



Winding down Australia's cheques system

The Treasury

Westpac Banking Corporation
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WE ARE

 GROUP

Overview

Westpac Group (**Westpac**) welcomes the opportunity to provide feedback on the Government's consultation paper on the winding of Australia's cheques system (**consultation paper**).

Westpac supports the Government's objective to modernise Australia's payments system to meet the needs of Australian consumers and businesses. This modernisation will help achieve greater efficiency and contribute to a more productive economy. The winding down of the cheques system will form a key part of this.

The transition will need to be orderly and well-coordinated across industry and government to ensure it is smooth, adverse impacts are minimised and that those in the community that still rely on cheques, such as the elderly and remote customers are adequately supported through the transition.

We highlight the following key considerations:

1. There is an opportunity to be more ambitious with the timeline for transition, with a specific focus on cheques issued by banks and governments. This would have the most significant impact on reducing cheques in the system, while not impacting vulnerable customers who rely on cheques for personal use.
2. To achieve a faster transition for bank issuance of cheques, a bank industry and government solution on remediation payments will need to be developed. One option is to leverage the concept of the Government's lost superannuation program and allow remediation payments to be made to the Australian Taxation Office.
3. To incentivise government department process change, Commonwealth, State and Territory legislation should be amended to remove cheques as a payment method and provide for other alternative mechanisms. Westpac would welcome the opportunity to work with government departments on payment transition pilot projects.

Outlined below is our detailed response to the consultation paper.

Thank you for the opportunity to provide comments on this consultation.

Transition away from cheques

Sequencing of the transition

Fewer and fewer consumers and businesses are using cheques due to their expensiveness, inconvenience, and lack of security. In 2022-23, cheque payments accounted for just less than 0.1 per cent of the total volume of retail payments in Australia.¹ The costs of providing the cheque payment infrastructure is becoming increasingly expensive per cheque. While we note the Government's commitment to wind down cheques by 2030, given the decline in usage and increased cost, we are supportive of a more ambitious timeline.

Any transition will need to be orderly and well-coordinated across industry and government to ensure it is smooth, adverse impacts are minimised and that those in the community that still rely on cheques are adequately supported through the transition.

We are broadly supportive of the sequencing initiatives and actions outlined in the consultation paper. We note, however, there are currently several use cases for bank issuance of cheques that do not have an efficient and economy-wide alternative. Examples include remediation payments owed to customers where the customer has closed their bank account and payments made to a customer following their exit due to the bank's obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

These use cases will need to be further considered and a viable alternative payment method in place before bank cheques are ceased.

One alternative option, that we support, is leveraging the concept of the Government's lost superannuation program and applying this to cover remediation payments. Enabling banks to make remediation payments to the Australian Taxation Office (**ATO**) would remove the need for the issuance of cheques where customer details are outdated and ensures those customers receive their payments. Applying this to other sectors such as insurance and telecommunication ensures a whole-of-economy wide approach to remediation and refunds, is more efficient, allows for a faster transition away from cheques, and ensures customers are reunited with their money. This approach will need to be supplemented by the harmonisation of state and territory government 'unclaimed money' legislation to support an effective transition.

We strongly support Treasury and the relevant regulators working with the banking industry on these use cases to ensure a solution is developed promptly to avoid slowing down the transition.

Timing of sequencing

We support a more ambitious timeline to the winding down of cheques provided viable alternatives are in place particularly for vulnerable customer groups and for the use cases outlined above. These alternatives will need to be supplemented by changes to existing Commonwealth, State and Territory legislation to remove references to cheques. If these elements were in place, then the proposed staged transition plan in the consultation paper could be brought forward allowing the cheques system to be closed sooner than the 2030 date set by the Government.

We note that some financial institutions have already reduced access to cheque issuance facilities for new and existing bank accounts. As such, the proposed framework for transition

¹ Reserve Bank of Australia (RBA), Payments System Board Annual Report (2023), RBA website.

should allow for individual institution flexibility to make changes to cheque issuance facilities should they decide to cease earlier than the proposed timelines.

Role of Government

The transition will require a coordinated effort across all levels of government and industry to ensure it is seamless and minimises the impact on the broader community.

The Government will have a critical role to play. As a source of trusted information, the Government will need to raise awareness of the transition and help educate the community on the pending changes and the various alternative methods of payment available to them. Part of its role will also be to ensure the telecommunication infrastructure is sufficient and adequate, particularly in regional and remote areas to allow for payments to be made.

Barriers to transition

Banks face several barriers that are limiting our ability to transition away from cheques, including existing Commonwealth, State and Territory legislation that set out that certain payments are to be made by cheques. Amending the law to allow for other payment methods will reduce usage and help accelerate the transition.

Another area that could be improved is e-conveyancing. E-conveyancing is currently not available for all types of property transactions across all states and territories. Increasing its use will help migrate payments associated with these transactions to digital avenues.

Additionally, there are cohorts of customers that are dependent on cheques such as the elderly and remote customers who will require the greatest support during the transition.

The cheque system

Sponsorship arrangements

The cheques transition will need to be well coordinated and orderly, with the whole of industry aligned on approach. An uncoordinated transition would create confusion for customers and could have operational impacts including increased dishonoured cheque payments and increased fraud and financial loss.

Role of Bank@Post

Australia Post will have an important role in managing the transition away from cheques to alternative payment mechanisms. They will need to be aligned to the transition plan and should use their role in the community to educate customers on alternative methods of payments.

Cheques Act 1986

We note the Government's intent to repeal the Cheques Act. The Act currently has no provision for bank cheques to become stale. As such, the industry will need clarity on their legal obligations to honouring funds where a cheque is presented after the 2030 date.

Foreign cheques servicing

While we note that some Australian individuals, businesses, and government entities are still receiving cheques from foreign jurisdictions, the processing of these cheques should be ceased as part of the proposed timelines. To ensure an effective transition, there will need to

be further engagement and education with these cohorts of customers as to alternative methods of payments.

Personal use of cheques

Alternative payment methods

Our internal data analysis shows many of our personal customers who have issued a cheque have also made a payment online. This suggests that customers are already familiar with other payment methods. However, there are certain cohorts that are distrusting of technology and an appropriate plan, through education, will need to be developed to support these customers in the transition.

Money orders

One alternative to cheques that is currently used by Australia Post is money orders. These orders are paper based and treated in the same way as a cheque if received by an ADI. As such, they should cease to be offered as alternative to cheques, unless they are to be exchanged for value at an Australia Post.

Commercial use of cheques

Use of cheques in institutional settings

The consultation paper outlines a number of reasons for the use of cheques in commercial settings. In addition to these, we note the utility sector continues to use cheques for refunds. This occurs, similarly to remediation payments made by a bank, where a refund cannot be returned to a customer as the account held on file is no longer valid. There is reluctance from some of these providers to use alternative account details as this could lead to increased fraud and scams. This will need to be considered as part of the transition.

Other industries that use cheques as a form of payment are legislatively mandated (state legislation) to do so, such as legal firms who are required to use cheques to pay out trust accounts, or gaming industry to payout winning prizes. Examples of such legislation and regulation that allow for payment through cheques include:

- NSW, VIC, and WA - Legal Profession Uniform General Rules 2015
- NSW Property and Stock Agents Regulation 2022
- NSW Conveyancers Licensing Regulation 2021
- Public Lotteries Act 1996
- National Energy Retail Rules
- WA - Compendium of Gas Licence Obligations

Barriers to reduction in usage

Legislation at Commonwealth, State and Territory levels continue to be a barrier to reducing the usage of cheques. These laws will need to be amended to remove cheques as the required payment method (both where cheques are referred to expressly or where the required payment method implies cheque usage), thereby introducing payment neutrality and allowing for other alternative payment methods. These legislative amendments will need to enter into force prior to the proposed date for ceasing of cheque issuance.

Timeframes for transition

Feedback from our large institutional customers on the timelines for transition, suggests that they will require at least 12-18 months to transition away from cheque use and update their processes and systems to capture additional digital payment details.

Government use of cheques

Coordination across Government

We note that currently some governmental departments are requiring customers to send cheque payments, which conflicts with the broader industry and government intent to transition out of cheque usage.

The Government at all levels will have a key role to play in the transition. This will need to be well-coordinated across all departments, alongside industry to ensure a smooth and effective transition.

As noted in our key recommendations, there is an opportunity to incentivise government department process change, by amending relevant Commonwealth, State and Territory legislation to remove cheques as a payment method and / or provide for other alternative payment mechanisms.

The transition away from higher cost cheque payment systems, would represent a cost save for government departments and thereby taxpayers. Westpac would welcome the opportunity to work with government departments to establish pilot projects to transition existing embedded cheque payment processes to digital payment systems. The advantage of undertaking trials via targeted pilot projects, is that both governments and banks would encounter the unknown (but expected) challenges and barriers associated with payment transition. This would allow learnings to be captured for broader ecosystem awareness and knowledge.