

Towards the digital economy:  
**Milestones report**



APRIL 2013

This paper has been prepared by the Australian Payments Clearing Association for the purpose of reporting on the decline of cheques and the transition of the payments system towards the digital economy since May 2012.



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1.0

# Introduction by Chair of APCA



In June 2011, the Australian Payments Clearing Association (APCA), as the Australian payments industry self-regulatory body, undertook to sponsor a public debate on the role of cheques in an evolving payments system. We sought widespread involvement to better understand the needs and expectations of the community, as cheque use continues its long-term decline in Australia. Our concern is to ensure that as individuals and businesses become less willing to accept cheques, those that still use cheques have alternative payment methods available to them.

In May 2012, we released a final paper summarising our findings, called *The Decline of Cheques: Building a Bridge to the Digital Economy* (the Final Report). This Final Report recognised the importance of cheques to some sectors of the Australian community. It concluded that work on the future of cheques must be placed in the context of the emerging digital economy.

The Final Report recognised that we are moving towards a “digital economy” with huge benefits for Australian businesses and consumers. The needs of current cheque users are intertwined with their participation in the digital economy. Greater use of electronic payments is a necessary bridge to the digital economy.

APCA made some Recommendations and Commitments in the Final Report which we believe will assist with the move towards a digital economy. This entails:

- Highlighting initiatives that promote access to online payments; and
- Making it easier for consumers, small businesses and not-for-profit organisations to utilise efficient payment alternatives to cheques.

APCA has undertaken to publish milestone reports on its website every six months to map the progress of financial institutions and the community in moving payments facilities towards the digital economy and providing real alternatives to cheques. This is the first Milestones Report.

Russ Rechner  
APCA Chairman





2.0

## Key Points



APCA's *The Decline of Cheques: Building a Bridge to the Digital Economy* (the Final Report) identified three key elements of the work required to build a bridge to the digital economy:

1. Managing the decline of cheques;
2. Realising the full benefits of the digital economy; and
3. Enabling full participation in the digital economy.

**This Milestone Report highlights how these elements are being met. These are some of the key points:**

- **The decline in the use of cheques continues**, with latest figures indicating that cheque use has declined by 66% over ten years to December 2012.
- **Cheque values have dropped 40%** over the same ten year period.
- **Cheques are the least used form of non-cash payments.**
- **The use of mobile phones for payments is growing**, with some financial institutions reporting online banking on mobile phones is for the first time exceeding banking done on desk-top computers.
- **The industry is developing new real-time payments infrastructure** which will improve electronic payments and provide another alternative to cheques.



3.0

# Cheque Usage

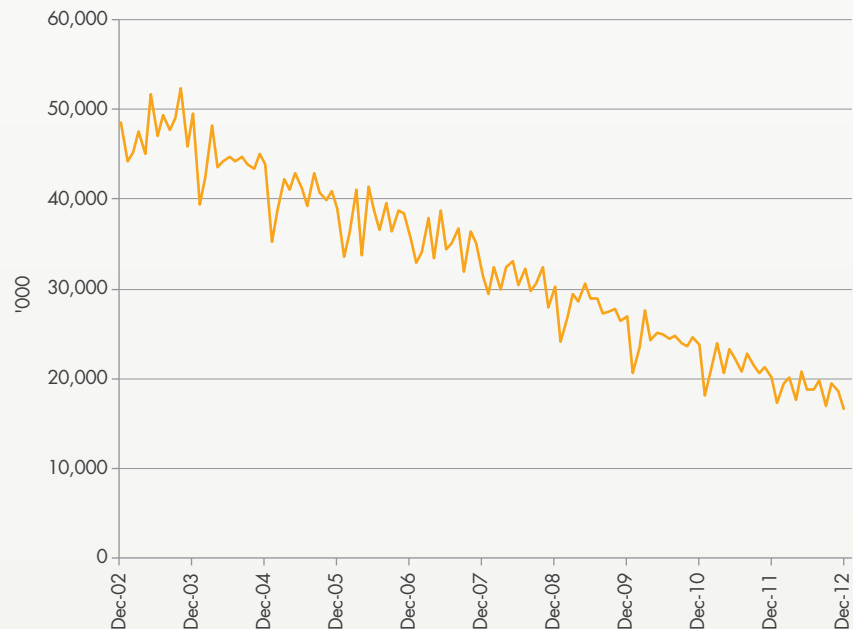


In the Final Report, APCA noted that cheque volumes have been steadily declining in Australia since the mid-1990s. More recent figures indicate this decline continues and is indeed accelerating.

## 3.1 Cheque Volumes

Between December 2011 and December 2012, the total number of cheques written dropped by 12.5% from 256 million to 224 million per year.

The decline of cheques since 2002 can be seen in the following chart of monthly volumes.



Source: Reserve Bank of Australia

The monthly figures show that cheque usage over 10 years to December 2012 dropped by 66%. Based on the current rate of decline and assuming no plateau in cheque use, it could be predicted that cheques will no longer be used in Australia by 2018.

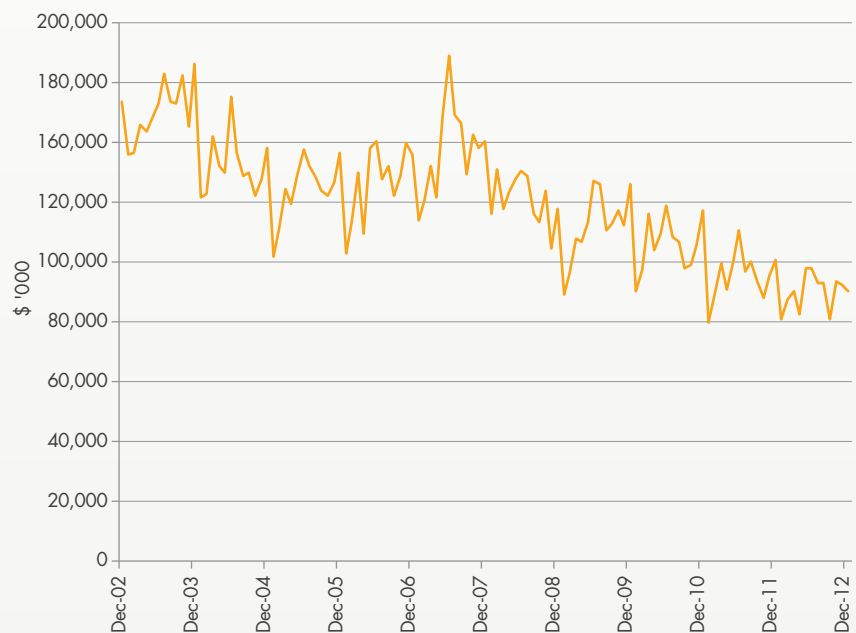
Australia is not unique in this. Cheque volumes are declining world-wide according to figures released in January 2013 by the Committee on Payment and Settlement Systems. This Committee brings together central banks and aggregates cheque figures from 19 developed (including Australia) and developing countries. It found a decline in those cheque volumes from 34.0 billion in 2010 to 31.6 billion in 2011. Interestingly about two-thirds of those cheques originate from the USA, where in 2011, over 21 billion cheques were written.

## Possible reasons for declining cheque values

- Mergers and acquisitions and retail capital raising activities have declined; as a result, shareholder payouts and dividend issuances have declined in terms of both volume and value.
- Other equity raising activities such as IPOs are increasingly involving electronic payment collection methods; shareholder registry service providers such as Computershare and Link Market Services are actively promoting online self-services to capture information, including bank account details.
- The mortgages/settlements market is experiencing a similar scenario.
- A reduced number of ad-hoc Government benefit payments may have contributed to the decline in cheque issuance from the Government and insurance companies.

## 3.2 Cheque Values

Overall, cheque values in Australia have remained reasonably resilient until recently. This reflects the fact that cheques continue to be used in high value transactions such as property settlement.



Source: Reserve Bank of Australia

The monthly statistics from the Reserve Bank of Australia show a recent decline in cheque values (see chart above). These statistics have been collected since 2002 and highlighted a peak in monthly cheque values of \$187 billion in June 2007. This has declined significantly to current figures, where between \$90 billion and \$110 billion have been observed since the middle of 2011. These cheque statistics indicate a 40% drop in cheque values over ten years to December 2012.

Between December 2011 and December 2012, the annual value of cheques dropped by 5.7% from \$1.278 trillion to \$1.207 trillion.



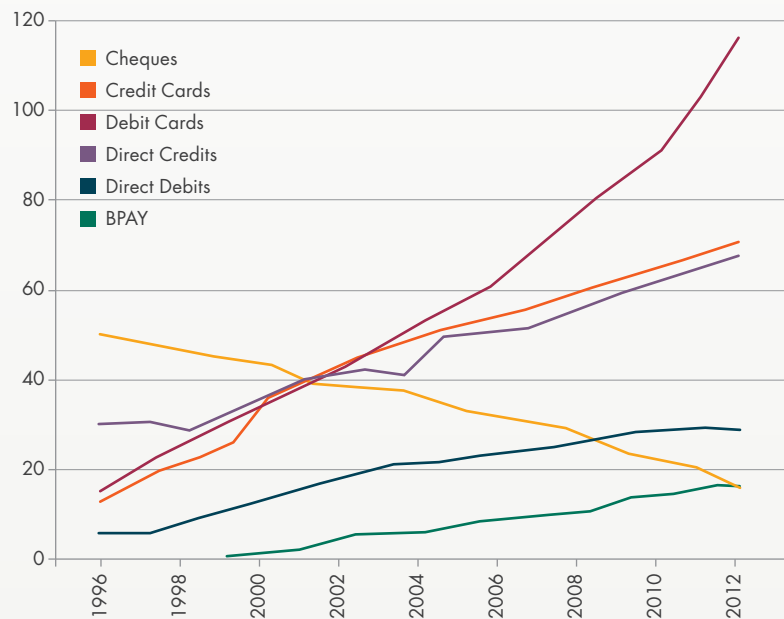
4.0

# Digital Economy Metrics



Since 2012, cheques have become the least used form of non-cash payments, with the use of debit cards (Visa, MasterCard and eftpos) outstripping any other form of payments.

Volume of Australian Non-Cash Payments per Head of Population, 1996–2012



Source: Reserve Bank of Australia and APCA

According to the Australian Communications and Media Authority (ACMA), at June 2012, 73% of internet users in Australia went online more than once a day – up by 3% on the previous year. Australians spent on average 81 hours online during June 2012.<sup>1</sup>

According to BPAY, there has been a substantial attitudinal shift by consumers in the take up of digital services. Up to 78% of Australian bill payers now receive bills or statements electronically (up from 72% the previous year).<sup>2</sup>

Technological innovations will make it increasingly easy for consumers to receive their utility bills electronically through their banks. As financial institutions roll out their next generation of mobile (and tablet) banking apps, more consumers are expected to sign up to receive and pay their bills this way.

1. See page 3 [http://www.acma.gov.au/webwr/\\_assets/main/lib310665/australia's%20progress%20in%20the%20digital%20economy.pdf](http://www.acma.gov.au/webwr/_assets/main/lib310665/australia's%20progress%20in%20the%20digital%20economy.pdf)

2. Source: BPAY TNS Usage and Attitudes survey 2012

## FI data indicates growth in mobile and online banking<sup>7</sup>

- Total number of active mobile banking customers = 1.769 million (47.5% growth over previous 12 months)
- Percentage of customers actively using online banking = 38.97% (up from 36.81% from January 2012)
- Percentage of active online banking customers using mobile banking = 50.67% (up from 36.99% from January 2012)

### *Growth of Online Retailing in Australia*

According to the NAB's Online Retail Sales Index, in the 12 months to October 2012, Australians spent up to \$12.3 billion online. This represents about 5.6% of total retail spending. The growth rates of online retailing are particularly impressive registering 26%, with traditional retailing only growing 2.2% for the similar period.<sup>3</sup>

According to research published by KordaMentha, Australia still remains about three to five years behind the USA and UK in terms of online shopping habits. However, Australia's online shopping growth rates are impressive and the gap appears to be closing. Australians remain more focussed on the convenience of online shopping while American consumers are more price-conscious.<sup>4</sup> Time will tell whether Australian consumers use online shopping increasingly for price comparison purposes.

### *Growth of Online Banking*

ACMA reports that banking represents the third largest online activity undertaken in Australia, after communications (emails etc) and research, and the percentage of users has been steadily increasing.<sup>5</sup>

### *Smart Phones: the Next Frontier*

Access to the internet by mobile phone is increasing in popularity in Australia. According to ACMA, over half (61%) of Australians have accessed the internet on a mobile phone in the six months to May 2012.<sup>6</sup> Of those accessing the internet via a mobile phone handset, 85% did so outside the home while 68% went online via their mobile phone handset within the home.

Use of the internet via mobile phone handsets continues to increase across the general population, with 32% of the population aged 14 years and over going online via a mobile phone handset during June 2012 compared to 21% during June 2011 and 13% during June 2010. However, mobile phone internet users are more likely to reside in metropolitan areas and be aged 18–44 years.

Some financial institutions have noted that the number of customers accessing online banking via smart phones recently exceeded those accessing services from desktop computers.

3. See <http://business.nab.com.au/online-retail-sales-index-in-depth-report-october-2012-2318/>

4. <http://www.kordamentha.com/docs/publications/publication-12-02-online-retailing.pdf?Status=Master>

5. ACMA Communications report 2011–12 series, "Report 2—Australia's progress in the digital Economy: Participation, trust and confidence"; at page 17

6. Ibid. at page 6

7. January 2013 data provided by an individual financial institution





5.0

# Managing the Decline of Cheques



## 5.1 Cheque Processing Efficiencies

APCA will investigate ways to improve the efficiency of cheque processing.

APCA undertook to explore ways of making cheque processing cheaper and more cost effective. In its review, APCA found that many of the costs of cheque processing are fixed and will remain high even as cheque volumes decline.

Members of the Australian Paper Clearing System (Australia's cheques system) have been considering possibilities for the dematerialisation of cheques in the clearing process – known in the industry as “imaging and truncation”. It was found that the continuing decline of cheque volumes may make such structural reform uneconomic for financial institutions and in turn, for cheque users. Members of the cheques system are currently performing their own cost/benefit and feasibility assessments.

## 5.2 Superannuation

APCA will continue to work with Government and superannuation sector stakeholders on the SuperStream reforms.

SuperStream is the Commonwealth Government's initiative to introduce e-commerce standards for superannuation contributions and rollovers, starting in July 2013. More specifically, SuperStream includes mandated data and payment standards for employers and superannuation funds. The direct entry system and BPAY are designated as means of making such electronic payments. By mid 2015, cheques can no longer be used for sending rollovers between superannuation funds or for making employer superannuation contributions.

The relevant legislation, the Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Act 2012, received assent on 8 September 2012. The supporting regulations the Superannuation Industry (Supervision) Amendment Regulation 2012 (No. 5) was approved on 6 December 2012.

Aspects of the regime are yet to be finalised, however, the first phase will require superannuation funds to exchange rollovers electronically on a standardised basis from 1 July 2013. Requirements for medium and large employers to make contributions electronically will come into effect from 1 July 2014 and for small employers from July 2015.

APCA continues to liaise with the Commonwealth Government's SuperStream Advisory Council to provide advice on issues such as electronic payments standards and industry self-governance.

### 5.3 National E-Conveyancing

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APCA will provide relevant assistance to the work of the National E-Conveyancing Development.

APCA's Final Report identified the property and real estate sector as a business sector using a higher than average number of cheques. This is mostly as a result of property settlement where many cheques may be used to disburse proceeds from a single sale.

National E-Conveyancing Development Limited (NECDL) is a private corporation set up by State and Federal Governments to develop and implement an electronic system for property transfers and settlement across Australia. NECDL reports that the first phase of this project is rolling out in the first quarter of 2013, and the major land titles offices are ready to receive property transfer notifications electronically. The first phase will provide for the refinancing of home loans between financial institutions to take place electronically. The second phase, due to be rolled out next year, will involve expanding electronic transactions to all types of property settlement including non-banking participants. NECDL is aiming for a target of 75% of all property settlement to take place electronically.

Data is not available on what percentages of cheques are used in property settlement procedures, but the impact of phase 2 of NECDL's project may well be identifiable in cheque data and APCA will continue to monitor this in future Milestones Reports.



6.0

# Realising the Full Benefits of the Digital Economy



## Real-time payments

APCA has initiated an industry project to introduce real-time payments. This will provide further support to on-going payments innovation by financial institutions.

A group of seven leading financial institutions supported by APCA have agreed with the Reserve Bank to commence a Real-Time Payments Programme aimed at meeting the strategic objectives relating to real-time payments.<sup>8</sup> The objective is to develop new real-time payments infrastructure, plus a new overlay service using the infrastructure, by end 2016.

The real-time payments solution will deal with some of the issues, such as the ability to add data with payments and simpler addressing, which were raised as impediments to the adoption of electronic payments by some cheque users. It is expected to provide a seamless and efficient payment process which in time will allow almost instantaneous and verified transfers of payments by consumers.

## 6.1 Other Commitments and Other Initiatives

APCA will develop a new payments system roadmap in 2012.

APCA will develop an industry policy position on enhanced messaging for electronic payments in 2012.

There has been rapid progress in developing a clear way forward on enhanced messaging for electronic payments and electronic alternatives for cheques, but not quite as APCA envisaged when the Final Report was published.

Instead of an industry roadmap, 2012 saw the release of the Reserve Bank of Australia's "Strategic Review of Innovation in the Payments System: Conclusions" paper. This paper identified a number of strategic objectives for the payments system, all of which will improve the convenience and value of electronic alternatives to cheques.

These strategic objectives include:

- Same-day settlement of all Direct Entry payments (by end 2013);
- Real-time retail payments (by end 2016);
- Send more complete remittance information with payments (by end of 2016); and
- Address payments in simple manner (by end 2017).

The payments industry has broadly adopted these strategic objectives. APCA and its members are already well advanced on a project to achieve same day settlement of direct entry payments by the end of the year. See "Real-time payments" box for further details.

## 6.2 Government Policy

APCA encourages Federal, State and local government to develop cross-government policies for payments use that promote electronic payments.

### 6.2.1 Treasury

The Commonwealth Treasury has acknowledged the issues raised in APCA's Final Paper and has provided valuable support in identifying the areas of Government that can best address the Recommendations. APCA believes that these issues will affect both Federal and State Governments and may need to be considered by the Council of Australian Governments or one of its committees. APCA is continuing to liaise with Treasury on this approach. See the following section for further government-initiated developments in electronic payments.

8. See media releases from APCA and RBA dated 20 February 2013.



7.0

# Enabling Full Participation in the Digital Economy



## 7.1 Promoting Digital Inclusion

APCA recommends that payments be considered within future digital inclusion and digital economy policies.

### 7.1.1 Department of Broadband, Communications and the Digital Economy (DBCDE)

The DBCDE is responsible for the roll-out of the National Broadband Network (NBN). APCA's Final Paper identified that many rural consumers were unwilling or unable to utilise online payment alternatives to cheques because of the unreliability of internet connections and a lack of familiarity with computers. APCA is of the view that the NBN roll-out could potentially provide reliability, speed and efficiency for online payments in remote areas of Australia that would address these consumer concerns.

The DBCDE reports that as the NBN is rolled out in regional centres, they are undertaking a programme of community education called Digital Hubs, aimed at consumers, small businesses and local government. Consumers are trained on the basic operations of online services, while small businesses and not-for-profit organisations are provided training on utilising the internet to improve their business operations, with one-on-one training also offered at a more advanced level.

While currently in the initial phase, this programme will eventually target 40 regional digital hubs, with 11 already operational. These education programmes are operated by tender through libraries and other public spaces. Full details about the Digital Hubs Programme can be found on the DBCDE website.<sup>9</sup>

The DBCDE also offers Broadband for seniors training, making it easy for seniors to access computers and training facilities.

APCA has offered to provide payments system-specific training material to assist the DBCDE.

### 7.1.2 Department of Human Services (DHS)

The DHS is committed to promoting the digital economy through its Service Delivery Reform programme which is promoting the use of online service delivery for its customers. This includes the creation of a number of smart phone apps that enable customers to interact with the DHS via mobile phones.

All beneficiaries are required to have bank accounts and to provide the necessary details to allow electronic payment of benefits.

9. See: [http://www.dbcde.gov.au/digital\\_economy/programs\\_and\\_initiatives/digital\\_hubs\\_program](http://www.dbcde.gov.au/digital_economy/programs_and_initiatives/digital_hubs_program)

### 7.1.3 Department of Finance

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APCA recommended that the Government pursue a whole of Government approach to encouraging electronic payments across all Departments and to ensure cheques are not the only payment alternative offered. Discussions with representatives of the Department have revealed that while there are no such policies in place, the Department is undertaking a review of its banking policy and would be reporting sometime in 2013 on the outcomes of this review.

## 7.2 Legal

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APCA recommends that policymakers and law reform bodies address regulatory barriers currently preventing a movement to electronic payments.

### 7.2.1 Legislation

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There are about a hundred pieces of legislation, both State and Federal, which mention cheques or in some way provide for cheques as the only form of payment available other than cash. It is important to note that the majority of these pieces of legislation do not mandate payment by cheques but were clearly written at a time when cheques were the only payment alternative to cash. The only exception is the Medicare Act which mandates certain payments to medical practitioners by cheque.

APCA has met with representatives of the Attorney-General's Department to discuss the implications of referencing cheques within legislation as cheques continue to decline, with a view to identifying a simple way to deal with this issue. On the recommendations of the Department, APCA has written to the Attorney-General requesting that this issue be put on the Government's law reform agenda. We will report on progress with this in the next Milestones Report as appropriate.

### 7.2.2 Legal Profession

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APCA's research identified that the legal profession was one area of business that had a higher than average use of cheques. APCA has engaged with the NSW Law Society and the Law Institute of Victoria to explore ways of dealing with this through the formation of a working party of the Law Council of Australia (which represent all the States' legal bodies). Progress on these discussions will be reported in the next Milestones Report.

### 7.3 Consumer Education

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APCA will develop an education campaign on the benefits of existing telephone, electronic and online payments.

APCA believes that some of the initiatives already being undertaken by its members and the government (for example, see section 7.1.1 on the Department of Broadband, Communications and the Digital Economy) clearly fulfil the area of consumer education and any additional campaign would be a duplication of work being undertaken elsewhere. APCA will continue to monitor developments to see whether additional education initiatives are needed.

### 7.4 Promoting Financial Inclusion

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APCA recommends that financial institutions review current EFT payment options and consider ways of improving access to these options, where necessary, for their customers, especially small businesses and not-for-profit organisations; and that financial institutions consider initiatives to provide assisted computer payment facilities in branches for customers to make online payments.

APCA surveyed its members on work undertaken to promote electronic payments to customers, the availability of in-branch computing facilities and any other initiatives underway towards facilitating the digital economy through the payments system.

#### *Promotion of Electronic Payments*

A number of financial institutions reported that they have implemented programmes to promote the use of electronic payments for their customers, targeting small businesses and not-for-profit organisations.

For example, products are available which enables customers to process credit and debit card sales securely from their iPhones and iPads. This provides same day access to funds in customers' linked business accounts for transactions settled before close of business. In addition, daily payment limits for business banking have been increased significantly and this technology also allows for co-signatory payment authorisation. These replicate an important feature provided by cheques for small businesses and not-for-profit organisations.

Branch programmes are also available to actively encourage internet and online banking usage, which promotes online and mobile banking. In addition, Relationship Managers actively encourage online business usage and assist business customers to minimise costs and maximise cash flow. This includes small businesses, not-for-profits and Government clients.

Financial institutions report that they have a number of specific products and services, including batch transaction processing within internet banking for business customers, tailored merchant facilities and preferential pricing for electronic payments. Customers are also educated on benefits of electronic banking when discussions are held with them during the course of regular banking reviews. Financial institutions also offer and encourage mobile banking.

Customers are regularly contacted to encourage use of EFT payments instead of cheques, and financial institutions report that they are in regular contact with community organisations and schools to promote the usage of internet banking with the capacity for multiple authorisations of payments.

Products are also targeted towards the social sector, as well as supporting organisations such as Give Now, which is a user friendly portal for donations to charities and offers online payment donations. Financial education is also offered via the Davidson Institute. The Davidson Institute has specific financial management courses for the social sector, small business and individuals including ones that deal with cash flow.

### *In-branch Computing Facilities*

Financial institutions reported that:

- They are introducing computer facilities available for use by customers with customer assistance provided to facilitate internet banking;
- Traditional branch layouts were being phased out by some financial institutions and replaced by an open plan layout providing a mix of self-service options and tailored advice and support from specialist banking staff; and
- ATMs are being introduced with smarter capabilities accessible 24 hours a day.

### *Other Initiatives*

Financial institutions reported undertaking a number of other initiatives to promote the digital economy including:

- Involvement in the National E-Conveyancing work (see section 5.3);
- Development of processes to facilitate delivery of remittance information with electronic payments;
- Participation in scheme-initiated marketing programmes to promote electronic payments;
- Offering real-time payments between internal customers;
- Improvement of online security features to promote online payments; and
- Liaising with government departments to encourage more efficient payment facilities and to lessen reliance on cheques.

## 7.5 Cash Research

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APCA will undertake preliminary research on the use of cash in Australia to obtain a more holistic understanding of payments use in Australia and explore possible policy responses for industry and government.

APCA will be considering the scope of work on researching the use of cash in Australia in 2013. This research will explore when and where Australians still use cash and whether or not there are any the barriers to using card and electronic payments.

Card schemes are undertaking a number of campaigns to encourage the use of cards to pay for smaller payments through, for example, contactless facilities.





8.0

## Conclusion



Cheque use continues to decline. As mentioned in the Final Report, as long as consumers require cheques, financial institutions can continue to offer this payment alternative. But as volumes decline relative to fixed costs, financial institutions will make their own decisions about the commercial viability of doing so and how to recoup these costs. Consumers, businesses and government should have effective alternative payment choices available as cheque use declines and those preferring to use cheques find it harder as a practical matter to do so.

The Recommendations and Commitments made in APCA's Final Report reflect the industry's interest in ensuring stability in the payments system into the future and addressing any gaps that may occur as cheques inevitably disappear.

APCA believes that there has been substantial progress towards meeting the Recommendations and Commitments made in the Final Report since it was released in May 2012. The most important factor in this has been the recognition by Government and financial institutions of the benefits of electronic payments and the various initiatives being undertaken that will further enhance the convenience of current electronic alternatives.

APCA will continue to report on the progress of the Recommendations and Commitments in the next Milestones Report due for publication in the second half of 2013.

