

# Winding down Australia's cheques system

## RBA Submission to Treasury consultation paper

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### Introduction

The Reserve Bank supports the winding down of Australia's cheques system. Cheque use has declined substantially in Australia over the past few decades as users have shifted to electronic payment methods. In 2022/23, cheque payments accounted for 0.1 per cent of the number of all non-cash retail payments, representing an average of less than one cheque transaction per person. As cheque use has declined, the per-transaction cost of supporting the cheque system, which is already high relative to other payment methods, has continued to rise.

While the winding down of the cheques system will result in significant efficiency gains, there are a number of issues that will need to be addressed to support the transition from cheques to alternative forms of payment, and to ensure that this transition is an orderly one. These include:

- supporting cheque users in identifying suitable alternative payment methods
- making necessary amendments to legislation
- ensuring all financial institutions providing front-end cheque services remain as members of the Australian Paper Clearing System (APCS) until the agreed closure date of the system
- ensuring that financial institutions that clear and settle the cheque transactions of the remaining APCS members and companies that provide technology and other services that facilitate the clearing and settling of cheques continue to do so.

### Cheque payments

The shift away from cheques in favour of electronic payment methods has continued at a rapid pace in recent years, with the total number of cheques drawn declining at an average annual rate of more than 20 per cent since 2016.

The decline in cheque use reflects that in many cases electronic payment methods offer more convenient alternatives to cheques. While many electronic payment methods make funds available to the recipient instantly or on the same or next business day, recipients of cheques typically face significant delays in gaining access to the funds. Cheque payments generally take three business days to be cleared when deposited at a bank branch, while cheques provided and/or deposited through the postal service can take significantly longer. Cheques also carry the risk of insufficient funds being available in the drawer's account.

However, cheques also have a number of positive attributes as a payment method that may be valued by some end users. While newer payment methods successfully replicate many of these attributes

individually, some payment scenarios rely on a combination of attributes that have not been replicated by alternatives. For example, cheques allow payments to be made in situations:

- when only limited information is known about the recipient
- when banking systems are not operative or the payer does not have access to a computer, mobile phone, or cash
- when using an intermediary without giving that intermediary direct access to the funds
- when the payer must quickly discharge their liability
- where payees do not have bank accounts.

In some cases, particular combinations of these attributes lead to cheques being valued by businesses and government entities for specific purposes, and by certain segments of the community. For instance, some older Australians, some Australians that are vision impaired and Australians with limited access to the internet may find it difficult to use electronic payment methods, and may rely on cheques as a relatively accessible way of making larger-value or remote payments.

## Government and business cheque use

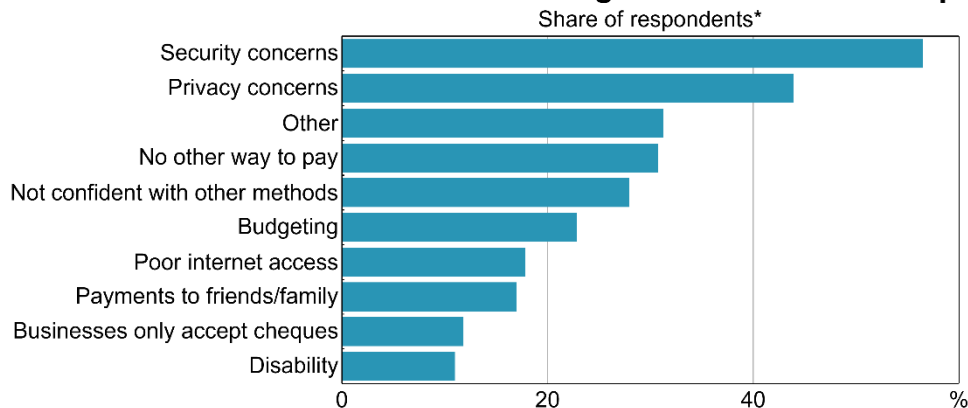
The vast bulk of cheques used in Australia today are drawn by commercial customers (which includes businesses and government entities). Of the 23 million cheques drawn in the year to October 2023, 60 per cent were commercial cheques. As highlighted in the consultation paper, the use of cheques by state and federal government agencies is predominantly driven by legislative requirements to make certain payments by cheque, legacy processes and systems that can require significant investment to move away from and, in some cases, policies to extinguish government liabilities in a timely manner.

Industry liaison indicates that cheque use by businesses is concentrated in certain industries, particularly finance and insurance, as well as real estate and conveyancing, business services and communication services. While the features of cheques (discussed above) can be useful to government agencies or businesses needing to make payments to a recipient where they do not have the recipient's bank account details on file, there are likely to be more appropriate solutions given the rising cost of processing cheques and consumers' shifting preferences.

## Personal cheque use

Personal cheques accounted for 27 per cent of cheques drawn in the year to October 2023. Data from the Reserve Bank's 2022 Consumer Payments Survey (CPS) indicate that personal cheque use was highly concentrated among older Australians, with 14 per cent of respondents aged 65 and over having made at least one cheque payment in the 12 months to when the CPS was conducted in late 2022, compared with only 5 per cent of respondents under 65. Just 1 per cent of those who had made a cheque payment over this period indicated that they would experience a 'major inconvenience' or 'genuine hardship' if shops and businesses stopped accepting cheques for payments, suggesting that the vast majority of cheque users have access to viable alternatives. The most common reasons these respondents cited for using cheques rather than other payment methods were concerns related to the security and privacy of other payment methods (Graph 1). However, these responses may not be representative of cheque users as a whole given the small sample size for this part of the survey.

**Graph 1**  
**Reasons for Needing to Use Personal Cheques**



\* Of the 1 per cent of respondents who indicated it would be difficult if shops and businesses stopped accepting cheques. Respondents could choose more than one answer.

Source: RBA calculations based on data from Colmar Brunton, Ipsos and Roy Morgan Research.

**Table 1: Responses to Questions 12-22**

| Question | RBA response   |
|----------|--|
| 12 & 13  | While only a small share of consumers continue to use cheques, factors such as remoteness and disabilities can make the transition from paper-based payment methods more difficult. Addressing gaps in the accessibility of digital alternatives will be key to ensuring that these users find suitable alternative payment methods. |
| 21       | Ways for legislative change related to the use of cheques to be fast tracked through parliament should be identified. Use of cheques by state and federal government agencies is predominantly driven by legislative requirements, so making such changes is the biggest factor influencing the proposed timelines.                  |

## Transitioning away from cheques

As cheque usage has dwindled, the unit cost of processing cheques has risen, prompting a range of entities to begin limiting their involvement in the cheques system. In broad terms, there are three groups of entities that are critical to the ability of cheques to be processed via the Australian Paper Clearing System (APCS):

1. Entities providing front-end cheques services. That is, the authorised deposit-taking institutions (ADIs) whose customers write and/or deposit cheques.
2. Entities providing representation services within APCS. That is, the six tier 1 and two tier 2 members of APCS who clear and settle the transactions of the remaining members of APCS.
3. Entities providing technology and other services that allow the cheque system to function. Such services include provision of paper stock, imaging and physical cheque processing.

The transition stages and timeline proposed in the consultation paper lay out an ordered transition of front-end cheque services.

However, the ability of a financial institution to offer front-end cheque services is contingent on the counterparty institution (for either the cheque writer or receiver) remaining a member of APCS, so that the transaction can be cleared and settled through APCS. It is therefore important that institutions continue to participate in APCS, even after they have arranged for their customers to stop issuing new cheques.

In addition, to facilitate their participation in APCS, most members rely on representation services provided by a small number of institutions. If these institutions stop providing representation services, then the majority of ADIs will no longer be able to participate in APCS. This would mean that Australian businesses, government agencies and consumers would no longer be able to write or deposit cheques unless they held an account with one of the six tier 1 members of APCS.

Finally, for participants to be able to use APCS, suppliers of technology and other cheque services, such as paper stock, imaging and physical cheque processing, need to continue providing these services in the Australian market.

As the number of bank branches falls, the Bank@Post service offered by Australia Post may play an increasingly important role in providing consumers access to locations to physically deposit cheques. However, it should be noted that not all financial institutions participate in Bank@Post, including one major bank. Although the Australia-wide volume of cheques is rapidly declining, if ADIs were to transition the presentment and processing of their customers' cheque needs to Bank@Post, this would result in a substantially higher volume of cheque processing via Bank@Post. Therefore, broader consideration of the need to scale up the Bank@Post service is required. The potential increased usage of the Bank@Post service does not negate the need for other entities to remain as members of APCS and continue to provide representation services, as long as there are valid cheques still to be cleared and settled via APCS.

**Table 2: Responses to Questions 1-11**

| Question     | RBA response   |
|--------------|--|
| 1, 2, 3, & 7 | <p>The transition stages and timeline proposed in the consultation paper lay out an ordered transition of front-end cheque services. However, ADIs may not be able to continue providing front-end cheque services in line with these stages and timeline if:</p> <ul style="list-style-type: none"> <li>• entities whose customers write or receive cheques rescind their membership of APCS too early</li> <li>• entities providing APCS representation services cease to do so</li> <li>• entities providing technology and other cheque services cease to do so.</li> </ul> <p>Consideration should be given to measures that ensure the ongoing provision of cheque services and APCS participation until the end of the transition period. AusPayNet could play a role in coordination among APCS members.</p> |
| 8            | <p>An increased role for the Bank@Post service may require increased investment by various parties in the cheques industry. This may not be commercially viable and could see the cost of cheque services to end users rise significantly.</p>   |