



**nab**

# information memorandum

## bank cheques

**The purpose of this document is to provide information concerning NAB's policy on Bank Cheques. The Cheques Act 1986 imposes a duty upon all drawers of cheques to exercise appropriate care to prepare cheques in such a manner that is clear and not ambiguous, and with a view to minimising fraud and to protect the rights of all parties, most importantly the intended beneficiary (the payee). All drawers of cheques are impacted by this long-standing obligation – All issuers of cheques must pay particular attention to ensure they draw cheques clearly and to the full legal name of the intended beneficiary.**

**A Bank Cheque is a cheque drawn by a bank on itself, payable to a nominated beneficiary, the payee of the cheque.**

### **NAB's policy on receiving cheques**

Where our customer's intention is to deposit a cheque into their account the cheque should be made payable to the customer, not the NAB. This applies to loan accounts, credit card accounts, deposit accounts and investment products. Any cheque payable to a bank solely could easily be misappropriated if lost. Cheques provided to us for property settlement may be payable either to the customer or 'NAB on account of [customer name]'.

### **NAB's policy on issuing bank cheques**

When purchasing Bank Cheques from the NAB applicants will be asked to furnish the full legal name of the payee. If this is unknown purchasers will be asked to provide as much detail as is reasonably possible. In practical terms this means, for example, 'John W Smith' instead of 'J Smith'. Similarly, cheques payable to companies or businesses should be in favour of the full registered name of that entity, which will be evident from an invoice. Thieves have been known to register businesses in a similar name to legitimate businesses, just so that stolen cheques can be laundered.

### **bank cheques payable to financial institutions (FI's)**

The NAB recognises that the practice of drawing Bank Cheques payable to a Financial Institution (FI) solely attributes considerable risk to all parties – the issuing bank, the Bank Cheque purchaser, all subsequent holders, the beneficiary and the collecting (depositing) FI. A Bank Cheque payable to "ABC Bank" (for example) can potentially be misappropriated into any person's account with the ABC Bank and not necessarily into the account of the intended beneficiary. Our strong preference is to not issue Bank Cheques in favour of Financial Institutions solely.

**consider the following example, in relation to a property settlement:**

Jones enters a contract for the purchase of a property for \$1.5m from Smith, who in turn has a mortgage of \$900k to XYZ Credit Union. In arranging settlement a conveyancer purchases a number of Bank Cheques, payable to the usual utilities, to Smith's mortgagee (\$900k to XYZ Credit Union) and residual monies to Smith. The cheque intended to satisfy Smith's mortgage with XYZ Credit Union is payable to that institution solely. Shortly after having purchased the cheque it is misplaced or stolen before settlement has taken place. A thief obtains the Bank Cheque and deposits it to his own account with XYZ Credit Union, explaining to the teller that because he maintained an account with that FI he purchased the cheque payable to the FI. The teller, in good faith accepts this as a reasonable explanation. He immediately transfers all funds overseas and absconds.

Settlement falls through and the purchaser of the Bank Cheques reports the item to the issuing bank as lost/stolen. The issuing bank will not replace the item until it confirms the cheque remains unrepresented. Investigations reveal that the item has been negotiated for value. A dispute between all parties results and the Collecting Credit Union is placed in a difficult position where it must explain why it accepted a deposit to its customer's account that was not payable to the customer.

In the above example, had the Bank Cheque been payable to 'XYZ Credit Union on behalf of Smith' the Collecting Credit Union would have rejected the deposit and the thief's attempt to defraud all legitimate parties to the transaction would have been thwarted.

Equally, cheques intended for investment may be misappropriated by dishonest persons. For example, it is a safer practice to draw a cheque 'MLC Capital Stable Fund on account of William Smith' than to 'MLC' solely.

Currently all Financial Institutions have their own proprietary policies in relation to investments and property settlements – some Banks, Credit Unions and Building Societies do require cheques payable to themselves, although the ultimate beneficiary account is clearly not the FI itself.

In these situations our Bank Cheques can be payable to a FI, but our staff will endeavour to highlight the associated risks and will encourage the purchaser to consider the merits in drawing the cheque "ABC Financial Institution on account of John Citizen". Secondly, some settlements may require Bank Cheques in favour of a FI representing their fees payable, and such cheques should always be payable to the FI in question.

In conclusion, our staff will use their best endeavours to afford maximum protection to all holders of our Bank Cheques. The NAB's aim is to protect all legitimate parties to a monetary transaction and we take this stance in the financial community in the expectation that others may recognise the overall benefits afforded as opposed to the minimal additional effort. In the interests of fraud prevention we have encouraged other Financial Institutions in Australia to adopt this initiative, however this is a proprietary decision.

Customers wishing to raise any queries in relation to the issuing of Bank Cheques should contact their banker, any branch or simply call **13 22 65**.

Firms involved in arranging property settlements are advised to utilise our settlement telephone number **1300 552 688**.