

## **Submission regarding the consultation paper 'Winding down Australia's cheques system'**

Michael Calver, submitting as a private citizen

After reading the consultation paper, I believe that the decision to wind down Australia's cheque system is premature because:

- Closure of the cheques system is inequitable for (i) older Australians who can manage their financial affairs via cheques but lack the funds or the skills to switch securely to digital alternatives, (ii) remote communities where internet access is problematic and secure mailed services are needed, and (iii) charitable institutions receiving substantial donations by cheque.
- Australia's banking system is lagging international best practice in security for digital payments and improvements should be a prerequisite to closing the cheques system.
- Despite the costs of processing cheques, the most recent data from the RBA showed that costs to banks were declining. Since then, technological solutions such as cheque imaging /mobile cheque deposits are available to expedite depositing and clearing of cheques for businesses, removing some of the problems and costs with maintaining the existing system in the interests of equity. Furthermore, I could find no indication of investigation of the willingness of current cheque account users to pay a modest fee for continuation of the system.

Rather than closing the cheques system by 2030, I argue that the current system should be maintained until 2030 when the matter should be revisited with a view to considering the equity implications, whether Australia's security measures for digital payments and scam prevention are world standard, and whether recent technological changes coupled with some user payments would make the cheque system more cost-effective to allow its continuation for those who use it.

I expand on each point below.

### **Closure of the cheques system is inequitable**

A significant problem raised when closure of the cheques system was debated in the UK was the inequity created for older citizens who, while managing their finances successfully using cheques, had neither the funds nor the skills to use online banking.<sup>1</sup> In my personal experience, an elderly friend lived independently and managed her own finances to the age of 99 using cheques to pay bills. She had no credit card, no computer, and no smartphone. Apart from the cost in accessing the infrastructure for internet banking, her digital inexperience would have made her a prime target for scams if she had tried to handle her finances online. That would have increased the load on carers such as relatives and friends, which is a hidden cost in closing the cheques system. Her case, multiplied across the aged sector, illustrates the significant equity problem if the cheques system is closed.

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<sup>1</sup> Lindsay Cook in Financial times 30<sup>th</sup> July 2021 <https://www.ft.com/content/2fc8b8ce-8dc0-4bad-90e1-79ea596c9e0b>

As well as concerns for the elderly, Australia should also consider the needs of those in remote communities with limited internet access.<sup>1</sup> Until access can be improved, these communities will need access to other means of managing their finances.

Charities in the UK expressed concern when closure of the UK cheques system was discussed because many of their donors used cheques, so charities worried that some of these people would stop donating if deprived of the cheque option.<sup>2</sup> Has there been specific consultation with the charity sector?

### **Security provisions for digital payments need improvement to world standards**

One argument advanced in the consultation paper for ending the cheques system is that 'Cheque fraud also continues to be prevalent.'<sup>3</sup> What is not considered is that the level of fraud on alternative options to cheques is far greater and that Australian banks lag world standard security provisions for digital transactions.

According to Australian Payment Fraud 2023 (the source used in the consultation paper), the fraud rate (cents per \$1,000) in Australia in 2022 on payment cards was 57.5c, compared to 0.8c for cheques.<sup>4</sup> The most recent update on the Australian Payments Network website covering July 2022 – June 2023 shows fraud on Australian-issued cards at a rate of 0.0642% (% of total \$ value of transactions), well above the rate of 0.0014% for cheques.<sup>5</sup>

Electronic transfers of funds are also targets of significant fraud, with the ACCC noting losses of \$227 million in Australia from payment redirection scams in 2021.<sup>6</sup> Relying on data from Scamwatch, the ACCC also notes '...that most scam transactions were undertaken via bank transfer.'<sup>7</sup> ASIC observed:

'Between 1 July 2021 and 30 June 2022, more than 31,700 customers of the four major banks collectively lost more than \$558 million through scams. This was an increase of 49% in customers and 50% in financial losses compared to the previous 12-month period. During the same period, banks paid approximately \$21 million in reimbursement and/or compensation payments to customers who fell victim to a scam.'<sup>8</sup>

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<sup>1</sup> Erin Parke in ABC News Online 18<sup>th</sup> October 2022 <https://www.abc.net.au/news/2022-10-16/australia-digital-divide-millions-cannot-access-internet/101498042>

<sup>2</sup> Lindsay Cook in Financial times 30<sup>th</sup> July 2021 <https://www.ft.com/content/2fc8b8ce-8dc0-4bad-90e1-79ea596c9e0b>

<sup>3</sup> Consultation Paper, p. 7

<sup>4</sup> Australian Payments Network (AusPayNet) Fraud Report 2023 (2023), [https://www.auspaynet.com.au/sites/default/files/2023-08/Fraud\\_Report\\_2023.pdf](https://www.auspaynet.com.au/sites/default/files/2023-08/Fraud_Report_2023.pdf)

<sup>5</sup> Australian Payments Network (AusPayNet) Fraud Statistics Jul 22 – Jun 23 <https://www.auspaynet.com.au/resources/fraud-statistics/July-2022-June-2023>

<sup>6</sup> ACCC July 2022 Targeting scams: Report of the ACC on scams activity 2021 p.20 <https://www.accc.gov.au/system/files/Targeting%20scams%20-%20report%20of%20the%20ACCC%20on%20scams%20activity%202021.pdf>

<sup>7</sup> ACCC July 2022 Targeting scams: Report of the ACC on scams activity 2021 p.20 <https://www.accc.gov.au/system/files/Targeting%20scams%20-%20report%20of%20the%20ACCC%20on%20scams%20activity%202021.pdf>

<sup>8</sup> ASIC Report 761 (April 2023) 'Scam prevention, detection and response by the four major banks.' <https://download.asic.gov.au/media/mbhoz0pc/rep761-published-20-april-2023.pdf>

ASIC was also clear as to the responsibilities of banks in preventing misuse of banking services by scammers,<sup>1</sup> yet Australian banks lag other jurisdictions in measures to improve the security of electronic transactions. One important example is the failure of most Australian banks to match account names to bank account numbers on transactions and allegations of inefficiency in any planning to do so.<sup>2</sup> In the *Financial Review* in 2022, Tom Burton called for such a measure to reduce fraud,<sup>3</sup> while Toby Crockford in 2017 in the *Brisbane Times* described exactly how the absence of such protection enables highly lucrative conveyancing scams.<sup>4</sup> In footnotes to emails from my own lawyer are warnings of such scams, with a request to confirm banking details by phoning the firm before making payments – hardly an aid to efficiency:

‘BEWARE OF SCAMMERS:

A sophisticated email scam is targeting law firms and their clients. We have been advised that scammers have intercepted emails with bank account details so they can substitute their own account number. If you have received an email purporting to be from us with our Bank Account details for the transfer of funds, please confirm these details with us first by contacting the lawyer in charge of this matter by telephone before purporting to make any transfer or deposit of funds into our Bank Account. Otherwise, we accept no responsibility for any loss or damage arising from any electronic transfers or deposits made by you that are not received into our Bank Account.’

In the UK, confirmation of payee (as such name-checking services are called) is used widely and argued to prevent some transaction fraud. There are also claims that some UK businesses are returning to cheque payments in response to phishing frauds.<sup>5</sup> When I make electronic transfers, there is a warning from my bank that confirmation of payee checks are not made, so that I am liable for any error I may make in the transfer. Australia should adopt confirmation of payee for online transfers.

Some, but not all, Australian banks offer dynamic Card Verification Code (CVC) to reduce card fraud in online purchases.<sup>6</sup> Greater awareness and availability of this option across banks is a further innovation that might improve the security of digital transactions.

In my opinion, rapid digital payments also facilitate fraud, because fraudsters may move funds received immediately after a transfer to frustrate recovery. Therefore, a further valuable feature would be to encourage an option for delays of 1-2 days in funds transfer – a

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<sup>1</sup> ASIC Report 761 (April 2023) ‘Scam prevention, detection and response by the four major banks.’

<https://download.asic.gov.au/media/mbhoz0pc/rep761-published-20-april-2023.pdf>

<sup>2</sup> James Ayers in *Financial Review* 10<sup>th</sup> February 2023 ‘CBA’s anti-fraud tech move has angered this start-up founder’ <https://www.afr.com/companies/financial-services/cba-s-anti-fraud-tech-move-has-angered-this-start-up-founder-20230208-p5ciyl>

<sup>3</sup> Tom Burton in *Financial Review* July 12 2022 ‘ACC calls for banks to name check transfers to cut fraud’ <https://www.afr.com/politics/federal/acc-calls-for-banks-to-name-check-transfers-to-cut-fraud-20220711-p5b13r>

<sup>4</sup> Toby Crockford in *Brisbane Times* 17<sup>th</sup> December, 2017 ‘Queensland law firms lose millions to hackers in “highly sophisticated” email scam’ <https://www.brisbanetimes.com.au/national/queensland/queensland-law-firms-lose-millions-to-hackers-in-highly-sophisticated-email-scam-20171217-p4yxs.html>

<sup>5</sup> Lindsay Cook in *Financial times* 30<sup>th</sup> July, 2021 <https://www.ft.com/content/2fc8b8ce-8dc0-4bad-90e1-79ea596c9e0b>

<sup>6</sup> Kate Weber July 2022 in *itnews* ‘Australia’s major banks look to dynamic CVV to combat payment fraud.’ <https://www.itnews.com.au/news/australias-major-banks-look-to-dynamic-cvv-to-combat-payment-fraud-582304>

transfer would show in the recipient's account immediately indicating that funds were directed correctly, but the client can confirm this before funds are moved.

Overall, any plan to end the cheques system with its high security without increasing security provisions on digital transactions is poor planning.

### **Cost of the cheque system**

The total cost of a cheque transaction is divided between merchants and banks, with the cost to banks declining from \$4.22/cheque in 2006 to \$3.26/cheque in 2013; the equivalent figures for merchants show an increase from \$1.20 to \$3.01.<sup>1</sup> I was unable to find more recent cost assessments and I note that the consultation paper has used the same source.

While cheques are more expensive to process than other payment methods, clearly banks are finding ways to reduce their costs/cheque. Where bank cheques are issued, costs are presumably covered completely by the associated fees. The rising costs to businesses in 2013, which would include the time visiting bank branches to deposit cheques, may well be reducing now following technological solutions such as cheque imaging /mobile cheque deposits to expedite depositing and clearing of cheques for businesses, which in the UK lead to cheque deposits appearing in online accounts almost instantly and funds being accessible in 1-2 business days.<sup>2</sup> The approach is available at some Australian banks, albeit without the same claims for speed of processing.<sup>3</sup>

Furthermore, I could not find any indication of trialling implementation of a modest charge for issuing cheque books as one way to defray the cost of cheque transactions. Given that the Governor of the Reserve Bank has already raised the idea of a modest charge for cash transactions,<sup>4</sup> it seems reasonable to offer charging for cheque books to defray costs of cheques for those who wish to continue using them.

Overall, banks could reduce demands and costs for cheques by improving security for digital transactions, especially around online banking. Encouraging uptake of cheque imaging for depositing cheques should also reduce processing costs and improve processing speeds, while the willingness of users to pay for cheque books could be investigated.

### **Other advantages of the cheques system**

As well as the significant points made above, the cheques system offers smaller advantages:

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<sup>1</sup> Chris Stewart, Iris Chan, Crystal Ossolinski, David Halperin & Paul Ryan, 2014. 'The Evolution of Payment Costs in Australia' RBA Research Discussion Papers rdp2014-14, Reserve Bank of Australia.

<sup>2</sup> Barclays (undated) 'Future of cheques. Faster clearing with image processing.'

<https://www.barclays.co.uk/ways-to-bank/mobile-banking-services/future-of-cheques/>

<sup>3</sup> NAB (undated) 'Mobile cheque deposit.' <https://www.nab.com.au/personal/online-banking/mobile-banking-app/mobile-cheque-deposit>

<sup>4</sup> Nassim Khadem & Gareth Hutchens 12<sup>th</sup> December 2023 'RBA governor asks if Australians should pay a fee to use cash.' <https://www.abc.net.au/news/2023-12-12/asx-markets-business-live-tuesday-december-12-rba-interest-rates/103216764>

- Ability of organisations to pay payees who refuse, for whatever reason, to provide bank account details. In my own experience, I have work colleagues who refuse to provide bank account numbers for transactions such as Medicare reimbursements, citing a lack of faith in the security of these details when held by organisations.
- Flexibility of payees to cash cheques or choose which account they are paid into.
- The processing delay, which gives opportunity to stop payment if fraud is suspected after a cheque has been sent.

## **Rebuttal of central arguments in the consultation paper**

The consultation paper observes:

‘The decline in cheques has been driven by the growing availability of card and electronic payments and consumer preferences for faster, more efficient, and secure digital payments. This decline has been most significant for the number of commercial and personal cheques. The number of financial institution cheques (or ‘bank cheques’) has also declined, albeit at a slower rate. However, the value of financial institution cheques has increased, likely reflecting the use of bank cheques for large value transactions, including the purchase of property in some states. The government sector also remains a large user of the cheques system.’<sup>1</sup>

In response I note:

*Faster, more efficient and secure digital payments* – technology is catching up rapidly here, with cheque imaging applications expediting the depositing and processing of cheques. Security, as explained before, can and should be improved – Australian banks lag in implementing best practice for fraud protection and cheques are, when standardised to cents/\$1000, far more secure than card payments.

*Value of financial institution cheques* – the increase in the value of financial institution cheques may reflect a consumer or business preference for the security of bank cheques when large transactions are involved, especially given the prevalence of scams targeting conveyancing, lawyers’ fees and presumably other high value transactions. Banks, of course, charge fees for such cheques, so they can hardly claim to be disadvantaged financially for having them available.

*Use of cheques in the government sector* – if the cheques system is closed, the government sector must confront the problem of citizens owed funds who cannot, or will not, provide banking details for direct transfer.

## **Recommended actions**

Based on the arguments outlined, consideration should be given to halting the planned closure of the cheques system pending:

1. An investigation of the equity issues raised, especially regarding the interests of the elderly, those in remote communities, and charities receiving large cheque donations.

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<sup>1</sup> Consultation Paper, p. 7

2. Upgrading of security provisions for digital transactions, including (but not limited to) (i) confirmation of payee protection, and (ii) encouragement of dynamic CVC for transactions where the card absent. Improving digital security to world standards should be a prerequisite for banks making savings through closing the cheques system.
3. An up-to-date assessment of the true contemporary costs of the cheques system, especially whether costs to banks continue to decline, the effects of cheque imaging software on costs to merchants, and the willingness of users to pay a fee for cheque books.