



Department of Treasury and Finance

1 Treasury Place
Melbourne Victoria 3002 Australia
Telephone: +61 3 9651 5111
dtf.vic.gov.au

D24/50426

Ms Sally Etherington
Director
Payments Strategy and Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Ms Etherington

RESPONSE TO THE COMMONWEALTH'S CONSULTATION ON AUSTRALIA'S CHEQUE SYSTEM

The Victorian Department of Treasury and Finance appreciates the opportunity to provide input into the Commonwealth Treasury's consultation paper on winding down Australia's cheque system. The Victorian Government's response to the consultation paper is attached.

We welcome the opportunity to continue to engage with the Commonwealth Treasury and support the implementation of this important initiative.

Yours sincerely

Catherine McKean
Senior Manager, Banking Advisory
Balance Sheet Management
Department of Treasury & Finance

16/04/2024

Attachments encl.: *Victorian Government Response to Cth Gov consultation paper on winding down the Australian cheque system 2024*

Response from Victorian Government to the Commonwealth Government's '*Winding down Australia's cheques system*', consultation paper dated December 2023

Victoria's Department of Treasury & Finance (DTF) appreciates the opportunity to contribute to the Commonwealth Government Treasury consultation process on winding down Australia's cheque system and will continue to work closely with the Commonwealth on this matter.

1. 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?

The Victorian Government issues and receives over one million cheques per annum, with approximately 75 percent of these cheques issued by departments and agencies. The cheque issuance process is embedded in financial systems, workflows, legislation, and regulations.

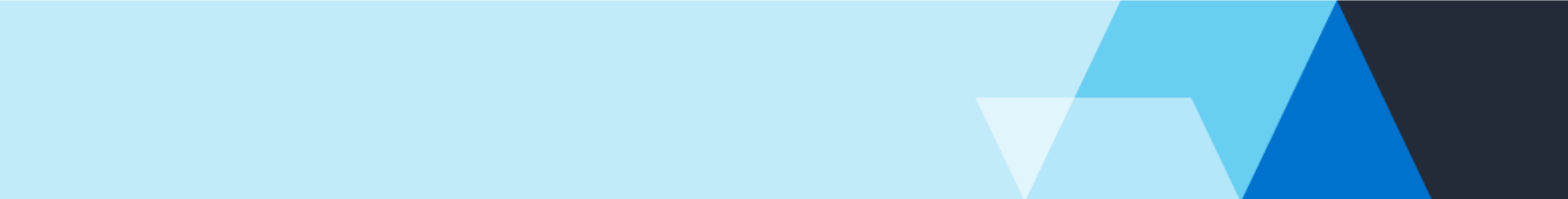
Whilst further work is required to better assess the impact of the proposed change on the Victorian Government, we have identified that some Victorian Government departments and agencies may require ICT changes to support the cessation of cheque usage and to access the modern payment infrastructure such as the New Payments Platform. These changes need to be fully evaluated and change plans developed.

Additionally, preliminary work to better understand amendments to Victorian legislation has identified six acts and three sets of regulations that would likely require amendment to become payment-neutral.

Further work is required to fully assess the impact of the proposed transition timeline for the Victorian Government. This work includes assessment of the conditions and principles outlined and their appropriateness given the current financial ecosystem within the Victorian government.

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.

The sequencing and timing of the cheque phase-out from the Victorian Government perspective will require a whole of government impact assessment to better understand the proposed transition plan.



To assist the Victorian Government in navigating the proposed transition timeline it is recommended that the timeline is framed from the cheque service providers and cheque users' perspective to give greater clarity around the timeframes. Clarity around the role and responsibilities of financial services industry in transition planning is an important consideration for state government departments and agencies.

Key factors that contribute to the continued use of cheques by the Victorian Government include the willingness of the financial industry participants to process cheques, availability of suitable alternative payment methods, and transparency of associated costs. Alternative products should be cost effective and monitored by the regulator.

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.

The Victorian Government explored ways to eliminate cheques over the last few years. Now that high level milestones have been outlined in the consultation paper, detailed work can commence to assess implementation requirements including necessary legislative amendments, changes to policies, systems and processes. Assessing the cost impacts of this change forms part of this assessment.

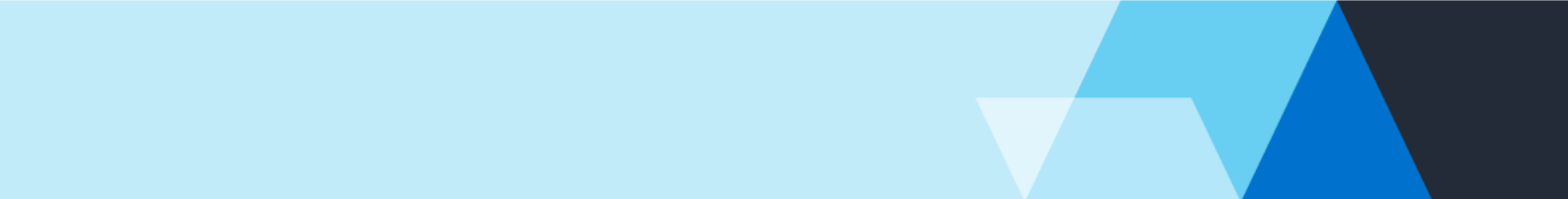
Consideration of the needs of Victorians who are reliant on cheque usage and who do not currently have ready access to alternative payment methods is a critical consideration for the Victorian Government. The transition plan needs to allow sufficient time and provide appropriate support for Victorian citizens to adjust to a cheque-less system. Given this, consideration should be given to the timing of bank cheque elimination, which could be seen as a 'last resort' for Victorian citizens and businesses once personal and commercial cheques are removed.

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

To support users of the cheque system with transparency during the transition, we suggest that a 'body' should be appointed to co-ordinate the activities of the financial services industry and their key stakeholders.

It is recommended that clear communication and behaviour change strategies are developed and shared across the financial services industry. This will support the Victorian Government in delivering a consistent and unified message to the Victorian community during the transition period. The strategies should give particular focus to vulnerable citizens.

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



Victorian Government legislation, regulations, policies, systems and processes that currently support cheque usage within Victorian economy would need to be modified to ensure bank customers transition away from cheques. For example, Victoria's *Fundraising Act 1998* requires that monies collected are deposited into an account from which it is only possible to withdraw money by a cheque signed by at least 2 persons.

Providing access to alternative payment methods for community members who may not have ready access to digital channels is a key consideration that needs to be properly assessed and factored into the transition planning.

Maintaining consumer confidence in digital payment methods is also critical particularly in light of scams and fraud which are often the subject of media reports.

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

The Victorian Government notes the Commonwealth's proposed timetable of ceasing government issuing of cheques by 2026 and ceasing the receipt of cheques by 2028. Further work is required by the Victorian Government to assess readiness to meet the timeframe given the requirement to amend the Victorian legislation and regulation, as well as systems and processes.

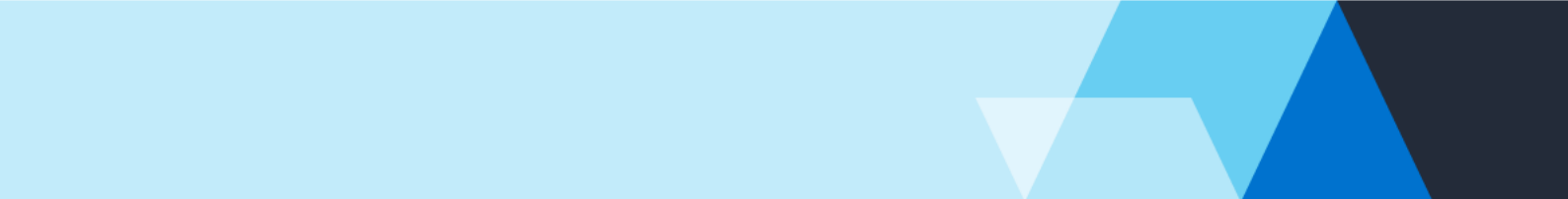
Important factors that will support the timeline include:

- Clear milestones for transition articulated and supported by the financial services industry;
- Consistent communication of the transition milestones to all stakeholders;
- Alternative payment methods for all use cases including vulnerable and unbanked citizens with consideration of the 'know your customer' (KYC) requirements; and
- Clear and transparent costs for new/alternative payment methods that incentivise adoption.

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?

As the Victorian Government is a user of the Australian cheque system, it does not have a view on this question.

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



Bank@Post is an important part of Victoria's Banking and Financial Services State arrangement. It currently supports regional offices in terms of banking cheques and cash which negates the requirement for government employees to travel significant distances to undertake banking activities.

Bank@Post will remain an important banking service for the Victorian government as citizens transition to alternative payment methods over time. It is recommended that Bank@Post services continue to be supported by the financial services industry and available throughout the transition phase.

9. Is there value in retaining some or all of the processes and obligations in the Cheques Act 1986? If so, for how long? Note that some relevant provisions of the Act are provided in Annexure 3.

As the Victorian Government is only a user in the system, it does not have a view on this question.

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

As the Victorian Government is a user of the Australian cheque system, it does not have a view on this question.

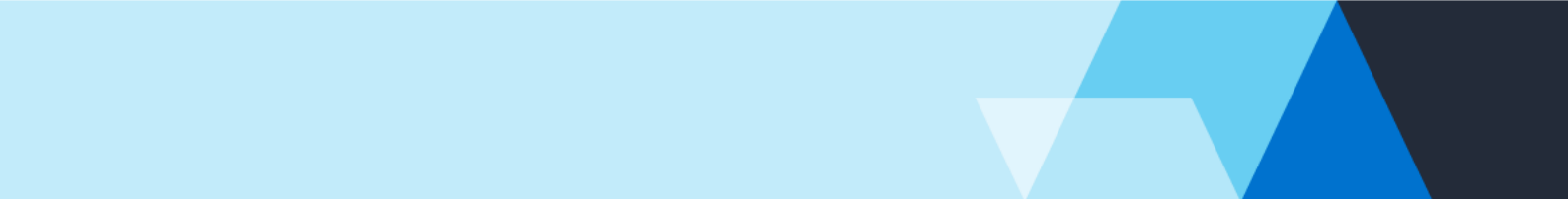
11. How should foreign cheques be serviced? What is required to switch receipt of foreign cheques to alternate payment methods?

The Victorian Government is still exploring alternatives for receiving foreign cheques including the opportunities and issues that would need to be resolved regarding alternative payment methods.

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

The drivers for the continued use of cheques by Victorian citizens stem from a range of known issues such as availability of alternative products, digital capability and accessibility to digital payments. Scams and fraud continue to act as a deterrent for some consumers to digital payment adoption.

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



As noted in previous responses, increases in fraud and scams across in the Australian community is well known. Consequently, lack of awareness as to how modern payment methods provide greater security against fraud and scams must be addressed as part of any move away from existing payment methods such as cheques.

Consideration should be given to how the financial services industry educates the community on this issue with a particular focus on vulnerable citizens. A co-ordinated communications program by the financial services industry could reduce misunderstanding and confusion around digital payment alternatives.

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

There are some specific cases where the Victorian Government supports community members who do not hold a bank account, through using cheques. For example, on release from custody prisoners are often given funds in the form of cheques.

Prisoners often do not have an active bank account and/or sufficient identification documents to meet KYC bank requirements (to establish bank accounts). The Victorian Government continues to work with its bankers to identify alternative ways to manage this and would welcome a more coordinated approach to this issue in light of the proposed transition away from cheques.

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

Another use case that utilises cheques and requires a payment method that is not currently available includes the distribution of winnings from gaming and casinos. Alternatives need to consider how additional 'friction' can be added to the payment of 'winnings' to minimise negative social impact.

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

Users of personal cheques are better placed to respond to this question.

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?

Users of personal cheques are better placed to respond to this question.

18. Do the Government and industry initiatives listed in Annexure 3 provide adequate support to the community to successfully transition away from cheques? If not, what other kinds of support would be required?

It is assumed that 'Annexure 3' should read 'Annexure 4'.

Whilst it is noted that most of the major banks have provided resources on their websites to communicate alternative payment methods, this assumes that customers know about these websites and are able to access the resources.

To potentially enhance the impact of these bank resources, there may be an opportunity to bring together some of the Commonwealth Government digital and eSafety programs with banking content. This approach could guide consumers through the transition phase, as well as addressing some of the key hesitancy barriers such as scams and fraud in the context of digital alternatives.

Enhancements to existing payment platforms that 'mimic' aspects of cheque usage should also be considered to support transition. For example, it would be useful if products such as BPay could be enhanced to readily process BPay refunds. Currently a large number of cheques are used for this purpose due to the difficulty of processing refunds through BPay.

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

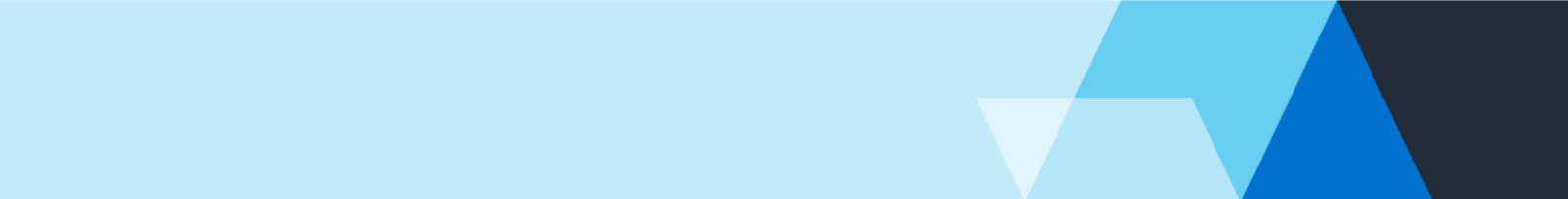
Institutional and commercial users are better placed to respond to this question.

20. 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?

Institutional and commercial users are better placed to respond to this question.

21. 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?

During FY22/23 the Victorian Government issued and received over one million cheques to meet its obligations to citizens and businesses. Cheques as payment form are long standing and embedded (as a payment method) in government department's financial management systems, policies and workflows as well as legislation and regulations.



Victoria has identified various legislation and regulations that will need to be amended to meet the Commonwealth Government's timeframe to remove cheques. A preliminary assessment indicates that six Victorian Acts and three Victorian regulations that would likely require amendment to become payment neutral.

We have also identified that some Victorian Government departments and agencies may require ICT changes to support the cessation of cheque usage and to access the modern payment infrastructure such as the New Payments Platform. These changes need to be fully evaluated and change plans developed and costed.

Another implementation consideration is how governments can appropriately obtain the necessary banking details for individuals (with their authority and consent) to support digital payment methods. For example, the banking industry could more actively promote Pay ID to support improved access to electronic banking methods.

Transitioning out of cheque usage will also require finding practical solutions to the financial services 'know your customer' requirements to establish banking arrangements for unbanked citizens.

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

Given government usage of cheques is significant, a coordinated and orderly reduction in volume across the state and federal jurisdictions will minimise the risk of an unexpected, accelerated closure of the cheque system.

Regular and timely engagement through an appropriate formal interjurisdictional structure will be critical to effectively managing a large-scale transition program such as this.