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Killing the Cheque

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Killing the Cheque

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Abstract

This project explored the reasons why businesses in Australia still use cheques, given that the cost-benefits and efficiencies of electronic payments are overall far greater than that of paper based transactions. We interviewed small to medium businesses (SMEs) to find out the payment channels they were using to pay bills and also to understand how they in turn received income from both businesses and individuals. We gained an understanding of the areas in which cheques are still being used in business and of the preferences of SMEs when paying bills or receiving income. We suggest that the cheque is in its death throes as a payment channel but that a number of electronic payment channels rather than just one are replacing it.

Keywords: payment methods; small to medium businesses (SMEs); electronic payments; paper based transactions
Introduction

Before the 1990s and the widespread use of the internet, most financial transactions were undertaken through either cash or cheque. Australia, like the United States (US), is a country which still uses cheques in a significant way to buy and sell goods and services, unlike other countries such as members of the European Union (EU), which have moved more to direct debit payments. A study on payments, conducted for the Department of Communications Information Technology and the Arts (DCITA) in 2006, supported the finding of earlier studies which found that cash and cheques are the most widely accepted payment methods for in-person sales (DCITA, 2006). In addition, business to business (B2B) payments, government payments, superannuation payments, employee expense reimbursements and bill payments were areas that still significantly relied on cheques. For example, cheque was the method most widely used by business for making payments to suppliers (95 percent), followed by direct bank transfer (80 percent) and credit cards (31 percent) (DCITA, 2006). However, the report (DCITA, 2006, p. 3) noted that:

Cheques are cited as the payment method that causes the most issues and challenges [for business]... and are viewed as being the most expensive method of receiving payments from businesses.

The total value for cheque use in Australia has steadily decreased at around 6 percent per year since 1997 (DCITA, 2006). This mirrors the worldwide trend in the declining use of paper based payment methods. Particularly for larger payments, the DCITA report found that cheque payments were being replaced by direct credits and debits which ‘emulate the advantages of cheques in controlling cash flow’ (DCITA, 2006).

Business finds cheques expensive to process and more likely to lead to identity and fraud problems. Data collated by the Australian Payment Clearing Association (APCA) indicated that in 2006 ‘there were approximately 2,400 instances of cheque fraud’ (Reserve Bank of Australia (RBA), 2007, p. 13). Yet it appears that many businesses still purchase goods using cheques.
This article explored why businesses continue to use cheques and whether there are any barriers to replacing cheques with e-payment systems. It explored whether businesses continue to use cheques partially because their current business systems are set up to do, their clients and customers prefer to pay invoices that way, and/or they use cheques to provide an audit trail.

**Types of Payment Channels**

Payment products used in Australia now include cash, payment cards, paper products and electronic products. Electronic payment products include direct debit, direct credit, BPAY, and Post Bill Express. A 2007 report on multi-channel merchants in Australia noted that ‘merchants and customers have a plethora of alternative payment systems with many being neither a true pull nor push option’ (Edger, Dunn and Company, 2007, p. 1). An example of a pull payment system is a direct debit, where the merchant or biller initiates the electronic transfer from the customer’s specified bank account. An example of a push payment system is BPAY where the payment is initiated by the customer to the biller or merchant. There are also relatively new electronic payment products (e-payment), such as Google Checkout, PayPal, Paymate and Technocash.

**Trends in Cheque Use**

In the last 10 years, paper payment methods such as cheques have been replaced to a large extent in Australia by e-payment products. Both the volume and average value of cheques has decreased in this time. Reserve Bank of Australia (RBA) data shows that use of cheques declined from more than 80 percent of the dollar value of non cash retail payments in 1995 to approximately 14 percent in 2007 (DCITA, 2006; RBA, 2007). At the same time, electronic payments such as the direct crediting of salaries and direct debits to pay recurring bills have expanded rapidly (DCITA, 2006). Data collected by the Australian Payments Clearing Association (APCA) shows that in May 2007, 40.3 million cheques were processed with a value
of $160.3 billion, compared to May 1997, when 82.2 million cheques were processed with a value of $549.1 billion (APCA, 2007). While the number of cheque payments fell by eight percent during the 12 months from July 2006 to June 2007, all other non cash retail payment methods grew with debit/credit cards increasing by 14.8 percent, BPAY by 15.6 percent and direct debits/credits by 16 percent (RBA, 2007). Electronic channels account for 91 percent of all non cash payment retail payments, with debit and credit cards being the most commonly used (RBA, 2007). The RBA noted that ‘direct entry payments now account for 34 percent of non cash retail payments by number and 83 percent by value’ (RBA, 2007, p. 9). The high percentage by dollar value reflects the nature of payments made through the system such as payroll, social security payments, tax payments, business dividends and mortgage repayments and the fact that most financial institutions now offer ‘pay anyone’ facilities which allows for ‘direct credit payments over the Internet’ (RBA, 2007, p. 9).

The Australian experience mirrors the trends in cheque use world wide. Other countries that have traditionally had a high use of cheques such as the US, Canada, the United Kingdom (UK) and New Zealand have also shown consistent declines at around 6 percent per year since 1997 (DCITA, 2006). For example, in the US in 2006, the Federal Reserve banks cleared 9.2 billion automatic clearing house (ACH) electronic transactions, whose volume has been rising steadily for years, and 11.1 billion cheques, whose volume has been declining since 2001. It is estimated that by the end of 2007, monthly ACH electronic payments will exceed monthly cheques at the Federal Reserve banks (Bills, 2007).

In January 2007, the Federal Banks in the US announced that additional studies would be undertaken in relation to the current composition of the US retail payments market (Federal Reserve, 2007). The studies will follow up on research undertaken in 2001 and 2004 and will ‘quantify the number and value of checks being written’ in the United States and ‘quantify the number and value of electronic payments’ (Federal Reserve, 2007, p. 1). The previous 2001 and 2004 studies had shown a significant shift in payment methods away from cheques toward
electronic payments (Federal Reserve, 2007). In 2001, the number of cheques being paid in the US was approximately 41.9 billion, which exceeded the number of electronic transactions by 11.3 billion (Federal Reserve, 2004, p. 3). However by 2004, the number of electronic transactions exceeded cheque payments by 7.8 billion (Federal Reserve, 2004, p. 3, 2007, p. 1). During this period, cheque usage in the United States fell annually by 4.3 percent compared to an annual increase in the use of electronic transactions of 13.2 percent (Federal Reserve, 2004, p. 3, p. 5).

Even with a different payment system model than that is used in Australia, UK retailers are also abandoning cheques in favour of card payments, although it should be noted that a cheque guarantee scheme for merchants is in place. The UK payments association, APACS, reported that 5.3 million cheques were issued daily in 2005 compared with 22.8 million card transactions. This compares to 11 million cheques issued daily in 1990 (Market Watch, 2006).

The 2006 survey by DCITA into the Australian electronic payments market found that the payment method preferences of Australian businesses are influenced by business size and type. Since the majority of small businesses (63 percent) sell primarily to consumers, the DCITA survey found that in relation to non-cash payments, small businesses prefer to receive cheques rather than credit card payments. However, with the majority of large businesses (64 percent) selling primarily to business and government, the DCITA survey found that large businesses consider cheques the most expensive payment method for B2B transactions (DCITA, 2006). The survey however did not explore these perceptions and preferences of respondents any further. However, both small and large businesses preferred direct bank transfers for B2B payments rather than cheques which are viewed as more costly.

Even though Australian businesses pay 91 percent of salaried employees by direct bank transfers, many businesses still relied on cheques for payments to other businesses, employee superannuation and reimbursements (DCITA, 2006). One factor for this could be that internal
payment systems such as MYOB used by many small businesses require the purchase of additional services and features as well as transactional costs to be paid to enable electronic transactions. Also accounting systems such as MYOB require a default payment option to be set for each supplier in the system. The payment option selected is often the preferred payment method of the financial officer and the payment options and procedures can be inherited from when the system was set up.

The DCITA report also surveyed consumers and found that consumers continue to use cheques due to a perception that cheques are the preferred payment method of business, despite DCITA’s business survey and other surveys showing that business prefers electronic payment methods rather than cheques (DCITA, 2006). The DCITA report also found that many consumers view cheques as more anonymous than electronic payments despite similar information being provided when using either cheques or electronic payments. Changes to the cost of usage and trust in the security of personal and payment information are expected to have the largest impact on consumers’ increasing use of electronic payments instead of cheques and other paper payment products in the future (DCITA, 2006).

**The Cost of Cheques vs Electronic Payments**

The 1997 Wallis Inquiry report showed that cheques were the most expensive form of payment across the whole economy, followed by cash, ATMs and EFTPOS. Direct credit was viewed as being the cheapest (DCITA, 2006). This analysis is consistent with figures produced in 2007 by the Centre for International Economics (CIE) and Edger, Dunn and Company (EDC) in the study on multi-channel merchants in Australia. The DCITA report found that cheque payments involved approximately five times the resource costs of direct entry (DCITA, 2006).

The DCITA report estimated that an annual saving of $2 billion could be achieved for Australia by shifting payments above $20 from cash to e-payments, lowering the threshold where e-
payments are more efficient than cash, increasing e-payments for bills and migrating cheques to direct entry (DCITA, 2006). By shifting superannuation payments made by cheque to direct entry, a 20 percent reduction in B2B payments made by cheque combined with a 30 percent reduction in bills paid by cheque would result in an overall reduction in cheque use by 30 percent. A 30 percent reduction in cheque use in favour of direct entry would result in a $190 million saving to the economy each year.

In addition to the production costs of cheques, businesses have cited cheques as providing the most issues and challenges out of the various payment methods (DCITA, 2006).

**Barriers to adoption of Electronic Payments**

Given that there are obvious long term benefits for businesses in adopting electronic payment methods, why are businesses continuing with paper based payment options? As mentioned in the introduction, cash and cheques still appeared to be the most widely accepted payment method for shop front sales in 2006. In addition, business to business (B2B) payments, government payments, superannuation payments, employee expense reimbursements were areas that still significantly relied on cheques. In the B2B environment, ‘the need for remittance advice accompanying the payment continues to favour the use of cheques’ (APCA, 2003, p. 4).

It may be that businesses are still doubtful about whether there is an overall benefit in using electronic payments for such transactions in the current market environment. Forty five percent of businesses receiving payment from B2C transactions preferred cash or cheque to e-payments. Businesses were not making or seeing strong business cases for adopting electronic payments facilities. Barriers preventing the adoption of e-payments appeared to relate to concerns over privacy and security, financial and technological literacy of consumers and merchants, perceived loss of control in relation to electronic payments, limited accessibility for consumers and the high cost of providing supplementary payment information (DCITA, 2006).
B2C businesses and consumers may also be subject to the ‘prisoner’s dilemma’. Businesses may not willing to change their payment receipt methods because they do not know if consumers will use their products, and consumers may not be willing to change their payment methods because they are unsure of whether business will accept this change. There is currently no way for businesses and consumers to coordinate their payment activity.

There seems to be an age demographic divide in relation to the use of electronic payments. Sixty five percent of individuals aged over 50 years old surveyed by DCITA continue to use cheques for payments compared with only 9 percent of individuals aged between 16-30 year olds (DCITA, 2006). Also with the level of Internet use decreasing as age increases, age could be a barrier to the death of the cheque. Australian Bureau of Statistics data shows that between 82 and 93 percent of individuals aged 15 to 34 access the Internet, compared to 69 percent of individuals aged 45 to 54, 54 percent of individuals aged 55 to 64 and 19 percent of individuals aged over 65 (ABS, 2006a).

Another barrier to an increase in e-payment over cheque use lies in how payment services are priced. All payment systems have either direct and or indirect costs. Direct costs relate to transactional fees such as interchange fees imposed by financial institutions. In some cases, the consumer will bear the transactional fees say when using a debit card, after a number of fee free transactions. In other cases, such as where a consumer uses a credit card, the cost of the transaction is borne by the merchant (Reserve Bank of Australia and ACCC, 2000, para 19). Kniberg noted that ‘if a payment system is too expensive for users (consumers) they will not use it and likewise if a payment system is too expensive for business they will not accept payments through it’ (2002, p. 18).

There are also regulatory issues in that there is no overarching regulator for the payments system in Australia, rather a number, including Australian Prudential
Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission (ACCC) and the Reserve Bank of Australia (RBA) control and influence the payments system.

This multi-layered level of regulation does not facilitate new systems and technologies entering the market. Money Switch Limited argued in its submission to the RBA 2007/08 review of the payment system that the fact that their product, Tyro Payments, is the only new competitor to enter the payment industry reflects the significant barriers for entering the market (Money Switch, 2007, p. 1). The layered regulation also creates a lack of consumer understanding about their rights and responsibilities in relation to electronic payments. For example, consumers do not have a clear understanding of who owns the risk of fraud.

Findings from the Interviews

This project explored the reasons why businesses still use cheques, given that the cost-benefits and efficiencies of electronic payments are overall far greater than that of paper based transactions. We interviewed small to medium businesses (SMEs) to find out the payment channels they were using to pay bills and also to understand how they in turn received income from both businesses and individuals.

The research team interviewed a range of SME enterprises to ensure different industry sectors where examined. The organisations fell into the following categories:

<table>
<thead>
<tr>
<th>Construction</th>
<th>Not for Profit</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Delivery</td>
<td>Professional Services</td>
<td>Sporting Organisations</td>
</tr>
<tr>
<td>Government</td>
<td>Publishing</td>
<td>Utility</td>
</tr>
<tr>
<td>Health</td>
<td>Restaurants</td>
<td></td>
</tr>
</tbody>
</table>

A total of 21 organisations were interviewed with between one and three interviews conducted within each of the above industries. These interviews were taped in most cases and then
transcribed for analysis. Table 1 below sets out the main payment channels used by the organisations interviewed when paying invoices and when receiving payments. Four organisations either accepted or paid via BPAY. Based on the interviews undertaken, no generalisations can be made as not all industry sectors are represented by the organisations interviewed. However this research allows the trends in how organisations receive and make payments to customers and suppliers respectively to be examined.
<table>
<thead>
<tr>
<th>Payment Channel</th>
<th>Payments flowing out</th>
<th>Payments flowing in</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austraclear (A computerised cash and securities settlement system for the money market (used by government, semi-government and private-sector).)</td>
<td>Very large payments, particularly government to government.</td>
<td>Large government payments.</td>
</tr>
<tr>
<td>The BPAY bill payment system</td>
<td>To utilities, except for government departments.</td>
<td>Used only by a few clients and customers to pay bills and subscriptions</td>
</tr>
<tr>
<td>Cash</td>
<td>Petty cash; reimbursement of employee expenses; some casual salary payments (e.g. restaurant).</td>
<td>Donations; walk-in or one-off clients (e.g. retail, restaurant).</td>
</tr>
<tr>
<td>Cheque</td>
<td>Where multiple signatures are required for payment; if sub-contractors require ad-hoc payments; or where the finance manager or the Board has a preference to pay this way (but this often a generational issue).</td>
<td>Regular clients who are responding to invoices; donations; subscriptions.</td>
</tr>
<tr>
<td>Credit/debit card - A bank-issued card that allows consumers to purchase goods or services from a merchant (on credit in the case of a credit card, or with funds from a bank account in the case of a debit card).</td>
<td>Travel; utility bills; lunches; catering; last minute payments; purchases made over the Internet.</td>
<td>Credit cards provide a clear audit trail. Not used by government. Other than that, all sorts of payment, including walk-in or one-off clients; regular clients; donations; subscriptions.</td>
</tr>
<tr>
<td>Direct Debit (A pre-authorised deduction of funds from a customer’s bank account)</td>
<td>Some utilities.</td>
<td>Regular business to business clients.</td>
</tr>
<tr>
<td>EFTPOS (An immediate transfer from the customer's savings, cheque or credit account to the vendor's bank account.)</td>
<td>Not applicable</td>
<td>All sorts of payments. Walk-in or one-off clients; regular clients; donations; subscriptions.</td>
</tr>
<tr>
<td>EFT (Electronic movement of money between bank accounts)</td>
<td>Business to business payments, esp. for regular suppliers. Banks and accounting packages provide ways to do this easily.</td>
<td>Regular clients responding to invoices.</td>
</tr>
<tr>
<td>Payments to or from overseas (This includes several different sorts of payments: bank to bank; EFT; cheques; postal notes and money orders.)</td>
<td>Bank to bank payments; some EFT payments, but it is a problem area.</td>
<td>Internet sales via credit card and PayPal.</td>
</tr>
</tbody>
</table>

Table 1: Payment Channels used by the Organisations Interviewed

The study shows that for small to medium sized businesses there are two distinct types of payments; recurring and one off. For recurring payments, businesses are more like to pay via an
electronic transaction such as an electronic funds transfer (EFT) as systems are often set up to receive payments via this method and as a payer businesses have access to banking systems allowing electronic transactions. However for one off payments, businesses are still likely to use traditional paper based methods such as cheques, given that many businesses are not geared electronically to receive and reconcile payments made directly into their bank account with reconciliation being a main drawback in the use of electronic transactions. We found that the use of cheques and receipt of cheques by the organisations we interviewed was decreasing. Generally cheque use by businesses occurred in two circumstances only. First, when the business structure, such as a partnership, required that payments be authorised by more then one person. Second, when the finance manager was using a legacy system which was designed around paying by cheque and the system has not been up-graded. Receipt of cheques by businesses was very limited, except for a not for profit organisation which received a number of donations by cheques and the construction company. Businesses such as the health practice, retail store and sporting organisation received some cheques.

Electronic Funds Transfer (EFT) was the preferred mode of both payment and receipt by the businesses interviewed.

I do not use cheques, very often, I prefer not to. I prefer when people do give me their direct banking details. I don’t think [cheques] are helpful for anyone. The postage, the stamp, the envelope, the time, it is not efficient, it is not necessary. It does happen sometimes, but on rare occasions. Cheque books last a long time.

More and more, people are paying us electronically as well. Any invoices we have issued we have our bank account details on the bottom so that they can pay us directly. A lot of our funding bodies, most of them, governments... they pay us directly into our bank accounts, which is great.
Most of the local government councils are starting to pay us electronically as well. They have always been cheque based systems, but a lot of them are moving to electronic payments.

Victorian Sporting Body

I know the corporate GM is keen to get rid of cheques, he wants everything on EFT if not Austraclear (depending on they type of company that can be involved with it). The aim is to get everything on EFT. That is going to be a project [to get EFT details for all suppliers] that we will do later this year.

That is the plan, [not to pay by cheque] we will still keep cheques for emergencies, it is part of our risk profile and for things like petty cash, but other than that, basically the aim is not to do it.

State Government Corporation

Our preferred method is EFT both in receipt and payment. … It is cleaner, we still get a lot of cash [and cheques] and you have to consider from a security aspect, you don’t want the staff handling a lot of money, even though they’re cheques it still puts them into a risk situation. The security aspect is a large component of our preference and [cash and cheques] is time consuming, the procedures, you write it up, you bag it, take it to the bank, you reconcile, the bank has another ½ dozen steps, whereas with EFT you print the bank statement out every day, it is much cleaner.

Not for Profit Organisation

[EFT is] easier to just do it so you know the money is gone, you can see that it is transferred out of your account you know they have been paid and it is done with but cheques can sort of hang around and sit there and getting cheques printed up costs a bit of money.

[Using cheques] is still more time consuming for those people to sit down and sign 20 cheques, but to sign one bulk EFT (20 payments), they can just authorise all 20 with a signature … but with a cheque they have to sit down and sign each cheque individually
[I prefer to pay bills] electronically. It doesn’t really matter between EFT and BPAY; there are pros and cons for both as far as speed.

I think each of them has their own little quirks about basically how long it takes to process a transaction but both of them are faster than writing a cheque plus you save yourself the 50 cents on postage.

Restaurant Owner

There are difficulties associated with EFT, primarily that the business may not know when and if and by whom the bill has been paid, and that there is some work in finding a supplier’s bank details, and advising the bank. These areas need to be addressed to streamline EFT use.

The only thing that would make it work better is if the bank statement had more details on it. It’s hard to find where the funds came from especially international transactions, Australian [electronic transfers] aren’t to bad because it always has the company name but international it just says, 12759, you have to wait for the bank to send out your international deposit advice which will be 2 or 3 business days before you actually know who the funds came from, so it’s the bank that needs to tell you more upfront, I suppose if we had a BPAY International.

Software Developer

I don’t think the banks serve the customers well enough; they don’t give enough space for information like [payment details]. Most people when they are making online payments, they are paying an invoice. They all should have numbers really, so if you could have just one little section that said invoice number so that everyone knew and it was one straight line, you could just tick it off

Publisher

[We pay] phone bills [by cheque]. They don’t take credit cards and you can’t get the bank account details. Some superannuation we
Corporate credit cards are used by some businesses to pay for travel, catering and lunches, and some bills, and are viewed as providing a good record of expenditure. The professional services firms and health provider interviewed for this project received the majority of customer payments via credit or debit card.

With our interviewees, only a few had a BPAY number and that was only so that they could receive payments from individuals. This may also be due to some of the industry sectors of the organisations interviewed as well as due to the size of some of the organisations interviewed as BPAY may not be practical for businesses that issue less than 50 invoices per week.

I started to look at BPAY a few months back, mainly for our members, our affiliates – the 1,000 ... clubs that we have but also for the parents of the athletes as well...

It was the introduction of them, the academy of kids [that made me want BPAY]. I [thought] we are going to be issuing 80 invoices four times a year and I thought there has to be an easy way to manage that. Make it easy for us to manage it and make it easy for the parents of the athletes and BPAY is the only one that I know of and it may be the only one in the country, I don’t know.

I assume that there is a reasonable amount of admin to set up a BPAY account to make it available to others and [since in is an] Australian thing and overtime my business will be more international and therefore [it is] not good for me but it would be good if there was an international alterative to that which I suppose it is the PAYPAL thing, the PAYPAL model but disassociated completely from EBAY and PAYPAL.
No, I haven’t investigated it but I imagine it is not an option that makes a lot of sense at this stage. I imagine it is very much geared up to very large businesses with lots of members or customers that buy on a regular basis …

Publisher

Generally BPAY is not viewed as a business to business medium, but rather as a payment channel to use when receiving payments by consumers. Businesses did use BPAY to pay utility bills. A perceived issue with BPAY from some of the organisations interviewed was that BPAY provides the option of tracking payments via an invoice number or a customer reference number. If a biller selects to track payments via invoice numbers, each time a new invoice is generated for a customer, the customer reference number needs to be changed.

… the only problem with BPAY for example [we pay the courier] by BPAY but you get an invoice from them every 2 weeks and every invoice has a different invoice number on it. You might only pay your bills every two months but you are paying two courier invoices, but you can’t pay them together because they are two different reference numbers. To make it simpler the same reference number would mean you would only make one payment. I have to do two otherwise it may not get picked up, to make it easier if you could batch payments together for example.

Software Developer

Payments are received from individuals via BPAY although most company to company payments are made by EFT in line with a contractual arrangement to do so.

Gas Delivery Company

Accounting packages such as Sun used by medium sized businesses produce the data file to upload to the bank to do the Electronic Funds Transfer (codes for authorisation come from the bank to the authoriser via a bank issued calculator). The file contains billers’ details and the amounts to be paid. The billers’ account numbers and branch numbers are then held by the
bank thereafter. Small business accounting packages often don’t allow uploading to banks and so cheques can be easier.

**Lawyers**

| Our [preferred bill payment method] is cheques. Our specialised legal accounting software is integrated with cheque drawing facilities for both our trust account (other people's money) and cost account (our money). |

How you pay is becoming an important issue for businesses when choosing suppliers. Most only want EFT. In some cases, suppliers were selected because they accepted payment by EFT.

**State Government Corporation**

| We pay them [Telstra] by EFT. …You can actually contact them and get their EFT details. … Basically require something over email or something on fax or something on [their] letterhead. So something that is from them rather than us being taking down numbers, it needs to be on their letterhead. |

| So basically now, I have this place and I am wireless, so if someone comes or I need to do a COD, I basically pay it real time while they are there and show them the bank confirmation and they are out the door. |

| Generally at this point there are suppliers that prefer a cheque or suppliers we can’t get a hold of to get their EFT details or utilities we generally pay by cheque and Telstra we pay by cheque and we also have prize money for the players, we run money tournaments all through the year and they are paid by cheque. |

Some businesses still pay by cheque because of authorisation requirements (some businesses such as professional services businesses require up to 4 approvers) and to ensure a paper trail.
We pay everything by cheque… We get bills in for road events, general events, grants, we also have generalist expenses, postage, security, telephone etc… as the invoices come in as you can appreciate we have an account list of one thousand and basically I put them in the system, after they have been authorised. If it is just a straight admin thing it comes to me, I authorise it and put it in the system and pay it. At the end of the month, or every fortnight, I run payables and receivables, I have a meeting the CEO and we go through it.

Not for Profit

... Cheques are paid to smaller suppliers, the non national chains [however there are exceptions] Australia Post and Telstra we actually pay by cheque because it is much easier than trying to send a remittance advice, because those organisations are so large we actually fax through a remittance, they necessarily don’t get it and because you are sending a detailed remittance it is easier to send a cheque because they accompany one another, so we get a correct allocation when it gets to the other end, whereas if we send EFT we get a phone call saying what were you paying. We didn’t get the remittance advice. …so that is the reason we use cheques with some of the bigger ones, it is a much cleaner reconciliation process.

Not for Profit Organisation

More an old fashioned thing, the partners who are the signatories like to see a bit of paper and like to sign off on it. That is the only reason and also just the fact that we get so many urgent queries, sometimes it’s the settlement or something like that that we might have to draw cheques… So maybe a hundred, 120 per month on top of these 15 we do a day. We actually do two cheque runs a day as well as the end of month cheque run…Urgent payments we might do electronically, but generally we pay all employees for expenses and suppliers by cheque.

Large Law Firm
Generally, those businesses still using cheques for regular payment of invoices do so because of the personal preference of the finance manager or, in one case, the Board.

When I started [5 years ago] most of the Board were 60 and older … everything they were saying in terms of how they wanted it to be done was so antiquated. …MYOB had only been set up until about 6 months before I came in, it was all done manually up until that point using the old ten column ledger books.

Not for Profit

… Another big reason for cheques is that we cheques is that we are paying numerous individuals and very often elderly individuals, … and we very often pay small amounts to them. There are a lot of old people that are very guarded about their bank details, they much prefer to get a cheque … they know they have been paid, and that is a security thing for them.

Not for Profit Organisation

Some of those interviewed found that the business was using cheques when they first became employed but that there has been a subsequent move towards using EFT.

Pretty much most of our accounts are paid by cheque. Cheques are handwritten and paid; we don’t have an automated system. We receive payments from (building) clients and we pay subcontractors (by cheque). Payments made on a regular basis such as insurance and mortgage payments are made by direct debit… We’re still relatively new in using computerised systems. Being a small business it is easier (inertia) to stick with cheque and direct debit than implementing a new payment system. The subcontractors/suppliers … prefer to work on a cash basis. We are moving to EFT transfers but at this stage we pay employee super by cheque.

Construction Company
The girls that run [the store] are not [Internet or computer] savvy and all of their systems are paper based systems, there is nothing on the computer at all and the cheques are in kind of keeping with that.

I think that is one of the reasons I have been employed is because I have worked with these technologies, I have worked in admin and extensively with computers and the two girls who run the shop are really scared of the word computer, they have employed me to create electronic systems that have never been there before.

I will have is to contact all of our designers and get all of their banking details and make a real change, because also cheques cost money, more than using an internet banking site costs money and it just makes good business sense to stop using cheques as often as they do, they use at least 140 cheques a month which is quite a lot especially for a small business, I just feel like they don’t have the time to go beyond their daily tasks and that is one of the reasons why I am there.

Clothing Store

Health practices are types of organisations similar to restaurants and retail stores that require patients to pay before they leave the clinic. Most patients pay by cash, credit card or EFTPOS with a small number paying by cash. The practices do not offer BPAY as an alternative.

Obviously in store customers pay via cash or card [credit or EFTPOS] before leaving either shop. Account customers which are generally businesses either pay by cheque or direct debit into our bank account. Our invoices provide our banking details. Function clients can pay by cash, card, [credit or EFTPOS] cheque or direct debit into our bank account. Payment must be made prior to the function. ...BPAY could be a payment option for account customers and function clients, however at the moment direct debit is working quite well for us.

Retail Store

EFT does not tell you when and if the bill has been paid. Unless a remittance advice is sent there is no notification that an invoice or bill has been paid. There are also limited numbers of words that can be entered into a direct debit transfer, thus, it can
be difficult to track payments if insufficient details are included. Some businesses interviewed are waiting for a seamless connection between their accounting system and their bank’s system prior to relying primarily on EFT or other electronic payment methods such as BPAY to receive income from customers and to pay their bills.

Many of our customers will provide details of their company when transferring funds by cheque or direct debit. Some banks do not allow you to do an alphanumeric transfer, they only allow a numeric transfer and in these cases it can be difficult to reconcile the accounts.

Construction Company

[Allowing purchasing via the website] from a finance point is hard to reconcile … usually timing differences like AMEX and Diners, they take a few days to process from the actual transactions and then there are fees taken out as well and it is not so easy to match them up and the report from the internet system says there was a payment on this date but it doesn’t actually hit the bank till three days later

National Sporting Body

[Undertaking] a bank reconciliation earlier today, there was a deposit for $35,000 in the account with no details and no remittance advice had been received. If the payment had been made by cheque, could figure out who sent the money in as there would have been a name on the cheque. Receiving donations and money by direct transfer is OK but people have to remember to provide remittance advice, otherwise it is too hard.

Not for Profit

I am paying 40 or 50 suppliers and you are paying every month you are sitting down for ½ a day paying bills, so anything that speeds it up by even seconds per transaction is beneficial to the end user.

If there was a pop-up screen where it listed the last five transactions that you paid to that particular supplier, that would be
an awesome feature, because then you could very quickly see when your last payment was.

I just print out the bank acknowledgement, staple it to the statement or the invoice that I am paying and there is the record so if it ever gets challenged whether we paid it or not, I can just pull it out, there is the bank acknowledgement, I can fax that to them and say there is the acknowledgement and it has been paid, you go do your homework, because I know at my end it has been paid.

Restaurant Owner

We do pay quite a bit on EFT [for bigger events] but that means for every single one you do …you have to have the invoice, you have to print out the EFT transmission and you have to do a remittance form to fax through to these people and I don’t have time to do this.

Not for Profit

Conclusion

This study supports the view that cheque usage is continuing to decline in Australia. In particular, there appears to have been a significant decline in the use of cheque by businesses to pay suppliers and bills. All the businesses interviewed accepted EFT payments and EFT was the preferred payment channel, despite notification issues. Some businesses select suppliers on the basis of how they will accept payments. Receipt of payments by cheque is declining as well. Individual customers were the main users of cheques to pay for services, subscriptions and donations to organisations, however, generally individuals paid by credit card.

Only five of the businesses we interviewed still use cheques substantially to pay bills and that was primarily because of the type of accounting software or legacy system installed, authorisation requirements or a particular preference of key individuals like the Board or
finance manager. Also BPAY as an electronic payment method is generally not viewed as a business to business medium. The level of internet access by Australian businesses increases as the size of the business in terms of employee numbers grows, however this increasing access does not translate into electronic payments usage. Seventy one percent of businesses in Australia with less than five employees had internet access, while 92 percent of business with between 20 and 99 employees had internet access however only 29 percent of these size businesses made electronic payments (ABS, 2006b).

The 2006 DCITA Report found that cheque was the method most widely used by businesses for making payments to suppliers, comprising 95 percent of their survey respondents, followed by EFT at 85 percent. Characteristics of small to medium businesses could also be an influencing factor in the use of traditional paper based payment methods such as cheques as in June 2004, 31 percent of all small business operators were aged over 50 years (ABS, 2005) and 65 percent of individuals aged over 50 prefer using cheques to make payments (DCITA, 2006). Our study found, however that for the small to medium sized businesses interviewed there are two distinct types of payments; recurring and one off. For recurring payments, businesses are more like to pay via an electronic transaction such EFT and for one off payments, businesses are still inclined to use traditional paper based methods such as cheques.
References


