

Topic 3: Payment Methods

Learning outcomes:	Key terms:	
<ul style="list-style-type: none"> identify key features of current accounts; distinguish between different types of card payment; and critically compare different methods of transferring money. 	<p>ATM Automated teller machine, also known as a cash machine.</p> <p>Bacs The central payment system used to process different types of electronic payment.</p> <p>Banker's draft A banker's draft is similar to a cheque but the payment is signed and guaranteed by the financial services provider that issues it, rather than by an individual. Banker's drafts are used for paying large sums of money.</p> <p>Cashback A service offered by some retailers when customers pay by card. The retailer gives the customer cash and debits the amount of cash handed over from the customer's payment card.</p> <p>Cash card A card used to withdraw cash from ATMs or branch counters.</p> <p>CHAPS Clearing House Automated Payment System, a same-day payment system for high-value transactions, such as a house purchase.</p> <p>Cheque A written instruction to the provider (eg the bank or building society) to pay a specified amount to a specified person or organisation. (The law relating to cheques is quite complex so this is a simplified explanation for the purpose of these study materials.)</p> <p>Contactless card A card that can be read simply by holding it in front of a card reader. It is used for low-value payments.</p> <p>Debit card A card that can be used to withdraw cash, to make face-to-face transactions in, for example, shops, and to make payments online or over the phone.</p> <p>Direct credit An electronic payment into an account, for example a salary or benefit payment.</p> <p>Direct debit An electronic payment out of an account. The amount and frequency of a direct debit payment can vary.</p> <p>Faster Payments An electronic payment service that enables payments to be made within two hours.</p> <p>Mandate A paper or online instruction to a provider (eg bank or building society) to make a payment from an account.</p> <p>Paypal An online payment service.</p> <p>Prepaid cards A card that has to have money credited to it before the card holder can use it to pay for goods. Once the initial sum of money on the card runs out, it can be topped up again. Some prepaid cards can be loaded with foreign currency and used abroad.</p> <p>Standing order An electronic payment out of an account. Standing orders are used to make regular payments of the same amount.</p> <p>Transaction Buying or selling something.</p> <p>Transaction need The reason why someone needs to make a payment, eg needing to top up your phone credit so that you can use your phone is a transaction need.</p> <p>Traveller's cheque A pre-printed cheque for a set amount of currency, eg 50 or 100 US dollars or euros. A traveller's cheque can be exchanged for local currency or used to make payments while abroad.</p>	<p>Advantages of Electronic Payments: The advantages of electronic payments are that they are fast, safe and convenient to make. Most are free of charge as long as the account holder has enough money in their current account to make the transaction. Automated payments can be set up to make recurring transactions; this ensures that transfers are made and bills are paid on time without further effort from the account holder. There are different electronic payments to meet different customer needs.</p> <p>Disadvantages of Electronic Payments: The main disadvantage of electronic payments is security. Online fraud and identity theft mean that users have to be very careful to follow security procedures and keep their passwords safe. They also need to check their account statements to make sure only the transactions they authorised have been made. If they find any suspicious transactions they should contact their provider immediately. Another disadvantage is the risk that the account holder will make a mistake when entering payment details.</p>
<p>Cash: People tend to use cash for everyday, low-value transactions when they are in face-to-face situations with the sellers. Examples include paying for:</p> <ul style="list-style-type: none"> milk and a newspaper at a local shop; a short bus or train journey; coffee / tea and snacks in cafes; tickets and drinks at a cinema; DVDs and CDs in a shop. 	<p>Advantages of Cheques: They are a secure way of paying money (they can only be paid into an account with the same name as the person/organisation specified on the cheque). They are also easy to carry and to use. For some small businesses, this is the most common way that they receive payments.</p> <p>Disadvantages of Cheques: People or organisations that accept cheques cannot be certain that they will receive the money until six business days after the cheque has been deposited in their bank account. Providers cannot honour cheques if the person who wrote the cheque does not have enough money in their current account to pay the transaction. This is known as the cheque 'bouncing'.</p>	<p>Types of payment cards:</p> <ul style="list-style-type: none"> Cash Card - Cash cards allow account holders to withdraw cash from their account at a branch or using an ATM. They cannot be used to pay sellers in face-to-face situations (paying for goods in a shop, for example), over the internet or by telephone. Debit Card - Debit cards allow account holders to access cash from their accounts and also to pay for goods in stores, over the internet, by telephone and by post. Pre-payment cards (eg Oyster card) - Pre-paid cards are like electronic purses. Cardholders load the card with money and then use it to pay for goods or services. Contactless cards - Some debit or pre-paid cards can also be used for contactless payments of up to £30 per transaction as of September 2015 <p>Making payment when abroad:</p> <ul style="list-style-type: none"> cash in the local currency; a debit card; a pre-paid travel card; travellers' cheques.
<p>Advantages of Cash:</p> <ul style="list-style-type: none"> convenient for the payer (as long as they have enough notes and coins with them); readily accepted by people selling the goods or the service; instant; and low risk at low values. helps to budget 		
<p>Disadvantages of Cash:</p> <ul style="list-style-type: none"> can't use when the transaction is not made face-to-face with the seller. not suitable when the transaction must be made on the same or similar dates every month. carrying large amounts can be risky. sellers may prefer other methods. 		

