



REIA RESPONSE TO THE AUSTRALIAN PAYMENTS CLEARING ASSOCIATION'S DISCUSSION PAPER: SHAPING THE FUTURE OF AUSTRALIAN PAYMENTS

JULY 2015

PREPARED BY

Real Estate Institute of Australia (REIA)

PO Box 234

Deakin West ACT 2600

Amanda Lynch

Chief Executive Officer

amanda.lynch@reia.com.au

Ph: 02 6282 4277

 [@REIANational](https://twitter.com/REIANational)

 [REIA](https://www.facebook.com/REIA)

REIA RESPONSE TO THE AUSTRALIAN PAYMENTS CLEARING ASSOCIATION'S DISCUSSION PAPER: SHAPING THE FUTURE OF AUSTRALIAN PAYMENTS

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia.

The REIA's members are the State and Territory Real Estate Institutes, through which around 75 per cent of real estate agencies are collectively represented. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880. By occupation the key data recorded by ABS Census were 64,699 business brokers, property managers, principals, real estate agents and representatives.

The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes \$300 billion annually in economic activity.

Importantly, REIA represents an integral element of the small business sector. Some 99 per cent of real estate agencies are small businesses and 11 per cent of all small businesses in Australia are involved in real estate. Only 0.6 per cent of businesses employ 50 or more persons.

REIA is committed to providing and assisting research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

The REIA welcomes the opportunity to provide a response to the Australian Payments Clearing Association's Discussion Paper: Shaping the Future of Australian Payments.

Introduction

The Australian Payments Clearing Association (APCA) is seeking submissions on, amongst other things, the use of cheques in an evolving payments system where the use of cheques, in general, is declining with electronic payments being preferred for many, but not all, transactions.

The REIA notes that the APCA recognises that many payments with real estate transactions are still paid by cheques. There are reasons for this which are outlined below. Importantly the reasons are consumer or demand driven rather than being a lack of response to the alternatives available by agents. The current electronic means of payment are not practical for many real estate transactions. This means

that unless viable alternatives are implemented, both real estate agents and those involved in real estate will be adversely affected if either cheques were withdrawn or their use discouraged by increasing the cost of cheque usage.

REIA provided a response to APCA in August 2011 on the extent of cheque use in real estate transactions. At the time, to provide valuable input to APCA and the consultation process REIA's members, the Real Estate Institutes of the state and territories, undertook a survey on the extent of cheque usage across the spectrum of real estate transactions. This survey was repeated for APCA's current reviews to not only provide a snapshot of cheque use currently but to also provide a comparison over time. Importantly, this also addresses the assertion by the APCA that as overall cheque use has "declined significantly cheques will be all but abandoned by users over the next 10 years".

REIA Survey

The REIA surveys in 2011 and 2015 asked responding real estate practitioners to indicate the level of cheque usage across the following range of transactions

- Deposits for auction sales
- Deposits for non-auction sales
- Settlement of sales
- Deposits for rental property
- Bonds for rental properties
- Regular rental payments
- Commissions
- Disbursements

The level of usage for each transaction category was specified by respondents as either

- Entirely by cheque
- Use of cheques high
- Use of cheques low

Respondents were also asked whether there were any noticeable trends in the mode of payment.

Survey Results

In interpreting the survey responses it is important to recognise the socio-economic and demographic profile of house buyers and renters. Renters are generally lower in age than the average Australian and are early adopters of technology including the use of electronic means of transferring money. First home buyers, which whilst in decline still represent around one-sixth of all home buyers, are similarly younger than the Australian average and are early adopters of technology. Other home buyers whilst older than first home buyers are generally still in the work force and as such are regular adopters and users of technology. In other words most real estate transactions are undertaken by a demographic that has access to new technologies and will use them when and where they can, if they can. If cheque usage persists in some real estate transactions there are good reasons for it and not simply reluctance for change or preference to “do things the way they always have”.

In 2011 the broad findings were

- Across the range of real estate transactions cheque use was an important part of conducting business
- For some activities transactions by cheque were either high or entirely – sales deposits, in particular at auction sales, is such an area
- For some activities transactions by cheque are low – regular rental payments is one such area
- There was a trend to direct debit transfers overall. The degree to which this was occurring depended on the type of transaction and whether the transaction occurred in a metropolitan or regional area.

The 2015 survey results show

- A decline in cheque usage overall
- The decline in cheque use has been seen predominantly in the areas of rental – deposits, bonds and periodic payments
- Whilst a moderate decline in cheque use was evident in disbursements and commission payments it was still substantial
- Cheque use is still high for deposits for sales– both auction and private treaty - and settlement
- Cheque use across all activities was higher in regional areas.

The survey results whilst confirming APCA’s observation of an overall decline in cheque use between 2011 and 2015 show that in real estate

- The decline has not been as great as APCA’s aggregate figure. In other words the trend line for real estate is a lot flatter for real estate than the aggregate
- The assertion that cheques will be all but abandoned in a decade is incorrect.

For the purposes of planning, some observations by each of the real estate transaction areas are made below.

Deposits for Auction Sales

Deposits for sales from auctions are either “almost entirely by cheque” or the “use of cheques is high”. The reasons for this are apparent when one considers that: the sale price is not known prior to auction; there are generally restrictions on the amount that can be electronically transferred; most auctions are on weekends or after hours on week days, and; a deposit is required on the fall of the hammer. Which means a personal cheque is the only convenient means of making a deposit. Some respondents noted that there was a slight switch towards ETF (electronic funds transfers).

Deposits for Non-Auction Sales

Whilst the use of cheques for deposits for non-auction is lower than for auctions it is nevertheless high according to survey respondents. The difference reflects the manner and timing of some non-auction sales. As for auction sales there is evidence of a slight trend towards EFT though in many cases this was in multiple payments because of the limit on electronic transfers.

Settlement of Sales

Survey respondents indicated that whilst the use of cheques in the settlement of sales had declined it was still the predominant way of transferring funds. This reflects more the approach taken by those involved in the conveyance of property sales rather than a preference or requirement by real estate agents or the buyers or sellers. One respondent indicated that some lawyers maintain that the requirement of their Law Society governance prevented them from using EFT.

As observed by APCA, when implemented, the movement towards national e-conveyancing platform for Australia will remove the requirement to use paper based systems for completing property conveyancing transactions, including the various payments which are involved.

Deposits on Rentals

The use of cheques for deposits on rental properties was an area that showed one of the greatest declines in cheque usage. Whilst some of the decline can be attributed to a structural change in undertaking transactions, declining vacancy rates have also contributed to this change. Most rental properties are open for inspection during weekends. With previously low vacancy ratios in the rental market, prospective renters were keen to secure a property and cheques are often the most convenient way of doing so. With lower vacancy rates the urgency is no longer there. It may well be that as the rental market tightens at some future stage that the use of cheques for rental deposits increases.

Bonds on Rentals

The use of cheques for rental bonds also showed a substantial decline in cheque usage. As the payment of a bond and a deposit on a rental often occur at the same time and as such the mode of payment would be determined by similar factors.

Regular Rental Payments

In the 2011 survey the majority of survey respondents indicated that the use of cheques for regular rental payments was low with most payments being made electronically. The 2015 survey indicates that whilst some cheque use still exists there has been a decline to very low levels.

Commissions

In the 2011 survey the majority of respondents indicated that the use of cheques for payment of commissions was low. Whilst there has been a slight trend towards use of electronic means of payment since then the 2015 survey there was a not insignificant proportion of respondents that considered the use of cheques as high. The proportion was higher outside the major metropolitan areas.

Disbursements

Whilst most respondents to both the 2011 and 2015 surveys indicated that the use of cheques in making disbursements was low the proportion has not declined notably. Again the proportion was higher outside the major metropolitan areas and was generally attributable to solicitors having a preference for cheques.

Concluding Comment

Whilst there is a trend away from the use of cheques in real estate transactions in total between 2011 and 2015 there are a number of areas of transactions, most notably sales deposits, for which there are no acceptable alternative to cheques. For this reason the decline in cheque use in real estate businesses is nowhere near the aggregate decline reported by APCA.

It is important to note that the use of cheques is driven by the participants in the real estate transaction chain – clients, conveyancers and government bodies - and not inflexibility by the real estate profession.

Unless alternatives to cheque use, that meet the requirements of those involved in the real estate transaction chain, are developed there will still be a requirement for cheques well beyond the 10 year horizon suggested by APCA.

REIA Recommendations

The REIA recommends that

- 1. Cheques stay in use until acceptable alternatives that recognise the operational requirements of real estate transactions are in place***
- 2. Fees associated with cheque usage are not increased.***