



NATIONAL AUSTRALIA BANK SUBMISSION

Winding down Australia's cheque system

February 2024

Introduction

National Australia Bank (NAB) appreciates the opportunity to provide a submission to Treasury's consultation paper: *'Winding down Australia's cheques system'*.

As a member of both the Australian Banking Association and the Australian Payments Network, NAB has also contributed to and supports their submissions.

Cheques have been a part of our business since the foundation of the Commercial Banking Company of Sydney in 1834 and the National Bank of Australasia in 1858 (which merged in 1982 to become today's NAB). However, in line with the broader industry trends recorded by the Reserve Bank of Australia, the writing and depositing of cheques by our customers has decreased significantly in recent decades. Since 2018 alone, the volume of cheques written by NAB customers has decreased by 68% from 9.3 million to 3.0 million.

Customers are overwhelmingly making and receiving payments digitally, with more than 99% of payments made or received by our customers now taking place through digital channels. However, we acknowledge the importance of ensuring that the small cohort of remaining cheque users, are supported in their transition to alternative payment methods.

Like other major Australian banks, NAB's approach to the phasing-out of cheques is informed by our experience in New Zealand. NAB operates a banking business in New Zealand, Bank of New Zealand (BNZ). Throughout 2020-2021, BNZ worked with customers to transition away from cheques and phased out cheques entirely by July 2021. While acknowledging there are some legislative and regulatory differences between the two jurisdictions, the BNZ experience has provided NAB with a wide range of customer insights and feedback, and a strong understanding of what is needed in Australia to ensure the phasing-out of cheques is done efficiently, while supporting existing cheque users to transition to alternatives.

NAB is committed to ensuring that the transition away from cheques is as smooth as possible, for our ~163,000 personal, business and corporate customers that continue to use a cheque facility.

Executive summary

NAB welcomes the Government's steps to wind-down the cheque system in an orderly and efficient manner, ensuring that cheque users are supported throughout this period.

During the transition period, NAB and other financial institutions will have a major role to play to educate their customers and raise awareness about the transition. However, NAB notes the substantial opportunity for the Government to provide whole-of-economy education and awareness, to ensure that the community is aware this is a whole-of-economy transition for individuals, governments and business, rather than a transition being made exclusively by banks without government support and coordination.

NAB supports the direction of the transition but proposes some amendments to the timeline in the consultation paper to ensure customers are prepared and that the cheque system is commercially viable and efficient throughout the transition process.

- **Personal cheque issuance and acceptance:** NAB does not propose any changes to the timings for ceasing personal cheque issuance and acceptance.
- **Bank cheque issuance:** NAB proposes that ceasing issuance of bank cheques is deferred by one year from 2025 to 2026, to align with the timing for commercial and government cheques. This will provide industry with sufficient time to work with customers on alternatives and governments with time to remove legislative requirements.
- **Bank cheque acceptance:** NAB proposes that ceasing acceptance of bank cheques is then brought forward two years from 2030 to 2028, aligned with ceasing acceptance of personal, commercial and government cheques. If bank cheques cease being issued in 2026 as NAB proposes, NAB expects there to be few bank cheques yet to be presented by 2028.
- **Closure of the cheque system:** If bank cheques cease being accepted as standard practice in 2028, this would allow for the entire cheque system to be closed in 2028.

To allow industry to best prepare for the transition, NAB urges clarity on whether cheque participants are expected to take action on each specific milestone date, or by each date. NAB recommends that Treasury requires actions to be ceased *by* a certain date. This will provide institutions with flexibility to work with customers on transitioning to alternatives, while not being required to offer services where it is no longer commercially sustainable to do so.

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

NAB agrees that a coordinated whole-of-economy approach to the phase-out of the cheques system is the best approach and will deliver the best customer and community outcomes.

In respect of the six proposed key conditions to ensure a smooth transition:

Proposed key condition	NAB view
1. Sufficient grace period for consumers and businesses to make necessary adjustments to transition to alternate payment methods	Support.
2. Education and support for cheque users by financial institutions, industry associations and consumer groups	Support, with initial work underway for the role that NAB will play to support and educate our customers. It is important for the Government to also take a major role in education and awareness, to ensure that Australians understand this is a whole-of-economy transition with government support and coordination.
3. Reasonable access to bank branches or participating Bank@Post outlets during the transition period to assist with education.	NAB suggests this recommendation is amended to 'reasonable access to support and education', as some customers may prefer to obtain this information digitally or over the phone. NAB also notes that the current Bank@Post proposition provides support for more than 70 financial institutions and is currently service/transaction oriented, rather than equipped to provide specific advice for over 70 specific banks.
4. Appropriate alternatives for all existing uses of cheques	Support, noting the Treasurer's statement that 98% of retail and 100% of institutional and commercial cheques can be serviced through other means. ¹
5. Governments eliminating key legislative barriers	Support. NAB considers this to be the equal highest priority along with Condition 6.

¹ Modernising the payments system for a more productive, competitive, innovative economy; Address to the Australian Banking Association, Sydney, Treasurer Chalmers, 7 June 2023.

6. Governments ending their own cheque issuance	Support. NAB considers this to be the equal highest priority along with Condition 5. Governments remain a significant issuer of cheques by volume.
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2. 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.
3. 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.

In response to the proposed transition sequencing and timing, NAB encourages Treasury to provide specificity on the time the proposed steps will take place in each year.

For example, if the issuance of commercial and government cheques was to cease on 1 January 2026, this would require significant action from financial institutions and customers in calendar years 2024-2025. If this occurs on 30 September 2026 or 31 December 2026, then more action will occur in calendar years 2025-2026.

To ensure simplicity for all cheque system participants, NAB recommends there is a consistent date in each year, for each milestone. 30 September would be an appropriate date as it avoids a clash with end-of-financial year in June and also avoids the December/January ‘shutdown’ period for many businesses and government departments.

NAB also seeks clarity on whether cheque participants are expected to take action *on* each specific milestone date, or *by* each date. Issuance ceasing *by* a date means that it could practically cease earlier.

NAB recommends that Treasury take the latter approach and require actions to be ceased *by* a date, to ensure customers are supported in their transition to alternative payment methods well ahead of each milestone. This would also provide individual banks with the flexibility to cease activities prior to each milestone, as cheque volumes decrease and it becomes commercially unsustainable for them to continue to provide that offering.

Anecdotally, the wind-down of the cheque system in other jurisdictions (including NAB’s own experience in New Zealand through BNZ), has demonstrated that once cheque issuance is ceased, the volume of cheque deposits immediately declines sharply. The vast majority of cheques are deposited quickly by customers and do not sit undeposited for an extended period of time. Even in the final weeks before BNZ ceased accepting cheques, there was no significant rush to deposit cheques, or material spike observed in cheque deposit volumes. Currently, the average time for a personal cheque to be deposited is two weeks.

On each individual stage, NAB provides the below feedback:

Proposed milestone and timing	NAB view
2025: cease issuance of bank cheques	<p>This should be delayed until 2026 to coincide with the cessation of commercial and government cheque issuance.</p> <p>This will provide industry with the requisite time to work with customers and educate them on alternatives, as well as implement any technical and product uplifts that may be required.</p> <p>NAB also notes that several of the legislative and regulatory requirements identified by Treasury requiring payment via cheque, relate specifically to bank cheques. Aligning bank cheques to a 2026 date will ensure that Commonwealth, State and Territory governments have more time to introduce payment neutrality to these pieces of legislation and regulation.</p> <p>A uniform date will also simplify the transition by minimising the number of separate milestone dates. The wind-down of the cheque system at BNZ had only two milestone dates (cease issuance of bank cheques, cease issuance and acceptance of all cheques), which meant that cheque users and the community were clear on exactly what was occurring and when, which made the transition process significantly smoother.</p>
2026: cease issuance of commercial and government cheques	<p>Broadly support. As noted above, NAB supports aligning ceasing issuance of bank cheques with this milestone.</p> <p>NAB encourages Treasury to consider removing any assumed dependency between these two categories of cheques.</p> <p>In the event that government cheques are not ready to cease being issued in 2026, removing this dependency would ensure that ceasing issuance of commercial cheques is not impacted by this.</p>

2027: cease issuance of personal cheques	Support.
End-2028: cease acceptance of personal, commercial and government cheques	Support, but recommend that ceasing acceptance of bank cheques is brought forward to align with this timing as outlined below.
End-2030: cease acceptance of bank cheques. Close the cheques system.	<p>Ceasing acceptance of bank cheques should be brought forward to the end of 2028, aligned with ceasing acceptance of personal, commercial and government cheques. This would also allow the closure of the system in 2028.</p> <p>As previously noted, data from BNZ demonstrated that once cheque issuance ceases, a sharp decline in the presentation of cheques rapidly follows. There is rarely an extended delay between cheque issuance and cheque presentation.</p> <p>With bank cheques proposed to cease being issued in 2025 and based on the average of two weeks that a customer takes to present a cheque, NAB expects there to be very few bank cheques awaiting presentation between 2028-2030. There is therefore little need to continue to accept these as part of standard process, in what would then be a highly uncommercial and inefficient system.</p> <p>Beyond 2028, NAB proposes that any bank cheques presented would instead be processed on a manual basis. Ideally this process would be agreed at an industry level to ensure all customers with an unpresented bank cheque have a similar experience.</p>

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

NAB is committed to working with the Government to ensure the transition away from cheques is as smooth as possible for customers who still issue and deposit cheques.

NAB sees the roles of government and the financial services industry as follows:

Industry (banks)	Government
<ul style="list-style-type: none"> • Communicate openly and transparently with customers regarding cheque wind-down timings • Communicate openly and transparently with government throughout the transition period on progress • Provide clear information to customers on what alternatives are available for different cheque use cases • Provide accessible customer education and support through various channels 	<ul style="list-style-type: none"> • Take steps to phase out government issuance of cheques early, to ensure recipients have as much lead time as possible to transition • Lead a whole-of-economy approach to the transition, bringing together financial institutions, Commonwealth, State and Territory governments to ensure messages and milestones are aligned • Provide reassurance to the community that sufficient alternatives to cheques exist, that this is a whole of economy transition and not limited to their particular bank or related party. • Take steps to increase digital inclusion and accessibility, which will maximise the number of cheque alternatives available in different use cases

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

With governments remaining one of the largest issuers of cheques by volume, NAB considers it essential that governments take early steps to identify and adopt alternatives to payment via cheque. In some instances this is still required by legislation, so the early removal of these barriers is important.

NAB notes that some remaining use cases (particularly at a state level) are not in legislation, but in regulation.

Switching common payments made via cheque such as Medicare health benefit payments, tax refunds and Centrelink payments to alternative forms of payment and getting recipients used to these new forms of payment well before the cheque phase-out is complete, will help build customer familiarity with the new ways of receiving payments.

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

Yes, we expect the system and its users to be ready to transition by 2028 for two reasons.

Firstly, the volume of cheques in use is currently declining at 18% per annum.² This is attributable to changing customer preferences, in addition to increased education and support from financial institutions to assist customers to transition to more efficient forms of payment.

If this decline was to remain consistent at 18% per annum as the phasing out of cheques progresses, NAB considers that the volume of cheques in the system by 2028 would make it unsustainable to continue.

Secondly, with customers taking an average of two weeks to deposit a cheque, once personal cheque issuance ceases in 2027, there is likely to be very few cheques yet to be presented by 2028.

² RBA Payments Data, C5.1 Cheques – Original Series, Total Number of Cheques, 12 months to Nov-2023 vs prior comparative period.

Overview of the cheques system

7. 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?

NAB has commercial agreements with a small number of financial institutions that continue to offer cheque services to their customers, to process cheques on their behalf. These institutions are generally major global banks.

NAB is engaging with these institutions to understand their intentions for their own cheque phase-out, and this will continue as the Government finalises the phasing-out milestones and timing.

NAB expects these institutions to have plans in place to support their own customers to transition away from cheques, and avoid a situation where NAB is ready to exit a particular cheque service, but cannot due to a sponsored institution not being ready.

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

Bank@Post is an important part of NAB's physical network, providing customers with access to face-to-face banking at more than 3,400 locations nationwide. As part of NAB's current agreement with Australia Post, Bank@Post accepts cheques deposited by NAB customers, as well as cheques deposited by customers of agent banks which NAB provides cheque processing services for.

In 2023, more than 15,000 cheques per month were deposited via Bank@Post into NAB accounts or NAB agent bank accounts. To ensure a smooth transition for banks and their customers, Bank@Post will need to continue to accept cheques in line with the existing Bank@Post agreements it has with various financial institutions, for as long as those individual financial institutions are themselves accepting cheques.

Additionally, NAB notes that Australia Post is the issuer of money orders, which Treasury has identified as an alternative to cheques for several use cases. NAB recommends that Treasury consults with Australia Post to understand their intentions for the provision and role of money orders into the future, and their ongoing availability as an alternative to cheques throughout the transition period.

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

As staling provisions do not apply to bank cheques, certain Cheques Act processes and obligations may need to be retained for a short period of time. The exact length of time would

depend on the process agreed by industry and the Government on how bank cheques will be manually accepted following the closure of the cheque system.

However, there may be alternative governance or legislative arrangements that could negate the need for Cheques Act processes and obligations to be retained for this purpose.

10. At what volumes would cheque use need to decline to for the shared service arrangements to no longer be cost effective?

Based on internal modelling, NAB believes that the shared service arrangements will no longer be cost effective after issuance of commercial and government cheques has ceased.

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

NAB exited acceptance of foreign currency cheques in July 2022. Prior to ceasing acceptance of foreign currency cheques, NAB assisted customers to notify the issuers of these cheques of their bank account details for direct international transfers.

Personal use of cheques

12. Are there any other drivers for the continued use of personal cheques in Australia?

NAB agrees that the drivers identified by Treasury are the predominant drivers for the current use of personal cheques in Australia.

13. Are the alternative payment methods put forward by the banks acceptable? Do they address the limitations in digital inclusion and distrust outlined above?

NAB believes that the payment methods identified by Treasury provide a range of viable alternatives for current cheque use cases, including options to continue to pay via 'non-digital' payment methods including cash (paying a bill at Australia Post, for instance), money orders, and direct debit arrangements.

Regarding making high-value payments such as at a property auction or private property sale, NAB has a program of work underway to increase internet and telephone banking payment limits to a higher amount than what is permitted today, which will provide the necessary alternative.

Regarding foreign payments, prior to NAB ceasing issuance of foreign currency cheques in December 2021, the demand for this product had reduced significantly, declining by 70% between 2017 and 2021.

Regarding charity donations, NAB will work with charities and not-for-profit customers and encourage them to ensure they have a variety of payment methods available, to minimise the impact on their regular donors who may currently donate via cheque.

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

NAB is not best placed to respond to this question, as NAB does not facilitate access to the cheque system for those without a bank account.

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

NAB is unaware of any major personal cheque use cases that do not have adequate alternative payment options (including 'non-digital' options) or will not have adequate alternative payment options by the time that issuance of personal cheques is ceased.

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

In recent years, NAB has proactively engaged with customers to transition to more efficient forms of payment. NAB will continue to support active users of personal cheques to identify and safely transition to alternatives, noting this is a small cohort of customers, with only 1.66% of our personal banking customers having written a cheque in the last 12 months.

NAB believes that it is in the best interests of our customers and all participants in the cheques system, if customers have sufficient time and resources to familiarise themselves with the alternative options, and avoid a last minute forced adoption of these prior to closure of the cheque system.

The usability and functionality of these alternative payment methods is likely to increase throughout the transition period, in order to ensure that all cheque use cases are accommodated through these alternatives (for example, high value payments).

Early adoption of alternatives will allow financial institutions to ensure that these are user-friendly, fit-for-purpose and meet the needs of former cheque-using customers. The earlier these alternatives are adopted, the greater time that financial institutions will have to make improvements to these alternatives based on insights and feedback gained throughout the transition.

17. 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?

NAB does not consider internet and mobile access to be a substantial hurdle to winding down the cheques system, though we note that this remains an important consideration for both government and cheque system participants to ensure that customers are not left behind. 48% of NAB's current personal cheque issuing customers are located in regional and rural Australia.

As noted by Treasury in the consultation paper, while mobile phone coverage now reaches 99% of the population, internet coverage lags behind.

Although the majority of digitally-enabled customers regularly bank via their mobile device rather than a computer, NAB encourages further improvements to internet coverage during the transition period, to ensure customers in rural and regional Australia have the widest range of cheque alternatives available to them, including internet banking alternatives.

NAB also notes an additional barrier for consumers to transition from cheques, is where businesses (often small businesses or sole traders) still prefer to be paid in cheque and may not provide customers with alternative options. As a result, consumers may be forced to make payment to these businesses via cheque despite preferring to use digital payments. NAB encourages Treasury to consider how it can work with small business peak bodies, to transition this cohort of businesses to accept a wider range of payment methods.

18. Do the Government and industry initiatives listed in Annexure 4 provide adequate support to the community to successfully transition away from cheques? If not, what other kinds of support would be required?

NAB considers these initiatives to be the right starting point.

Regarding the Government initiatives, investment in the Better Connectivity Plan is the most important, as this will increase internet coverage and ensure that the widest range of cheque alternatives is available to customers in areas with little or no internet coverage. NAB also agrees that the First Nations Digital Advisory Group and the Regional Tech Hub have an important role to play to ensure their target cohorts are supported through the transition.

With the majority of NAB's personal cheque issuing customers aged between 70 and 90 years old, NAB also recommends that Treasury considers the most appropriate organisations and service providers that the Government could partner with, to ensure that older Australians are well-supported through this change, in addition to the support that will be available to these customers from their financial institution.

Customer research and insights from BNZ's experience in phasing-out cheques note the importance of showing compassion and providing reassurance to personal customers who still use cheques. For some customers, this transition will be the most significant adjustment they have had to make to their banking processes. NAB appreciates that for some customers there is nervousness around adoption of alternative ways of payment, even 'non-digital' alternatives.

NAB will have a program of work in place to ensure that these customers are supported in their transition to alternative payment methods, once issuance ceases. This work will ensure that:

- all alternative payment methods offered to our customers are fit-for-purpose.
- we consider any additional payment channels that may be required to send or receive payments, to ensure no customer is left behind.
- we communicate clearly and openly with customers on the transition timings for cheques, and how they can contact us to discuss this further.
- as the transition progresses, we have clear lines of communication with the Government, keeping them updated on any major feedback we are hearing from our customers, and vice versa.

Commercial use of cheques

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

NAB agrees that these are the most common reasons why cheques remain in use in institutional and commercial settings.

Two additional reasons which NAB notes:

1. Remediation: for instance, where an entity remediates a former customer but does not have their banking details. The entity may issue a cheque to the known address of this customer to attempt to pay them. Similar situations often exist in a workplace scenario, where a payment needs to be made to a former employee and up-to-date banking details are not available.
2. Agribusiness: In regional and rural Australia, cheques may be used in the absence of reliable internet in a particular location, or concerns for carrying large volumes of cash significant distances.

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

NAB believes that early Government action and direction will greatly assist commercial entities to transition away from cheque usage. For example, preparing plans with the property, conveyancing and gambling industries in conjunction with state and territory governments as needed, to provide time for these industries to adapt in line with the removal of the relevant legislative requirements.

The same exercise should then be undertaken with the insurance industry and finally with relevant parties in connection to deceased estates and corporate dividends, to plan the migration away from these entrenched practices.

As Australia's largest business bank, in recent years NAB has been proactively working with a range of business banking clients to reduce their issuance of cheques in an effort to help them digitise and bring greater efficiency to their business. This work will continue throughout the transition period.

Government use of cheques

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

NAB welcomes the moves currently being taken by Commonwealth, State and Territory governments to implement payment neutrality into legislation that requires payment via cheque. NAB encourages this work to continue at pace, to ensure that impacted industries have adequate time to transition.

Similar to commercial cheques, NAB encourages proactive engagement by government with industries identified by Treasury where cheque payment is entrenched, to plan how these practices can be smoothly transitioned in a manner that does not impact vulnerable customers.

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

As the remaining legislative obligations that involve cheques are split between Commonwealth, State and Territory governments, NAB encourages Treasury to ensure the existing cross-jurisdictional working group set up for this purpose continues to progress its work. Treasury should retain visibility over the progress of implementing payment neutrality in each of these cases, and ensure that a coordinated approach is taken where required.

Conclusion

With customer usage of cheques having reduced substantially and continuing to decline at pace, NAB agrees with the Government that the timing is right to wind-down the cheque system. For the small number of remaining cheque users, there are a range of alternative payment methods available, which industry will support them to transition to.

As highlighted in this submission, NAB proposes some amendments to the timeline proposed by Treasury to ensure that customers are supported and that the cheque system remains commercially viable and sustainable throughout the transition process.

The changes proposed by NAB would ensure that:

- Industry has sufficient time to support customers to transition to alternatives.
- Governments have sufficient time to remove legislative and regulatory requirements involving cheques.
- The cheque system remains viable until its closure.

NAB looks forward to working with the Government on the wind-down of the cheque system in the coming years, ensuring that cheque users are supported throughout this transition.