



Ripping up the chequebook

How to improve cash flow management and reduce costs by minimising the use of cheques

The demise of cheques

The use of cheques has fallen significantly over the past decade as electronic payment methods have accounted for a growing proportion of transactions.

While most businesses still accept cheques, they are increasingly seen as a laborious way to receive payments. Cheques also make it harder to manage cash flow, and open up the risk of fraud. In addition, cheques are the most expensive payment method in Australia.

In contrast, electronic payment methods like direct debit and credit, BPAY and electronic funds transfers are among the least expensive transaction methods. They also allow businesses to regain control of their cash flow, help streamline payments and reporting systems, and are more secure than cheques.

For all these reasons, the Commonwealth Bank (CommBank) predicts the cheque will be all but extinct in future. But you don't have to wait. You can take action now to reduce your reliance on cheques and realise the benefits of going electronic.

A global trend

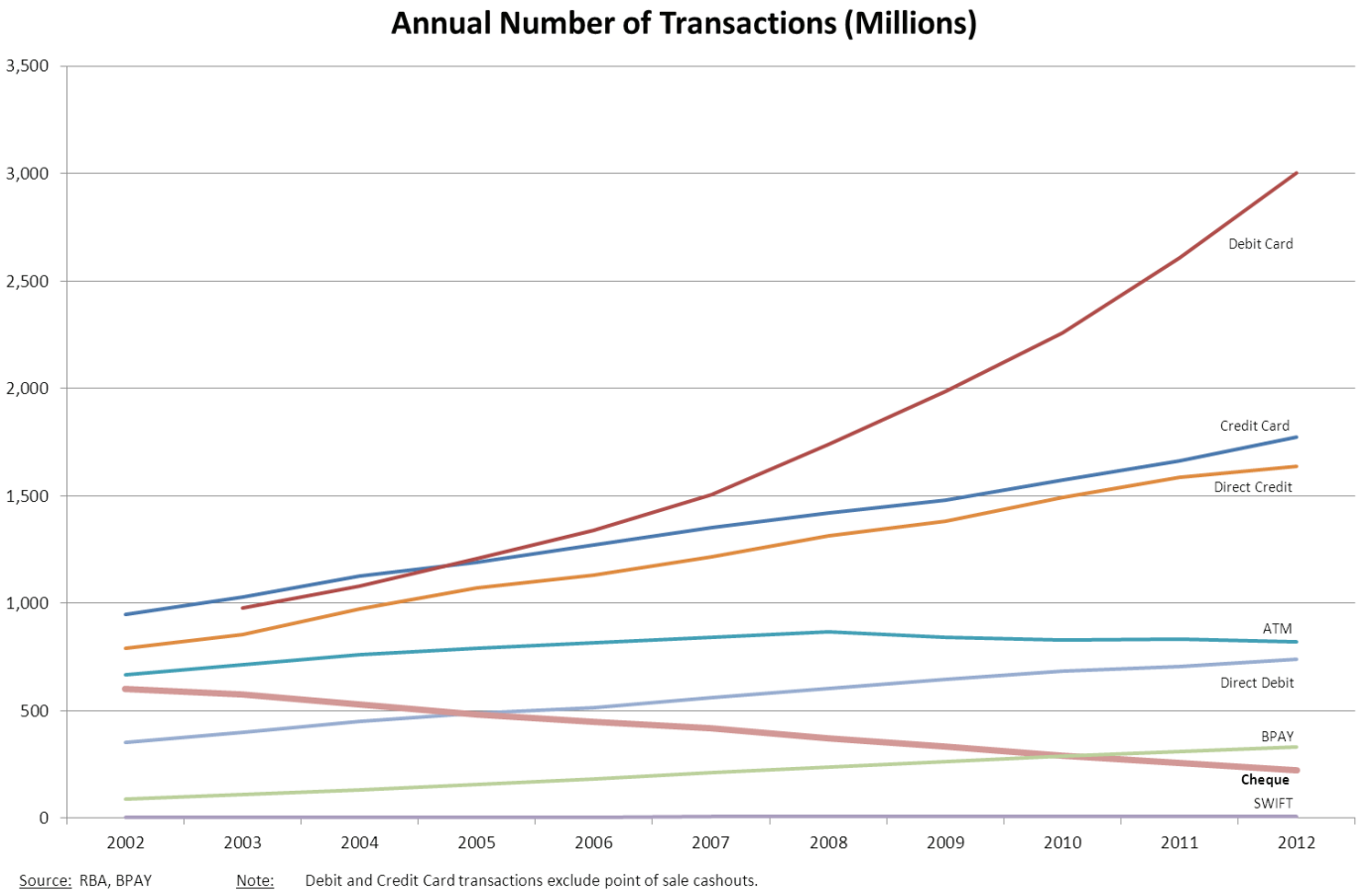
Cheque usage is plummeting across the globe. The number of cheques written worldwide in developed countries fell by 24 per cent between 2007 and 2011.

Source: Statistics on payment, clearing and settlement systems in the CPSS countries, 2013.

This trend is even more pronounced in Australia. The number of cheque payments made in Australia has fallen by two-thirds in the past decade, and by a third in the past three years alone (see Figure 1). To put it another way, the number of cheques the average Australian wrote in 2002 was 31; in 2012 it was just 10.

The reason for this decline is simple: cheques are rapidly becoming a barrier to effective payment in a world of instant global funds transfers, BPAY, contactless payment and electronic wallets.

Figure 1: Payment methods in Australia, 2002–2012



The cost of cheques

Paying by cheque is a lengthy, multi-stage process that adds additional costs at every stage and invites the risk of error, loss or fraud. From a business perspective, cheque payments hinder effective cash management – how often have you been told that ‘the cheque’s in the post’? In contrast, most electronic payments can be carried out at the click of a button, enable faster payment and reconciliation, and are significantly cheaper.

Cheques are also expensive to process. Indeed, they are Australia’s most costly means of payment (see Figure 2).

Figure 2: Transaction costs

Method	Cost
Direct debit:	\$0.51
BPAY	\$0.97
Credit card	\$1.28
Cheque	\$5.17

Source: Schwartz, Fabo, Bailey, Carter (RBA 2007)
Payment Costs in Australia

Transaction costs refer to the costs to businesses and consumers for using cheques and includes both direct costs (fees) and indirect costs (processing and reconciliation effort). It excludes the costs to Financial Institutions.

The cost of processing cheques continues to increase due to overheads being spread across fewer transactions as fewer cheques are written. Processing costs will only rise further as cheque use falls.

Businesses accepting cheques and banks processing them can only absorb the growth in per unit costs for so long before they are forced to pass on these costs to customers. The statistics clearly show that cheques are no longer economically viable as a means of payment – and now is the time to consider alternatives.

The benefits of alternative payment channels

Switching to electronic alternatives to cheques can deliver significant benefits for businesses and their customers.

Increased cost savings

By minimising the volume of cheques you receive (and, to a lesser extent, the number of cheque payments you make), you can significantly reduce the cost of doing business. (see Figures 3 through 6).

For Example:

Figure 3: Outgoing payments (Direct Cost Only¹)

Number of Cheques per year – 2,000

Standard cost per cheque	\$0.70 -> 2000*\$0.70 = \$1,400
Standard cost of a BPAY Transaction	\$0.25 -> 2000*\$0.25 = \$500
Standard cost of a Direct Credit Transaction	\$0.25 -> 2000*\$0.25 = \$500
Cost saving if all payments were made using either BPAY or Direct Credit	\$900
This equates to a saving of	64%

Figure 4: Incoming payments (Direct Costs Only¹)

Number of Cheques per year – 5,000

Standard cost per cheque \$0.70 + over the counter fee of \$1.10 per group of cheques deposited (approximately 20 per group)	5000*\$0.70 + (5000/20)*\$1.10 = \$3,775
Standard cost of a Direct Credit Transaction	5000*\$0.25 = \$1,250
Cost saving if Direct Debit were used instead of cheques	\$2,525
This equates to a saving of	67%

Figure 5: Outgoing payments (Indirect and Direct Costs for Business and Consumer²)

Number of Cheques per year – 2,000

Transaction cost per cheque	\$5.17 -> 2000*\$5.17 = \$10,340
Transaction cost for a BPAY payment	\$0.97 -> 2000*\$0.97 = \$1,940
Transaction cost for a Direct Credit Transaction	\$0.51 -> 2000*\$0.51 = \$1,020
Cost saving if all payments were made using BPAY	\$8,400 (81% saving)
Cost saving if all payments were made using Direct Credit	\$9,320 (90% saving)

Figure 6: Incoming payments (Indirect and Direct Costs for Business and Consumer²)

Number of Cheques per year – 5,000

Transaction cost per cheque	\$5.17 -> 5000*\$5.17 = \$25,850
Transaction cost for a BPAY payment	\$0.97 -> 5000*\$0.97 = \$4,850
Transaction cost for a Direct Credit Transaction	\$0.51 -> 5000*\$0.51 = \$2,550
Cost saving if all payments were made using BPAY	\$21,000 (81% saving)
Cost saving if all payments were made using Direct Credit	\$23,300 (90% saving)

Assumptions

1. Standard cheque fees applied
2. Full transactional cost from Figure 2 (RBA 2007 paper)

Improved cash flow management

You can also exploit several other advantages of electronic payments. Electronic payments assist with cash flow management by giving you control over when payments are made or received, rather than having to wait for the other party to send or cash a cheque. In addition, they eliminate the cost associated with bouncing cheques.

Faster reconciliation

Reconciliation is faster because most electronic payments include key reconciliation information as a matter of course. Some types provide daily and intra-daily reporting, further reducing reconciliation time.

Reduced risk of fraud

Electronic payments also help reduce fraud by providing a full audit trail, as well as reducing the risk of incorrect or lost payments.

Business Insights

There is limited data / insights available for cheques. Alternative channels, such as cards, electronic payments and BPAY, have much richer information which we can provide as a value-add to clients, such as the Better Business Insights report and Daily IQ.

How to reduce cheque volumes

It is not difficult to reduce your reliance on cheques, especially if you work closely with your banking partners. CommBank is frequently contacted by clients looking for ways to reduce cheque volumes and we recommend employing the following strategies.

1. Understand your cheque usage

Before you can act to reduce volume, you should first understand how you're using cheques. Benchmark your use of cheques against industry averages and evaluate customer awareness of alternative methods of payment. You should also consider whether particular electronic methods are more suitable for your purposes.

2. Assist payers to use alternatives

You should encourage payers to use electronic payment methods, rather than cheques. There are a number of ways to do this, including:

- charging for non-electronic payments
- discounting payment amounts for those paying electronically
- offering prizes for those paying electronically
- telling customers about the benefits of electronic payments
- removing cheques as a payment option entirely (one insurer reported a 40 per cent decrease in cheque usage after removing the 'cheque' option on payment slips and no longer providing reply-paid envelopes, according to the Insurance Council of Australia).

3. Reduce your reliance on cheques

You should also investigate areas where you can reduce your reliance on cheques to make payments. You should:

- review supplier arrangements and convert to electronic payment channels where available
- contact suppliers and request access to electronic channels where none are available
- use electronic funds transfers for bulk payments.

Important information

BPAY is a registered trademark of BPAY Pty Limited ABN 69 079 137 518.

As this advice has been prepared without considering your objectives, financial situation or needs, you should, before acting on the information, consider its appropriateness to your circumstances. Terms and Conditions (T&Cs) are available at the CommBank website or on request. You should consider these documents before making a decision about any products or services mentioned herein.

Commonwealth Bank of Australia ABN 48 123 123 124 AFSL and Australian credit licence 234945

How the Commonwealth Bank can help

CommBank's specialist consultants can design a customised plan to help you reduce cheque volume, save money and streamline payment processes. We can:

- provide a customised report detailing how your cheque usage compares to the average in your industry
- estimate the additional costs you incur due to handling cheque payments, and the savings from alternative payment methods
- review your cheque usage and recommend how payment processes can be streamlined
- provide you with details of products and channels that will help you transition away from cheques, such as BPAY, direct credit and debit, E-Lockbox and electronic funds transfers
- help design communication strategies to reduce customer cheque usage
- advise how to manage customer reactions when introducing a policy to surcharge for cheque payments or stop accepting cheque payments.

Our solutions

We offer a range of payment methods, including:

- Direct credit: allows you to make a direct transfer to bank accounts held at Australian institutions
- BPAY®: allows you and your customers to pay bills online or over the phone
- Priority payments (RTGS): a dedicated service for high-value, same-day payments, with guaranteed cleared funds for the recipients
- Direct debit: allows you to automate regular, recurring payments from your customers
- E-Lockbox: an advanced form of direct entry payment, with a dedicated BSB allocated for your use
- Card payments: allows you to pay and receive payments by debit and credit card.

Together, we can reduce reliance on cheques and make sure everyone benefits from the digital economy. To find out more, please contact your CommBank Relationship Manager.

