

WINDING DOWN AUSTRALIA'S CHEQUES SYSTEM

SUBMISSION TO THE TREASURY

February 2024

INTRODUCTION

1. We thank the Treasury for the opportunity to comment on the Government's approach to winding down Australia's cheques system.
2. We support the Government's intention to ensure a smooth transition away from cheques. It is important that there be sensible coordination of the transition to provide certainty to customers and other stakeholders and to minimise any negative effects.
3. To assist the Treasury in developing its approach, we have set out some observations below. These focus primarily on the Treasury's proposed timeline.

DETAILED POINTS

Sequencing and timing

4. The consultation paper proposes a timeline under which the issuance of bank cheques would cease in 2025, commercial and government cheques in 2026 and personal cheques in 2027. Acceptance of personal, commercial and government cheques would cease in 2028 and bank cheques in 2030.
5. We think the timeline could be adjusted in the following ways:
 - **The issuance of bank cheques should not completely cease in 2025.** This is in part because there are some use cases for bank cheques for which there is a lack of an alternative. A customer-friendly solution will need to be developed.
 - **There could be a single 'no later than' end date for the issuance of all cheques.** This could be in late 2026 or early 2027. The end date could be accompanied by a 'no sooner than' date to create an exit window.
 - **There could be a single end date for the acceptance of all cheques.** This could be in late 2028.

Issuance of bank cheques

6. We think there could be benefit in delaying the cessation date for bank cheque issuance to ensure there are appropriate alternatives in place for several current uses.

7. Bank cheques are used by banks and customers in certain circumstances where there is insufficient information about a payment recipient to make a payment by another means, or where a payment is large and/or is needed immediately.¹
8. Users of bank cheques could benefit from additional time to develop new processes for making these payments. While there are alternatives to bank cheques for some of the payments (some of which are identified in Box 4 of the consultation paper), there are some situations for which there is currently no alternative.
9. One example relates to customer remediation. Where a customer no longer has a relationship with a bank, and the bank does not have sufficient information about the customer, it is sometimes not possible to make a payment other than by cheque. ASIC Regulatory Guide 277 currently acknowledges that a bank may send a remediation payment by cheque when other avenues for automatic payment are not reasonably available.² An alternative digital solution would take time to develop. There could be benefit in adopting a consistent solution across industry.
10. We do not think it is necessary for the cessation of the issuance of bank cheques to precede that of other cheques (we refer below to the shortening of the 5-year period between issuance and acceptance). Given that many bank cheques are government or commercial cheques, we think that the end date for ceasing issuance of bank cheques should be aligned with that for those cheques. As discussed directly below, we think that date could also be aligned with that for personal cheques.

A single 'no later than' end date for issuance

11. The proposed timeline could benefit from adopting a clear, single end date for each of the issuance and acceptance of all cheques. This would reduce the total number of dates in the timeline, which could help make it simpler and clearer for affected parties.
12. Noting our comments on bank cheque issuance above, we think a suitable end date for issuance could be late 2026 or early 2027.
13. While adopting a single end date, the timeline should provide some flexibility to entities to cease issuance earlier. For example, it may be possible and appropriate to cease issuance of personal cheques before 2027. This is because:

¹ Examples include those identified in Chapter 3 of the consultation paper, including property settlement, insurance, deceased estates and corporate dividends.

² RG277.169, ASIC Regulatory Guidance 277.

- Personal cheque usage is low and declining. As at January 2024, approximately 0.84% of ANZ personal customer accounts had a cheque transaction in the previous 12 months.
- There are alternatives within digital channels for the great majority of uses of personal cheques.
- ANZ customers will be supported through direct notification of key changes and impacts, alternative options and how to get help. Customers that need it will be provided assistance on how to do their banking in person and/or over the phone.

14. This flexibility could be achieved by approaching the end date as a 'no later than' date. This approach would allow entities to end issuance earlier but provide sufficient time for other entities to prepare for the transition. It may also better reflect the current state, acknowledged in the consultation paper, where some issuers have already withdrawn from the cheques system.³
15. To help minimise the risk of an uncoordinated exit, the end date could be accompanied by a 'no sooner than' date (of, say, 2025) for some entities to completely end issuance (creating a 'window' in which to do so). To avoid a 'forced withdrawal' of smaller entities as noted in the paper,⁴ institutions that have ceased issuance would still negotiate, accept and process cheques, and would refrain from ending any cheque processing sponsorship arrangements until an appropriate time.

A single end date for acceptance

16. The proposed timeline could similarly benefit from adopting single end date for the acceptance of all cheques. Unlike the 'no later than' date for issuance, we think an 'end on' would be more suitable for acceptance. This will help provide certainty to customers and industry, and ensure that customers can continue to deposit their cheques up until the end date.
17. The key change from the proposed timeline to introduce a single end date for acceptance would be to align the end date for bank cheques with that for other cheques (currently noted as 2028). As mentioned earlier, we think alignment of the dates for bank cheques with government and commercial cheques is sensible given the overlap between these cheque types.

³ Page 11 of the consultation paper.

⁴ As above.

18. This would also allow the date for retiring the cheques system to be brought forward, which would help ensure momentum is maintained throughout the winding down process and lessen the risk of an uncoordinated exit.
19. The consequence of moving this date forward, combined with the suggestion above to move back the end date for issuance of bank cheques, would be to reduce the period between the cessation of issuance and acceptance of bank cheques from 5 years to around 2 years.
20. We think this period is acceptable. Notwithstanding the lack of a 'stale period' for bank cheques, most bank cheques are presented within 18 months of being issued. A period beyond 2 years may not be necessary to support the relatively low volume of bank cheques that may remain after this time.
21. It is, indeed, likely that a small volume of bank cheques may remain unused no matter what period is used. Banks could consider approaches to dealing with these cheques following the closure of the cheques system.

Conditions for transition

22. We broadly agree with the conditions identified in the consultation paper for facilitating a smooth transition.
23. We note that one of the conditions for transition identified by the consultation paper is to find 'appropriate alternatives for *all* existing uses of cheques' [emphasis added].
24. There are some characteristics of cheques, by virtue of their analogue nature, which cannot be replicated by digital alternatives. These include those identified in Chapter 1 of the consultation paper, such as allowing for the physical transfer of money, and allowing payments to be made offline. As such, there may be some uses for which there may not be an alternative.
25. Rather than focus on finding alternatives for all uses or seeking to emulate cheques, we think the focus should be on ensuring that, post-cheques, there are ways for customers to make payments as they need.

ENDS