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Payments Strategy and Policy Unit
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By email only: paymentsconsultation@treasury.gov.au

Australian Payments Network (AusPayNet) welcomes the opportunity to respond to Treasury's consultation on winding down Australia's cheques system.

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. We manage and develop standards and guidelines governing payments in Australia. AusPayNet currently has more than 150 members including financial institutions, payment system operators, major retailers and financial technology companies. Our purpose is to create confidence in payments by: setting enforceable industry standards for a safe, reliable and effective payments system; leading transformation in payments to drive efficiency, innovation and choice; and being the home for ecosystem collaboration and strategic insight.

This submission has been prepared by AusPayNet in consultation with our members. In developing this submission, interested members participated in a consultation process to discuss key issues and provide feedback to inform our response to the consultation paper.

Background

As part of our role as the self-regulatory body for the Australian payments industry, AusPayNet administers the Australian Paper Clearing System (APCS), which facilitates and sets standards for the exchange and settlement of cheques between participants.

Given the significant customer-led decline of cheques over the past decade, AusPayNet has been undertaking a program of work to help ensure a smooth transition to more efficient payment methods for both users and the industry. This has involved promoting payment neutrality in legislation; driving education and awareness of the ongoing rapid decline of cheques and the need to proactively consider alternative payment methods; and, through our members, promoting those alternatives to cheque users (including the Government). Following the release of the *Strategic Plan for Australia's Payments System*, AusPayNet has also been considering whether any additional support or coordination may be required by industry and government for a smooth transition (subject to any necessary regulatory approval), as individual banks continue to make their own decisions about exiting cheques.

Transition Roadmap

AusPayNet and our members welcomed the Government's commitment in the Strategic Plan to wind down the Australian cheques system. As noted in the Strategic Plan, 'transitioning away from cheques will help achieve greater efficiency, productivity and security in Australia's payments system.'

We are also aligned with the Government's aim of 'ensuring that the transition is orderly, users are adequately supported, and adverse impacts are minimised.' With this goal in mind, the conditions for the transition proposed in the consultation paper appear to be appropriate, and broadly aligned with AusPayNet's areas of consideration for any potential industry coordination options.

However, member views on the proposed transition timelines and the scope of industry coordination are more varied. In particular, members have made the following observations:

- While acknowledging that the proposed transition plan is aligned with the timeframes indicated in the Strategic Plan, many members are of the view that the closure of the cheques system could be brought forward while still ensuring a smooth transition, with adequate communication, education and support provided to all affected users.
- While most members agree that some level of coordination would be beneficial, many members are also of the view that banks should continue to have the flexibility to transition away from providing cheque-related products and services to their customers before the cessation dates set out in the plan. Banks that have transitioned most (if not all) of their customers away from cheques would face disproportionate costs if required to remain in the system until the dates specified in the Government plan. This could be particularly limiting for smaller banks with niche customer bases. Similarly, members have noted that a Tier 1 bank that has transitioned its own customers away from cheques would be disproportionately penalised if it had to continue providing services to a Tier 2 bank that had not taken sufficient appropriate action to reduce its own volumes. Some members have suggested that the transition plan should specify 'cease *by*' dates (rather than 'cease *on*'), accompanied by volume- or customer-based threshold triggers at which a bank would be able to exit the provision of certain cheque-related services. On the other hand, some members support the proposed 'end on' date particularly for cheque acceptance, to reduce uncertainty for users about the validity of their cheques.
- As noted in the consultation paper, some banks have already announced or completed their exit from providing cheque products and services to their customers. Treasury needs to clearly set out any potential implications of the transition plan for these banks. Members generally consider that these banks should not be required to reverse any decisions made ahead of the transition plan being finalised.
- The proposed transition plan includes protracted presentment periods after each of the issuance end dates (including five years for bank cheques), which in practice is unlikely to be necessary for most users. To the extent that any of the proposed presentment periods arise due to existing provisions in the *Cheques Act 1986*, it may instead be appropriate to amend those provisions to enable a more efficient transition period.
- The experience in other jurisdictions has highlighted the importance of clear end-user communication for an effective transition. A simplified transition plan with fewer steps could help facilitate simplicity of messaging for users. One suggestion was to only have two key dates: one by which the issuance of all types of cheques must cease, and one by which all cheque acceptance must cease. An alternative suggestion was to have a single date for the end of all bank, commercial and government cheque issuance, followed by a date by which personal cheque issuance must end, and finally, one date for the cessation of all cheque acceptance. Clear and consistent messaging should also be developed around any processes that end-users may need to understand (such as how to negotiate a bank cheque drawn on a bank that has exited cheque issuing).

- Further clarity is also required on how the Government intends to put the roadmap into effect. An enforceable regulatory directive would likely assist in the successful development and implementation of an effective transition plan by all relevant industry and government entities. The Government approach would also determine the extent to which industry coordination (and any associated regulatory approvals) would be required.

AusPayNet and our members look forward to working with Treasury on refining the details of the transition plan over the coming months, to ensure that it meets the proposed conditions for a smooth transition without imposing unnecessary costs and inefficiencies on the industry.

Role of Government

Members have also continued to highlight the critical role of the Government in ensuring a smooth transition away from cheques. This was acknowledged in the Strategic Plan, which committed the Government to undertaking four key workstreams to support the transition.

While AusPayNet is broadly supportive of these workstreams, which include reducing the reliance on cheques by both Commonwealth and State and Territory agencies and departments, we consider that stronger commitments and action by the Government are required. Despite the progress made by some states, departments and agencies in transitioning to alternative payment methods, the Government sector remains a significant user of the cheques system. This, in turn, affects the ability of members to make transition plans for their own customers and service offerings. Publicly committing and maintaining the Government's focus on moving away from cheques as part of the final industry-agreed plan will therefore be critical for ensuring a smooth transition.

The Government will also need to commit to making any relevant legislative changes to enable the industry and users to follow the transition plan without risk. As noted in the consultation paper, one of the most persistent reasons for continued cheque use by businesses is due to legislation prescribing payment by (or acceptance of) cheque. Key actions for the Government in this area include:

- amending the *Cheques Act 1986* to ensure that there are no legal impediments to achieving the actions and dates set out in the transition plan;
- where there are legislative or regulatory requirements for cheques use, or any impediments to the use of alternative payment methods, working closely with the relevant states, territories and/or industries to prioritise the effective removal of those barriers; this should be followed by working with the banking industry to promote the adoption of alternative payment methods by the previously affected industries or organisations; and
- working with regulators, local governments and councils to review and address any other rules, regulations and practices that may pose impediments to a smooth transition.

Clear commitments by the Government on the process and timeframes for addressing the various legislative and regulatory barriers will also be important for enabling banks to help affected industries and organisations transition to alternative payment methods as soon as the barriers are removed.

In refining the transition plan, we also encourage Treasury to consider opportunities for delivering on the aforementioned workstreams at a faster pace than currently anticipated, given the associated potential benefits in terms of economic productivity.

More broadly, the Government can also play an important role in the transition through community education and facilitating improvements in digital access and trust. We note that the Government already has a number of related initiatives underway, particularly in the area of digital inclusion. We encourage the ongoing prioritisation of these initiatives, both for facilitating the smooth transition of certain users away from cheques, as well as for the broader benefits to society associated with improvements in digital inclusion.

AusPayNet Role in the Transition Roadmap

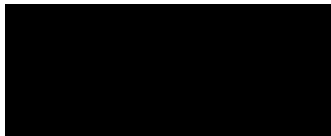
The consultation paper notes that ‘the Government expects industry to play a leadership role in ensuring the transition away from cheques is smooth and that Australians are adequately supported.’ As the industry self-regulatory body and the administrator of APCS, AusPayNet stands ready to assist Treasury in facilitating a smooth wind-down of the cheques system. More broadly, we consider that our role could include:

- facilitating further discussions between Treasury and industry on appropriate milestones and dates for the transition plan (noting that our members have expressed their willingness to engage in these conversations with Treasury);
- providing industry expertise to assist Treasury in its assessment of remaining cheque use cases and purported barriers;
- working with industry on any coordination required among members to achieve those milestones, including the development of end-user education and communication plans (subject to any relevant regulatory approvals);
- tracking industry and government progress towards any relevant transition thresholds; and
- working with members to amend the APCS procedures to facilitate a smooth transition away from cheques, and closing down the APCS framework once the relevant milestone is reached.

Conclusion

AusPayNet appreciates the opportunity to respond to Treasury’s consultation on winding down Australia’s cheques system. Setting out a clear plan for the industry and Government will help ensure a smooth transition in which all users are appropriately supported, and any adverse impacts on both users and the industry are minimised. AusPayNet and our members look forward to continuing our engagement with Treasury as it continues to progress this work over the coming months.

Yours sincerely,



Andy White
Chief Executive Officer
Australian Payments Network