

Managing the Changing Payments Mix

Cheques as a Case Study

19 December 2018

Cheque use is in long-term, structural decline. At a point in the future, cheques will not be part of the payment landscape. The trend away from cheques has been led by consumers and businesses and is continuing. Between 2002 and 2018, the number of cheques used in Australia fell by 86%.¹ Cheques now account for only 0.4% of payments in the economy.²

About Us

The payments system is the lifeblood of the Australian economy. It touches everyone everyday: individuals, community bodies, businesses and government – and our expectations and experiences are changing rapidly.

To encourage the ongoing development of the payments system, the payments community with the support of the Reserve Bank of Australia established the Australian Payments Council (APC) in 2014. The following year, with the goal of ensuring that the Australian payments system continues to meet the changing needs of businesses and consumers in the digital economy, the APC published the Australian Payments Plan.³

That Plan discussed the occurrence that Australia's payments mix is becoming increasingly digital as consumers and businesses move away from legacy payment methods, such as cheques and cash. The shift to digital is positive, particularly if it is managed effectively.

Traditional Payment Methods: Cheques as a Case Study

Cheques have been in use for hundreds of years and reflect the technical limitations of the pre- digital age.

In November 2018, the Governor of the Reserve Bank noted the long-term decline in cheque use. In the 1990s, Australians made around 45 cheque payments per year. By 2018, this had fallen to three per year. The Governor suggested that 'it will be appropriate at some point to wind up the cheque system', noting that 'it is important that alternative payment methods are available'.⁴

Australian consumers and merchants have led this decline. While banks continue to support cheques, customers have adopted more secure, efficient and cheaper forms of payments, in particular card payments and electronic credit transfers.

¹ Reserve Bank of Australia, *Payment Statistics*, ([link](#))

² Reserve Bank of Australia, *How Australians Pay: Evidence from the 2016 Consumer Payments Survey*, ([link](#))

³ Australian Payments Council, *Australian Payments Plan*, ([link](#))

⁴ Governor Philip Lowe, *A Journey Towards a Near Cashless Payment System*, ([link](#))

Cheques are costly to consumers and merchants and extremely prone to fraud. They are easy to lose, and time-consuming and inconvenient to redeem. Because of these serious drawbacks, most consumers and most sectors of the economy have already moved to digital and online payments. However, cheque use is still comparatively higher amongst some specific areas of the economy and particular demographic groups. With fewer merchants accepting cheques, these groups may need support to cope with this transition.

Therefore, the evolution of the payments system must be both sensitive to customers' needs and managed to ensure appropriate payment options in the transition away from cheques.

Understanding the Changing Payments Mix

In 2017, the APC undertook research to inform a Plan around how to support the community's move to more effective payment forms. This research gathered insight into how and why different payment methods were used, as well as to understand how best to ensure everyone has consistent access to appropriate payment options.

This research project is the widest of its kind into the payments mix and use of payment methods in Australia. The research involved wide-ranging consultations with consumer groups, representative organisations, industry, and regulators; and canvassed how consumers and businesses interact with the payments system on a daily basis.

The research project commissioned by the APC spanned more than a year, and we had discussions with over 80 stakeholders across 30 sectors. They included industry associations, government, large and small businesses and small business organisations, regulators and trade unions. We ran focus groups with members of the public, individuals from particular demographic groups, the legal and real estate sectors, consumer groups and community organisations. We also undertook an econometric analysis of the gains to the Australian economy of removing cheques.

There was a general understanding that cheques are outdated and in decline. However, the benefits of using modern payment systems are sometimes not understood. This work, combined with earlier focus groups, identified a small number of sectors and demographic groups that have not shifted away from cheques as quickly as the broader Australian population. On the basis of this research, APC developed a series of case studies, and facilitated an industry workshop. The workshop helped build understanding of why some people continued to use cheques and sparked discussion on potential payment alternatives.

Many older Australians we spoke to were more comfortable with using cheques rather than electronic payment options. However, older people more comfortable with the internet were happier to use electronic payment options. Some small businesses noted that while they still use cheques for the occasional supplier, they could also use other payment methods and were not intimidated by electronic payments. We found that some particular sectors, such as the legal and real estate industries, were still using cheques as part of their payment mix. Finally, some Australians in rural and regional areas reported that infrastructure was a constraint on the uptake of electronic payment options.

Cheque use will continue to decline, but we should not expect that all groups will automatically follow this economy-wide trend at the same rate.

Going Forward

Our research has created a starting point. In managing the consumer-led decline of cheques, there is scope for industry collaboration, to ensure appropriate payment options are retained in the transition to digital payments.

The payments industry will build on the findings of the research project to address the key factors holding Australians back from the transition from legacy payments to digital options. We will work with business sectors and groups in the community that still use cheques to design alternatives that suit them and inform them about the benefits of consumer-friendly alternatives.

Going forward, industry as a whole has four clear actions:

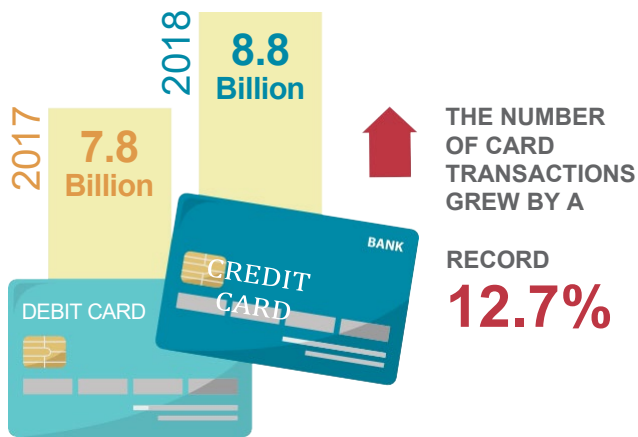
1. **Actively manage the decline of cheques** to ensure appropriate payment options in the transition away from cheques.
2. **Initiate and lead a public conversation.**
3. **Educate cheque users and encourage change.**
4. **Advocate for change** with government and other industry associations to remove formal barriers that hinder the transition away from cheques contained in legislation and industry rules.

As Australians move away from paper-based products and towards digital payments, the payments industry will continue to develop and communicate strategies to ensure we manage this transition effectively. We recognise that the benefits of this transition will reach across industry and the

Australian economy. We will seek to ensure that the payments system is technologically advanced and provides the best and most efficient payments options. We will raise consumer awareness and promote the adoption of safer, better, digital alternatives to cheques.

This collaborative approach will ensure that appropriate payment services are available to users of the Australian payment system, prior to the removal of cheques.

Consumers and businesses continue to favour electronic transactions



Source: Reserve Bank of Australia:
Figures are for Financial Years

CHEQUE USE plunged by 20%



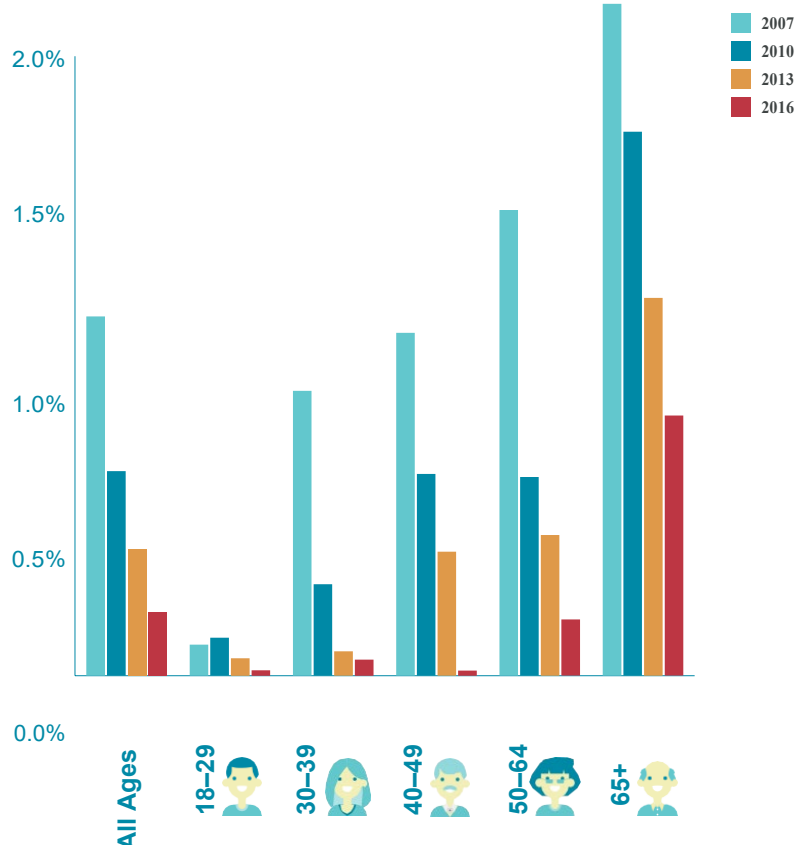
Source: Reserve Bank of Australia:
Figures are for Financial Years



DIRECT ENTRY TRANSACTIONS grew by 4.2%

Source: Reserve Bank of Australia:
Figures are for Financial Years

% OF PAYMENTS MADE BY CHEQUE by age groups



Source: RBA 2016 Consumer Payment Survey

