

# Exploring the use of cheques in New Zealand

---

paymentsnz



## Key terms

- Cheque issuer: A cheque issuer is an individual or organisation that writes cheques
- Cheque acceptor: A cheque acceptor is an individual or organisation that receives cheques
- Cheque user: The term cheque user encapsulates both cheque issuers and acceptors.

## The Report

In July 2011, Payments NZ commissioned a review into the use of cheques in New Zealand. Payments NZ wanted to understand how cheques are used in New Zealand, and to ensure that as the use of cheques continues to decline, New Zealand's payment needs continue to be met.

Ernst & Young completed and submitted a report in May 2012. Payments NZ has prepared this summary. It provides data on cheque usage in New Zealand and profiles individuals and groups who continue to use cheques.

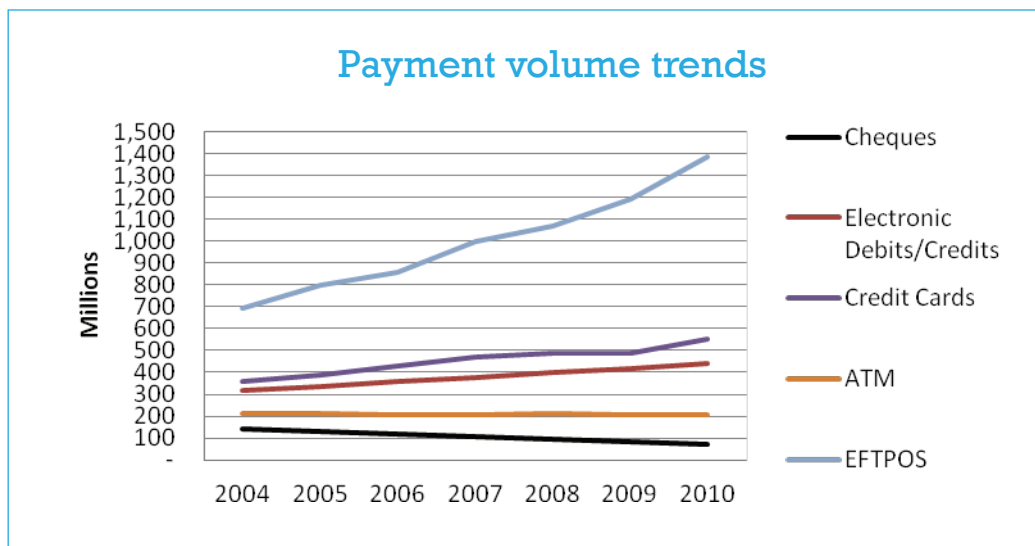
## History

Cheques have been in use since at least the 9th century. As cheque processing became automated in the second half of the 20th century, billions of cheques were issued annually worldwide. These volumes peaked in the early 1990s. Since then, cheque usage has fallen greatly. This is largely because of the introduction of electronic payments. In some countries cheques have been phased out completely.

## The New Zealand situation

Between 2004 and 2010, cheque usage in New Zealand halved. The number of cheques used has declined 10 per cent year on year and continues to do so. In this same period, electronic transactions more than doubled.

The graph below shows the volume of transactions for different payment options from 2004 to 2010. Electronic options dominate payments by volume while cheque usage is relatively low and declining.



Source: NZBA and ISL data provided by Payments NZ

## Background

The following steps were undertaken for this study:

- Five banks provided data, showing accounts that issue or accept cheques. This data was analysed to establish the characteristics of cheque users. Groups and organisations that are large cheque users were also identified.
- Representatives from nearly 40 organisations around New Zealand were interviewed to understand why they continue using cheques.

## Findings

Cheque users identified many convenient uses for cheques. However, none of these require cheques. Interviewees expressed common beliefs about cheques that are not supported by the experience of countries where cheques have been phased out. For example there is a perception that donations by older people will reduce, which has not occurred in those countries.

There is also a perception that a lack of access to electronic methods may drive cheque usage in rural areas. Individual cheque usage is slightly higher in rural areas. However frequency of electronic payments is the same in rural and urban areas. Accounts in rural regions use approximately 15 per cent more cheques per year than accounts in urban areas, about 94 per cent of accounts in rural areas use some sort of electronic payments compared to about 93 per cent in urban areas. Urban cheques have an average value of \$2,408. Rural cheques have an average value of \$1,876.

The number of cheques deposited generally increases with age. This number peaks at about five cheques per year when individuals are in their early 60s. It then begins to decline.

## Issuing Cheques

No specific group was identified as issuing far more cheques than others. Cheque usage is broad based and there are very few high cheque issuers. Instead, a small number of cheques are issued by a large number of accounts.

The following highlights were evident from the study:

- Organisations issue 56 per cent of all cheques. The remaining 44 per cent of cheques are issued by individual users.
- Individual cheque users aged over 65 issue nearly 18 per cent of cheques. They are heavier cheque users than other individual users and issue more cheques on average than younger account holders.
- Individual cheque issuers under 65 issue nearly 27 per cent of all cheques
- The top 100 issuers are primarily organisations in industries that make a large number of irregular payments. Sectors for these organisations include government, insurance, retail, and utilities. This group issues 7 per cent of all cheques.
- The remaining cheque issuers are primarily a mix of small and medium enterprises that issue cheques for some payments. This group issues 48 per cent of all cheques.

### **Individual cheque issuers**

The study showed that individuals who issue cheques also use a large number of alternative payment options. Cheques are rarely the only source of payment. Of all accounts that use cheques, approximately 93 per cent use other payment types.

Most of those accounts issue only one or two cheques a year. This indicates they are not active accounts or they are primarily transactional accounts and are likely to be used for specific purposes (e.g. as a tax driven entity or as transactional pass-through accounts).

EFTPOS is the most dominant payment type used by cheque users. It accounts for 56 per cent of all payments made. Credit cards are second at 12 per cent, while cheques account for 11 per cent of payments.

Accounts that issue cheques average 25 cheques per year. 97 per cent of cheques are issued by accounts issuing 100 or fewer cheques each year.

75 per cent of individual accounts issue less than 25 cheques per year. 50 per cent issue less than ten and 15 per cent issue less than one cheque per year. This shows that a substantial proportion of cheques are used for one-off or infrequent payments. It also demonstrates some concentration of cheque usage among users, particularly older users.

Levels of cheque issuance increase with age. This suggests that cheques are used because of preference as opposed to necessity.

### **Non-electronic account use**

Seven per cent of accounts that use cheques rely solely on cheques. Those accounts are generally used infrequently suggesting they are special purpose accounts such as for savings or trusts.

For these non-electronic accounts, over half issue 3 or fewer cheques each year. About 20 per cent issue 4-10 cheques per year and the remaining accounts issue 11 or more cheques each year.

### **Group cheque issuers**

Many organisations issue cheques, but most do not issue a large number. About half of all cheques issued by organisations are from organisations issuing fewer than 200 cheques per year. Most cheques come from small organisations. The average organisational account issues 61 cheques per year.

Organisations issuing more than 1000 cheques per year make up less than 1 per cent of accounts and are responsible for 12 per cent of all cheques issued. Cheque issuance is driven by a large number of smaller issuers.

Of the 100 largest cheque issuers most are from organisations that issue irregular payments for settlements or refunds. These organisations include government, insurance and banking/finance. Bank accounts issue a small number of cheques, but the cheques are of much higher value. This is likely because of limits placed on other payment options and the usage of some specialised accounts.

The average value of a cheque issued by an organisation is \$2,363.

## **Accepting cheques**

Organisations are by far the biggest cheque acceptor, receiving 87 per cent of all cheques issued.

For acceptors there are three primary groups:

- **General individual acceptors** – cheque acceptance levels are low for nearly all individual accounts. On average individual accounts receive fewer than four cheques each year. This group accepts 13 per cent of all cheques.
- **Major Acceptors** – 27 per cent of all cheques are accepted by the top 100 largest cheque acceptors.
- **Organisational acceptors** – the remaining 60 per cent of cheques are accepted by other organisations.

### **Individual cheque acceptors**

Individual cheque acceptors deposit about 3.8 cheques per account per year. Nearly half of these individual accounts only accept one cheque per year. Over 90 per cent accept 10 or fewer. The average value of a cheque accepted by an individual is about \$1,625.

## Organisational cheque acceptors

Given that organisations accept 87 per cent, it shows there is very little individual-to-individual cheque use. Over half of all cheques accepted by organisations are accepted by organisations taking more than 1000 cheques per year. Cheque acceptance is much more concentrated than cheque issuance.

Of the 100 largest cheque acceptors, about 37 per cent of cheque volume is to the utilities industry. Other high-use industries include government and retail. Many of the largest cheque acceptors send out bills or invoices in the post, and in turn they often receive payment by cheque.

## Depositing cheques

Twelve per cent of accounts that deposited a cheque did not receive any other electronic payments. About 70 per cent of those accounts that deposit cheques deposit only one cheque per year and 95 per cent deposit 5 or fewer cheques each year.

Approximately 18 per cent of organisations are in rural areas and 82 per cent in urban. The average number of cheques deposited in rural areas is slightly higher at 4.4 cheques per account than urban areas at 3.7 cheques per account.

## Cheque use drivers

The study identified a number of groups and organisations that continue to use cheques. These groups were contacted to understand why they continue to use cheques, their views of other payment mechanisms and the degree of dependency they had on cheques.

A summary of those views is below.

### Individual cheque usage

Key Driver	Why cheques are used
Habitual behaviour	Because cheques were the only alternative to cash for a substantial amount of time, the familiarity and therefore preference for using cheques remains.
Perceived convenience	Cheques can be used as payment easily without cash, where EFTPOS is unavailable. Cheques can be used as payment and easily given to a third party, such as a child or person supporting a housebound individual. Cheques are a convenient way to handle a payment request received in the post. Cheques are used for payments to schools, community groups, deliveries at home, utilities and tradesmen.
Perceived security concerns	A lack of online knowledge or trust creates concerns that online or account payment information will be accessed and used fraudulently.
Controlling payments	A cheque controls when a payment is released. With some larger bills such as rates, cheques are therefore a preferred means of payment. Cheques allow a physical record to be kept of payments without obtaining a bank statement or going online.
Housebound individuals	Because of age, illness or other circumstances some individuals are unable to leave their houses to access cash and may not have computer access. Cheques can be used easily at home and given to an third party.
Physical Nature	Cheques can be a more personal form of gift or donation. Cheques allow payers to visually see where the money is going.
Making large, irregular, or one-off paymentst	Transaction limits on electronic payment channels can force individuals to issue cheques for large payments.

## Organisational cheque acceptance

Key Driver	Why cheques are used
Maximising revenue	Organisations wish to make it as easy as possible for customers to make a payment. There were concerns about losing customers if payment options were limited.
Access to target market for charities	Older donors to charities tend to give by cheque. This is a very important target market for charities so creates a need for continued cheque acceptance.
Allows an immediate payment	Cheques allow for payments when goods or services are exchanged and immediate payment is needed. Cheques are often used for deposits for real estate, as payments for tradesmen, or as payment for some goods that are delivered to retail customers.
Cheques are easy to match with applications	Cheques are often used for council consents, IPOs and bonds. This is because applications that include cheques show that a payment has been sent.
Matching electronic invoices to payments can be difficult	Cheques provide easy recognition of the payer. When using electronic payment methods, payers do not always include enough information to allow the payment recipient to identify who the payer is or what the payment is for. This is especially pertinent for charities. If they can't easily match electronic payments to individuals, it is difficult for them to follow up with donors. Donors can also want a record of a donation for tax purposes.
Systems at some organisations will not easily accept electronic payments	Organisations with mainly manual processes and old finance systems cannot always accept electronic payments. However the number of organisations in this category is small and declining.

## Organisational cheque issuance

Key Driver	Why cheques are used
Making large, irregular, or one-off payments	Irregular payments are often easier to pay by cheque as details do not need to be updated, and time is not spent finding the details needed. Transaction limits can force some organisations to issue cheques for large payments.
Need to issue an immediate payment	Cheques are perceived as more secure than cash and easier to handle.
Payment float	Because of the time that cheques take to process, a cheque issuer's cash flow improves and this provides an opportunity to secure funds. Some organisations attempt to reduce cheque acceptance and maximise issuance to make the most of the float period.
Conditioned or habitual behaviour	Organisations that often use cheques have "always done it". This familiarity drives a preference, with processes not having changed. If there have been no issues with cheques, there is no need to adopt a different payment model.
Cheques work well with paper based controls – smaller organisations	Smaller organisations are more likely to use manual controls, with physical sign-off requirements to ensure payments are correct and authorised. When an organisation requires two signatories it is perceived as easier to manage with cheques.
Payment by an third party	This occurs often in smaller organisations when payments are made by a person other than a manager or owner. It is especially common with car dealers when getting Warrants of Fitness for their product.