

**RESERVE BANK OF AUSTRALIA –  
SUBMISSION TO APCA’S CONSULTATION  
PAPER ON THE ROLE OF CHEQUES IN AN  
EVOLVING PAYMENT SYSTEM**

**29 July 2011**

# RESERVE BANK OF AUSTRALIA – SUBMISSION TO APCA'S CONSULTATION PAPER ON THE ROLE OF CHEQUES IN AN EVOLVING PAYMENT SYSTEM

This submission is in response to APCA's consultation paper on the role of cheques in an evolving payment system.

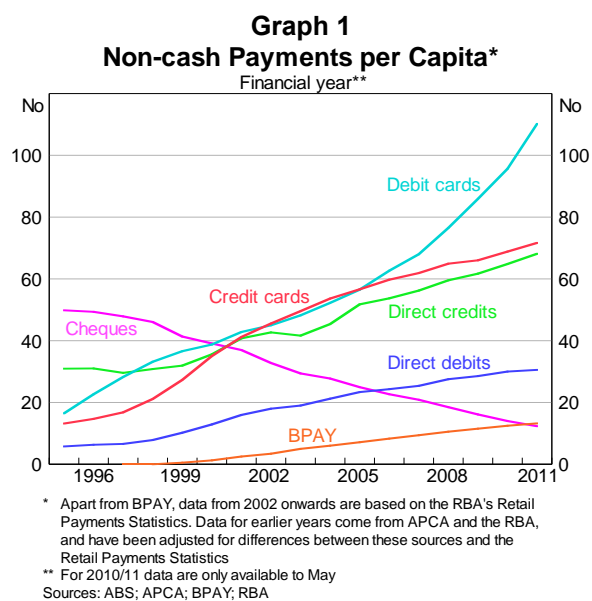
## Background

The Payments Systems Board of the Reserve Bank has responsibility for, among other things, promoting stability, efficiency and competition in the payments system. In respect of retail payment systems, the Board's work has in the past focused on: establishing clear price signals; removing restrictions on merchants that limit their choices in accepting payment instruments; improving access to payment systems; and increasing transparency in the payments system.

The Reserve Bank is now undertaking a strategic review of innovation in the Australian payments system. The purpose of this project is to identify areas in which innovation in the Australian payments system may be improved through more effective co-operation among stakeholders. A consultation paper was released on June 30 2011. One of the trends of interest identified by the Bank in its consultation paper is the decline in cheques over the past decade. Given that the consultation process is currently underway, the Bank has largely restricted this submission to views already expressed in its consultation paper on innovation.

## Decline in cheques and the relative high cost of cheques

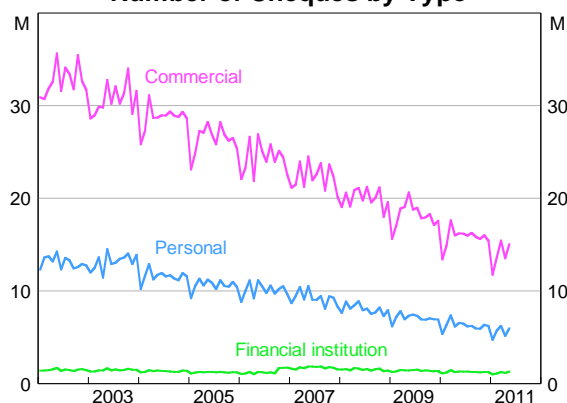
Cheque use has been in steady decline, with the number of cheques declining by an average of 9 per cent per year over the past decade. They have fallen from 40 per cent of non-cash payments in 1995 to around 5 per cent currently (Graph 1).



The overall decrease reflects declines in the use of both commercial and personal cheques (Graph 2). Cheques are also a relatively high-cost payment method, estimated in 2007 to cost financial institutions around \$4 per

unit, as well as imposing significant costs on users, particularly the payee.<sup>1</sup> Furthermore, as cheque use declines, the cost per cheque is increasing because the overheads are spread over a smaller number of cheques.

**Graph 2**  
**Number of Cheques by Type**



Source: RBA

### Some current characteristics of cheque use

Despite the decline in their use overall, cheques are still in common use for particular types of payments, including: one-off high-value payments; small- and medium-sized enterprise payments; superannuation payments; one-off government payments; dividends; donations; and small personal payments. Among other things, this reflects the fact that cheques offer a number of attributes that are not easily replicated by electronic methods, including that they allow:

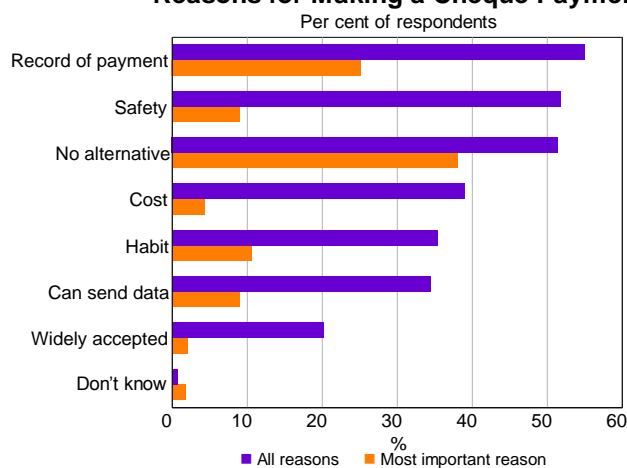
- physical, face-to-face, instant exchange, for example for a property settlement;
- substantial additional data to accompany the payment, for instance by attaching the cheque to an invoice or other information;
- payment to be made when only limited information is known about the payee; and
- considerable financial control where, for instance, the need for a specific signature (or multiple signatures) provides key account signatories oversight of all outward payments within a business.

In late 2010, the Reserve Bank conducted a study of consumers' payment patterns (Consumer Payments Use Study).<sup>2</sup> The study found that the most common reason that consumers made payments via cheque (around 40 per cent of respondents that used cheques) was that they believed that there was no alternative for the payment they were making (Graph 3). The next most common reason was that cheques provide a useful record of payment (25 per cent). The perceived lack of alternatives to cheques is likely to reflect the fact that, as identified above, cheques have a number of attributes that cannot be easily replicated, along with the fact that, for particular types of payments, cheques are the dominant traditional payment form, for instance for the payment of court fees.

<sup>1</sup> Schwartz C, J Fabo, O Bailey and L Carter (2008), 'Payment Costs in Australia', in *Payments System Review Conference*, Proceedings of a Conference, Reserve Bank of Australia and Centre for Business and Public Policy at the Melbourne Business School, Sydney, 29 November 2007, pp 88–138.

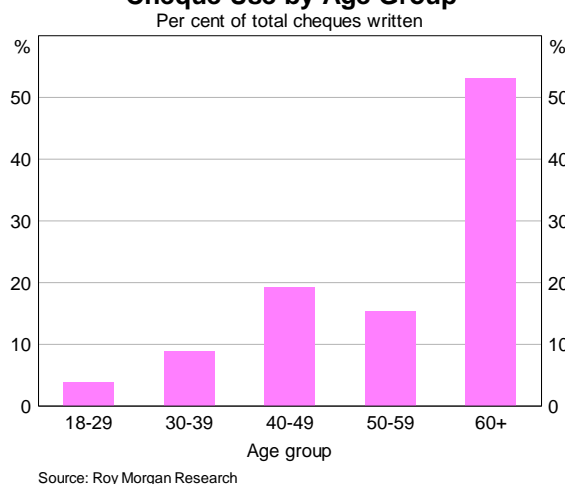
<sup>2</sup> Bagnall J, S Chong and K Smith (2011), *Strategic Review of Innovation in the Payments System: Results of the Reserve Bank of Australia's 2010 Consumer Payments Use Study*, June.

**Graph 3**  
**Reasons for Making a Cheque Payment**



Cheques are used more heavily by particular age groups. According to the Consumer Payments Use Study, 85 per cent of cheques are written by people 40 years or older, with those over 60 years writing over half of all cheques (Graph 4). This suggests that younger generations have a greater preference for using, and/or less difficulty in finding, alternatives to cheques.

**Graph 4**  
**Cheque Use by Age Group**



## Policy issues

Like APCA, the Payments System Board is interested in approaches to managing the decline in cheques in an orderly manner. The Board needs to be satisfied that any approach is in the public interest given the characteristics of cheque use as discussed above. It is conscious that some possible responses may require a co-operative approach.

Part of the reason that cheque use remains relatively widespread is that cheques are inexpensive to those writing them, with most of the costs borne by the payees and the financial institutions that process them. This model is likely to become harder to sustain as unit costs continue to increase.

One possible response by market participants would be a change in pricing structure, with financial institutions and large recipients of cheques passing their costs on to the payers in a transparent way. Of course the decision to do so would be unpopular with some segments of the community and might be difficult for institutions to make unilaterally. Equally, competition law concerns might make collective action difficult.

Other possible responses to declining cheque use might include:

- making further changes to cheque processing arrangements to reduce their cost so that the system can be more sustainable at lower volumes; or
- consider phasing out cheque clearing – this would be difficult without alternative instruments having been developed to fill the gap.

The Board has welcomed APCA's consultation process in relation to the cheque system and the prospect of an industry-driven response to declining cheque use. The Board would also like to hear the views of stakeholders on these issues in the context of its review into innovation in the payments system, in order to assist it in forming its own views and to test the public benefit of any possible solutions.