



Means of payment

Payment systems are systems that facilitate businesses and consumers to transfer funds to one another. While cash is an important payment instrument that people use in their daily lives to purchase goods and services, other payment instruments are also available and widely used.

A payment system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money.

Types of Payment Systems and Instruments

1. Traditional Methods

Traditional payment methods include cash, checks, credit and debit cards.

- **Cash:** is the preferred method for small payments because it involves no credit and therefore no promises. With cash, you can usually purchase goods and services easily as it is widely accepted. Carrying too much cash is risky as it can lead to theft and other problems. However, people still carry cash for its convenience and flexibility. From the payee's point of view, transactions are completed immediately and this cash can be re-used for other transactions.
- **Cheques:** a cheque is an order to transfer funds from the payer's bank to the account of the payee. Cheques are generally valid for six months after the date of issue. Despite the development of other payment instruments, cheques remain an important form of payment. A cheque is effectively a future promise to pay the amount stated on it and needs to be presented to a bank in order to obtain the payment. Cheque clearance usually takes 3 - 4 working days.
- **Debit Card:** is a payment card where the transaction amount is deducted directly from the card holder's bank account upon authorization.
- **Credit Card:** enables its holder to buy goods and services with a credit line given by the credit card issuer. Funds are settled at a later date. Card holders are billed on a monthly basis and bear financial charges (interest) on outstanding amounts if payments are not made by the due date. Credit cards are issued through commercial banks and/or other issuers.

These methods have several shortcomings

- Checks and cash cannot be exchanged in real time
- Credit and debit card info exchanged over the phone or by email entails security risks
- Credit/debit cards do not support individual-to-individual payment transactions
- Some individuals do not have access to credit cards or checking accounts because of credit history
- The overhead of all but cash do not support low value transactions (micropayments).

2. Electronic Payments

E-commerce requires payment methods that are:

- Widely used by consumers and accepted by merchants and banks.

- Real time, i.e. transactions are completed when consumer hits the pay button
- Provide support for micropayments.

Electronic methods of payment have been defined as a method of transferring money according to electronic technology, thereby facilitating the exchange in a safe and fast manner at the lowest possible cost.

Types and tools of electronic payment methods

- **Bank cards:** Are small personal cards, It can be issued by a loan organization, a financial institution or an authorized service, which may place and issue the card, such as banks, the public treasury, and the postal service.
- **Electronic check:** Is the electronic equivalent of the traditional paper checks that we used to deal with, and the electronic check is a documented and insured letter sent by the source of the check to the recipient of the check (holder), To be approved and submitted to the bank, which operates through the Internet to transfer the value of the financial check to the account holder check, The check will then be returned electronically to the check recipient (holder) to be proof that the check has been disbursed. The check recipient can electronically verify that the money has already been transferred to his account.
- **Electronic money:** Electronic money is defined as a set of digital protocols and signatures that allow an electronic message to effectively replace traditional currency exchanges. It is an encoded string of digits, can be carried on a smart-card, or stored on a computer disk.

Activity 01:

Answer the following questions.

1. What is payment system?
2. What are the different types of payment systems ?
3. What is meant by electronic payment systems ?
4. What are the advantages of traditional payment systems?