have legislative requirements and others do not, industry practice may be to apply cheque use nationally – for example, pubs, clubs and gambling operators.

The Australian Government and State Governments should work with local governments to ensure Councils have the capacity, capability and impetus to make the changes.

