

Mr Arun Kendall
Industry Policy
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Dear Mr Kendall

THE ROLE OF CHEQUES IN AN EVOLVING PAYMENTS SYSTEM

The Insurance Council of Australia¹ (Insurance Council) welcomes the opportunity to provide the Australian Payments Clearing Association (APCA) with comment on *The Role of Cheques in an Evolving Payments System* (Consultation Paper). We also appreciate the meetings with APCA on 15 February and 8 July 2011 to discuss issues impacting the general insurance industry's use of cheques.

The Insurance Council's submission will provide general feedback on our members' experience in relation to trends in cheque use, factors influencing the continued use of cheques in the industry as well as alternatives to cheque use such as electronic funds transfer (EFT).

We note APCA's advice that it will not set an end date for the use of cheques as a payment option. Although many of our members no longer promote cheques as a preferred method of payment, some segments of the community are still more comfortable with the use of cheques and some insurers would currently face IT system issues if cheques were not a payment option.

The Insurance Council therefore supports APCA's focus on accelerating the move away from cheque use while giving time for people to become more familiar with the range of payment options available; required technical changes being made and where necessary (e.g. property settlements) alternative payment options being developed.

Trends in cheque use

The experience of Insurance Council members supports APCA's finding of a steady decline in cheque use. Members have observed:

- a growing customer preference for electronic means of payment, with insurers offering customers a wide range of payment options such as direct debit, direct credit, credit card and BPAY;
- a significant decrease in the number of cheques issued, with a corresponding decrease in the number of cheques received.

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2011 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$34.3 billion per annum and has total assets of \$110.8 billion. The industry employs approx 60,000 people and on average pays out about \$91 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

One large insurer reports a 40% decline in cheque use over ten years, facilitated in part by changes to customer documentation (not referencing cheques as a payment option for insurance premiums and not providing reply paid envelopes). However, insurers remain conscious that some customers, who have used cheques as the method for payment for many years, are not confident with alternative EFT methods of payment. Insurers may instead offer phone banking or Australia Post options (credit card or direct debit).

Factors which drive demand for cheque payments

Some factors reported as impacting on the continued use of cheques in the general insurance industry include:

- fulfilling a business relationship need. Some insurers customers are managed via agents and brokers, who present cheques to claimants as part of their service to the customer;
- established practices:
 - Legal and property – property settlements and legal settlements at court typically require a cheque to be presented at exchange or settlement;
 - Government - cheques are often required as a payment for government charges or unclaimed monies.

The development of efficient and secure alternative methods of payment is likely to accelerate customary behaviour away from cheque usage. Generally, Insurance Council members already provide a range of EFT processes for payments and do not report major legacy issues associated with IT systems. A small number of members advise that, for some parts of their operations, there are IT issues that need to be addressed in order to support EFTs and a reasonable transition period for any phasing out of cheques would therefore be required.

Payment alternatives to cheque use, as cheques progressively decline

Our members consider electronic direct credit payments to be a preferred alternative to cheques, due to the low cost and ease of processing. Consideration could also be given to the advantages of a simple, secure electronic settlement system; separate from any proprietary banking system which could be developed over the longer term. We look forward to continued discussions with APCA as it further considers the role of cheques in Australia, including alternative methods of payments.

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate at janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director & CEO