

Topic 7

Using tools to manage money

Learning outcomes

After studying this topic, you will be able to:

- explain the different systems for customers to manage money;
- explain the ways in which customers can access their money;
- describe the tools available for transferring money.

Introduction

We looked at money management and budgeting in earlier topics. This topic will look at the different types of information available to help us to manage money and the tools we can use to keep track of spending.

Most people need to be able to use their bank account to carry out a few basic functions and transactions, including:

- checking the account balance and the money going in and out;
- paying bills;
- paying other people;
- moving money between savings and current accounts.

A few customers will also need to carry out other functions, such as transferring money to another country or paying large sums of money to other people. Section 7.1 will look at the different ways customers can manage their accounts, section 7.2 will explain how they can keep track of their finances, and section 7.3 will look at the ways they can carry out transactions.

7.1 The different channels for managing money

In order to manage their money, people need to have up-to-date and relevant information about their accounts, and ways to carry out a range of transactions. In today's world, there are several ways for a person to get that information, and most banks provide access through a range of channels. In relation to banking, a 'channel' is just a way of accessing the bank's services. We will focus on managing current accounts, but similar information is available



about savings accounts. The information covers accounts offered by both banks and most building societies, but to keep it simple we will use the word 'bank' to cover both.

7.1.1 Branch-based banking



Some customers like face-to-face contact and so prefer a branch-based system, where they know the staff and deal with them in person. In simple terms, a bank branch is like a local office or shop, with the difference being that it deals in money.

Most of the main banks have branches in cities and towns, and some have sub-branches in larger villages.

Customers can carry out most transactions by visiting a branch, where a customer services assistant will be able to arrange things for them.

Over recent years the use of technology has led to fewer customers visiting branches, and some of the major banks have reduced the number of branches and the staff available to help.

By visiting the branch, customers will be able to obtain up-to-date statements and carry out a range of transactions, including moving money from savings accounts to current accounts and vice versa. However, it may not be convenient to visit the branch each time the customer wants something.

7.1.2 Telephone banking

With telephone banking, customers telephone a call centre to access information about their account and to carry out various transactions. In most cases, the customer will be able to select which service they want by pressing a number on the telephone keypad when they get through.



They can check balances and various other aspects of their accounts through an automated system, without waiting for a customer services operator. They can speak to a customer services operator to carry out more complicated tasks, such as paying bills and moving money between savings and current accounts.

Telephone banking is available 24 hours a day, seven days a week, in most cases.

7.1.3 Internet banking



Most banks provide internet banking facilities, which give access to customers' accounts 24 hours a day, seven days a week, and the facility to make transactions whenever they want. Some banks, such as Smile, a division of the Co-op Bank, only offer internet-based accounts.

Internet banking allows customers to check their accounts, pay bills, make transfers and move money between savings and current accounts. The use of internet banking facilities means that customers can be as up to date as possible, and have much better control over their accounts.

Internet banking accounts require high levels of security, and so account holders will have to enter passwords and other security details when they log in to their account. In addition, some banks now require customers to use card readers or other electronic devices that generate a special security number as an extra layer of protection to use during the log-in process.

7.1.4 Customer choice

Most banks, certainly the larger high street ones, provide customers with the option of using more than one channel. It is quite common for a customer to use telephone or internet banking as their main means of access, but to visit their local branch to discuss more complicated issues.

It is now easy to select a bank and to switch from one bank to another. A number of comparison websites allow customers to compare the benefits and services of accounts offered by each bank. They include details about the various accounts available, together with customer comments and ratings. Some also have forums for customers to share questions, ideas and complaints about their accounts. The best-known sites include:

- www.moneysupermarket.com
- www.moneysavingexpert.com
- www.uswitch.com
- www.moneyfacts.co.uk

7.2 Keeping track of the account

Regardless of the channel the customer uses, the key information is contained in a statement of account, usually referred to as a 'bank statement'.

A bank statement is a simple record of all money coming in and all money going out of the account, set out in date order. This allows the customer to check what they have spent, check what's in the account, make sure that there are no errors or unauthorised transactions such as fraud or forged cheques, and monitor the account.

Figure 7.1 shows part of a statement for Andy and Diana, the couple we looked at in previous topics. It shows what's included and how it's likely to be set out. A typical statement will usually cover a four-week period, or a month, but to keep things simple our example covers a shorter period.

Figure 7.1 Andy and Diana's statement from Anybank plc

Anybank plc				
Account No. 12345678				
Sort code: 01-23-45				
Date	Description	Credit	Debit	Balance
27/2/201X	Previous balance <i>(carried over from last statement)</i>			220.00
28/2/201X	Bank credit – Acme Ltd <i>(Andy's salary)</i>	1864.00		2084.00
28/2/201X	Child Benefit	136.00		2200.00
1/3/201X	Direct debit – Anybank mortgage		600.00	1620.00
2/3/201X	Cheque 100001 <i>(childminder)</i>		100.00	1520.00
3/3/201X	Cash withdrawal		50.00	1470.00
3/3/201X	Card payment – Tesco		70.40	1399.60
6/3/201X	Cash withdrawal		30.00	1369.60
10/3/201X	Card payment – Tesco		61.33	1308.27
10/3/201X	Cash withdrawal		50.00	1258.27
11/3/201X	Direct debit – British Gas		110.00	1148.27
12/3/201X	Direct debit – Talk Time <i>(phone/broadband)</i>		50.00	1098.27
13/3/201X	Direct debit – Barclays Bank <i>(car loan)</i>		350.00	748.27
13/3/201X	Card payment – Turbo Tyres		150.00	598.27
13/3/201X	Direct debit – EHDC <i>(council tax)</i>		180.00	418.27
15/3/201X	Bank credit – ABCD Ltd <i>(Diana's salary)</i>	900.00		1318.27
15/3/201X	Card payment – Asda		90.00	1228.27

Guide to reading the statement

- The words in italics would not be shown on the statement, but indicate what the transaction was for so that we can follow the information.
- The balance is the amount of money in the account after each transaction.
- The 'previous balance' is the balance carried forward from the last statement.
- The description of each transaction shows how it was carried out – cheque, direct debit, and so on. We'll look at the ways in which transactions can be carried out in section 7.3.



7.2.1 Printed statements

Customers with branch-based accounts will usually receive a printed statement each month, showing all their transactions that have gone through the banking system in that period. The statement will allow the customer to check their spending patterns but it is not up to date, because it is posted a few days after the last transaction in the period it covers. For this reason, paper statements are considered to be quite old-fashioned and are not ideal for people who want to keep a close watch on their finances.

7.2.2 Internet accounts

In terms of statements, the big difference is that internet banking statements are right up to date, and will log all transactions that have gone through the system. Some types of payment take a day or two to clear through the system, so some might not show up immediately, even on an internet statement. The statement will look very similar to a paper statement, and the customer can print a copy if they wish.

7.2.3 Other technology

Many banks have embraced other technology and give their customers the option of downloading apps to access statements by mobile phone, or receiving text messages if the account is running low and they are close to being overdrawn.

7.2.4 Telephone banking

Those customers who have chosen the telephone as their main channel will usually receive postal statements, but can ring the call centre to receive a mini statement generated automatically. This will usually state their balance and the last few transactions.

7.2.5 Cash machines

Cash machines (automated teller machines or ATMs) are essentially computers, linked to a banking network that provides access to customers' bank accounts. Not only can customers withdraw cash from these machines, but most machines will also allow them to carry out a number of other tasks. These tasks include getting mini statements and bank balances and, in some cases, they provide a facility to pay in cheques.



7.3 Paying bills and transferring money to other people

A typical bank customer will need to pay bills or transfer money to other people. Some will be one-off payments but many will be regular payments. We'll look in this section at the different ways in which these transactions can be carried out using a current account.

7.3.1 Cheques

Cheques have been part of the banking system for hundreds of years. A cheque is a written order from a bank customer (the drawer) to pay someone else (the payee). Technically the order can be written on anything acceptable to the payee, as long as certain key requirements are met. Banks provide customers with a cheque book, which typically contains between 25 and 50 cheques, pre-printed with all the relevant account details. This ensures that the cheques are acceptable and legally correct.



To be valid, a cheque must contain:

- the date of the cheque;
- the account number and sort code – the sort code is similar to a postcode, in that it's a special number that identifies the bank and directs cheques and payments to the right place;
- the account holder's name;
- the amount of money to be paid;
- the name of the payee;
- the drawer's signature.

Date <u>12th February 20xx</u>		XYZ Bank plc		76 - 54 - 32
To <u>Graham Johnson</u>		Current Account		30 High Street
Amount £ <u>20-00</u>				Seaville
				S021 6TH
				Date <u>12th February 20xx</u>
		Pay <u>Graham Johnson</u>		£ 20 — 00
		<u>Twenty pounds only</u>		
				MR RAVI GUPTA
				<u>Ravi Gupta</u>
	Cheque Number	Sort Code	Account Number	
300061	300061	765432	12345678	

The drawer gives the cheque to the payee, who then pays it into their own bank account. The cheque then goes through the bank clearing system, which is a process by which the money moves from one bank to the other. The clearing process can take three days and includes checks by the drawer's bank to make sure that there is enough money in the drawer's account to pay the amount on the cheque (known as 'honouring' the cheque) and that the cheque appears to be genuine and filled in correctly.



For example, on Monday, Ravi gives his window cleaner Graham a cheque for £20, which Graham pays into his bank later that afternoon. Figure 7.2 shows what happens next.

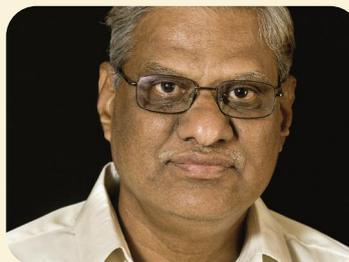
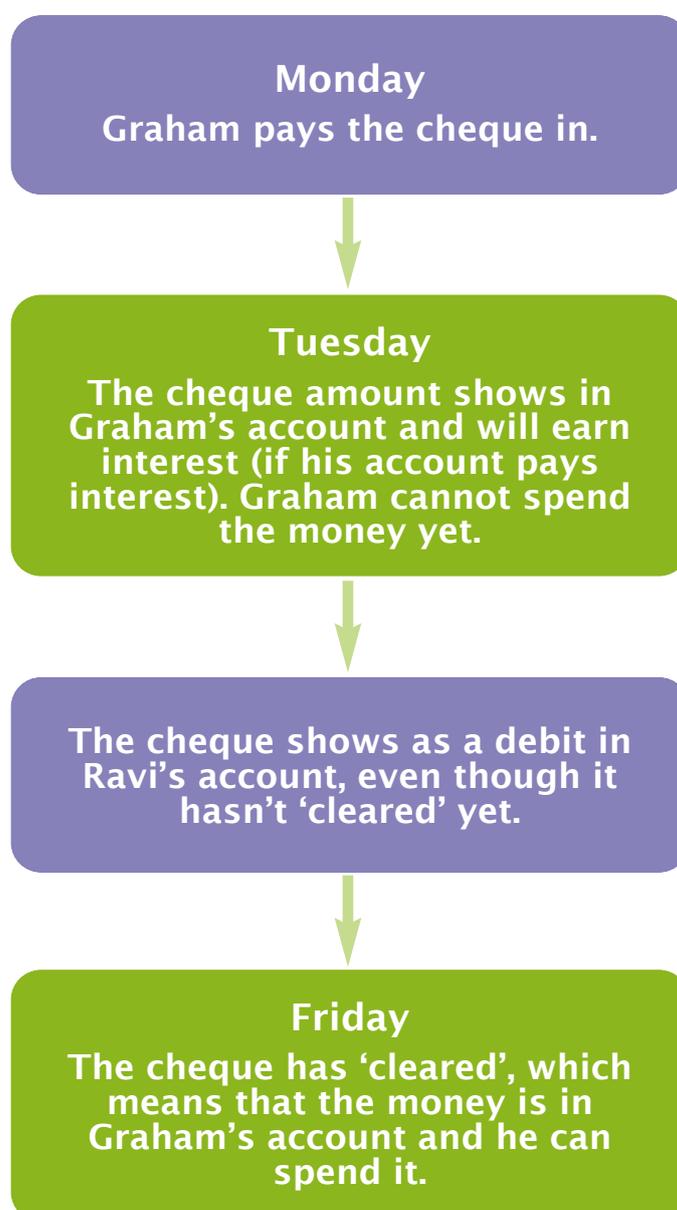


Figure 7.2 An example of the clearing process



If Ravi's bank decided that he didn't have enough money in his account to honour the cheque, the cheque would be returned to Graham's bank and would not be paid. Ravi's bank may charge him a fee in the form of a penalty for having insufficient funds to cover the cheque payment. The cheque might also be returned unpaid if it hadn't been signed, dated or written correctly, or if it was fraudulent.

Cheques involve quite a bit of work for the banks in terms of processing administration, and we now have other reliable and faster ways to pay bills, although there are proposals to speed up cheque clearing times. By late 2018, cheques will be cleared within one working day (BBC, 2017). Banks would prefer customers to use other ways to make payments, and there was a plan to end the issuance of cheques from 2018. However, following consumer pressure, cheques will continue to be accepted for those customers who want them.

Recent innovations mean that some bank customers will be able to pay by cheque using their mobile phone by using an app that takes a photo of the cheque and then sends it electronically.

7.3.2 Debit cards

Debit cards are issued to current account customers and allow them to pay for purchases or draw money from a cash machine. To pay for a purchase, the card is inserted into a special machine, which is called an 'Electronic Point of Sale' (EPOS) terminal and replaces the cash register. It checks information contained on a special chip in the card, including account details and the amount of money available in the account. If the information is verified and there is enough money in the account, the customer enters a personal identification number, known as a PIN, on the machine. As long as the chip and the PIN tally, the payment is made.



The chip and PIN system helps to reduce card fraud, as both elements are needed before a payment can be made. It is recommended never to give out or write down your PIN, and to always shield your PIN from view as you enter it at a cash machine or in a shop.



Some older cards don't use chip and PIN. In this case, the card is swiped through a machine, which produces a receipt that the customer must sign. The retailer must check that the signature on the back of the debit card matches the signature on the receipt slip. Not every country uses chip and PIN, and so customers with overseas cards may need to sign for purchases, and UK customers using their cards abroad may also have to sign for their purchases.

It is also possible to set up recurring payments using a debit card. A recurring payment is one that is taken automatically at set intervals, typically monthly or annually, and is often used to pay for subscriptions and similar expenses, such as car breakdown insurance. The payments will continue until the cardholder or the organisation they are paying stops them.

Account holders can use debit cards to withdraw money from cash machines, by entering their PIN, using the keypad on the machine. They can also make payments online through the seller's website. When making such a payment, the cardholder will enter the card details on the payment page, and enter the card security code (CSC), which is a three-digit number on the back of the card.

Debit card payments usually appear on a bank statement the day after they are made, because that is the time it usually takes for them to go through the system.

While debit cards are very convenient, they are most useful for paying one-off bills or purchases and withdrawing money.

7.3.3 Contactless payments and other new technology

Contactless payment is very convenient and fast, and the number of outlets accepting this form of payment is still growing.



If a debit card shows this symbol, it can be used to make contactless payments of up to £30.



Contactless payments can be made at any shop or organisation that displays this symbol.

Payment is made just by touching the card on a card reader in the shop, although sometimes the buyer may also be asked to enter their PIN.

A number of shops and restaurants have developed mobile phone apps that allow customers to make payments using their mobile phone. The Payments Council has been working on a project to allow people to make payments by mobile phone, by linking their phone number to their bank account.

Pingit, Zapp and Paym are all examples of specially developed apps that allow people to pay bills and send money through their mobile phones without having to enter bank details each time. The apps have security built in to reduce the risk of fraud.

7.3.4 Direct debits

Direct debits provide a flexible way to pay regular bills or make regular payments. The account holder completes a direct debit instruction form, which authorises the bank to make payments as requested by the bill issuer. It's easiest to show how direct debits work by looking at an example.



Example

Leo has just arranged to pay his car insurance by monthly direct debit, and has completed a direct debit instruction form issued by the insurer, Very Safe. The direct debit form requires Leo to enter his name, the name of his bank account, sort code and account number. Very Safe will have entered its details on the form before sending it to Leo.



Very Safe sends the form to Leo's bank, and can now claim payments from his account each month. Leo's agreement with Very Safe is for payments of £60 per month, which is the amount the insurer will claim. No amount is stated on the direct debit form, so if the amount of payment changes, Very Safe can claim the new amount without Leo having to complete another direct debit form. However, any changes to the direct debit require the insurer to notify Leo ten days before the changed payment is due.

The direct debit does not have an end date, so if Leo wants to continue with Very Safe next year, the arrangement continues without the need to complete any more forms.



Under the direct debit guarantee, if the bank or Very Safe makes a mistake resulting in payment of more than the agreed amount, Leo must be refunded immediately when he reports this to the bank. Leo or Very Safe can cancel the direct debit at any time by contacting the bank. However, if Leo is in the middle of a payment agreement, he will have to find another way to make the rest of the payments.

Some organisations, such as gas and electricity companies, offer customers the facility to pay their bills in monthly instalments through direct debit (see the example below).



Lian

I've agreed to pay my gas supplier, High Power, by direct debit, and have completed the direct debit instruction form. High Power has estimated my bill for the next 12 months at £600, and has informed me that my payments will start at £50 per month. High Power will review my gas usage with each bill, and if the original estimate seems to be wrong my payments will increase or decrease as appropriate. I won't have to fill in a new form each time the payment changes, although High Power will have to inform me of any changes.

Customers who pay their gas and electricity bills by direct debit normally benefit from a discount on their bills because the company has less administration to do.

7.3.5 Standing orders

A standing order is similar in principle to a direct debit, because it is an agreement by the account holder to make regular payments to an organisation or another person.

However, it is different from a direct debit because the amount to be paid is fixed and can only be changed by the account holder. The account holder is also the only person who can cancel a standing order.

Standing orders are only really useful for paying bills that will not change, or for making regular fixed payments to other people – for example, a parent making regular payments towards a child's university costs.



Discuss

Is it a good idea to pay electricity bills by standing order?

7.3.6 One-off transfers

There are a number of ways to make one-off transfers of money.

7.3.6.1 Faster Payments



The Faster Payments scheme is a way to make electronic payments to another bank account. The system was introduced in May 2008 and is now available to customers of most UK banks. Faster Payments is available 24 hours a day, seven days a week, and is available through internet banking and telephone banking. The facility is only available between banks using the Faster Payments scheme.

Making payments using Faster Payments is free, and the payment must reach the other person's account by the next working day although, in practice, most payments in the UK are received within two hours, if not within minutes.

In order to make an online Faster Payment, the account holder must have the other person's bank sort code and account number, and log in to their own bank account. One of the options in their account will be to make a payment.

As with all electronic payment systems, the customer must be very careful to enter the right details, as otherwise the payment may be returned or could go to someone else's account and could be difficult to get back.

The maximum transfer using Faster Payments is £250,000, but each bank will set its own limits, usually from £10,000 upwards.

7.3.6.2 Bacs

The Bacs payment scheme, originally called the Bankers' Automated Clearing Services, is a payment clearing scheme that allows electronic payments to be made between bank accounts. Until the Faster Payments scheme became available, Bacs was the main way to transfer payments. It still processes all direct debits and direct credits (electronic payments received by the account holder, such as their salary).

Bacs will be used for electronic transfers if one of the banks involved in the transfer isn't a member of the Faster Payments scheme, and the payment will take three days to arrive in the recipient's account. The process for setting up a Bacs payment is similar to Faster Payments, and Bacs payments are free to arrange.

7.3.6.3 CHAPS

CHAPS – or, to give its full name, the Clearing House Automated Payment System – is an electronic payment system used for very high-value payments and payments between large companies. There are no limits to the amount of payments, and CHAPS payments arrive in the recipient’s account on the same day, as long as they are arranged before 3 pm. They are used for such things as buying property or expensive cars. Unlike Faster Payments and Bacs, CHAPS payments cost between £25 and £30 each time.

CHAPS payments are arranged in person at a bank branch. Subject to individual bank limits, Faster Payments would be a better way to make payments up to £250,000, because there is no charge and they can be arranged through internet banking.

7.3.6.4 Online payment services (PayPal)



PayPal is not a bank, but it has provided ways to make electronic payments between PayPal accounts for some years, having become a subsidiary of eBay in 2002. Initially PayPal was just used for eBay transactions, but is now widely used for all sorts of purchases.

Once a PayPal account has been set up, it is linked to the customer’s debit or credit card. PayPal holds the card details but it does not release them to people who receive money from the account. When paying for a purchase or transferring money to someone else, all the account holder has to do is log in to their PayPal account and enter the email address of the person they are paying. PayPal will make a payment to the recipient’s PayPal account using the payer’s debit or credit card.

Account holders can check their transactions and their balance online, and there are various safeguards in place to protect account holders from fraud and problems resulting from purchases.



Did you know?

Everybody makes mistakes – and PayPal once briefly made a US citizen the world’s richest person by crediting him with **\$92,233,720,368,547,800**, or £60 quadrillion. The error was quickly corrected.

(Source: The Independent)

As we can see, there are a number of methods to pay bills and make payments, many of which are free to use. Which is best will depend on the individual’s needs and preferences, the practicalities and the conditions of any agreement with a supplier.

Summary

Finally, we can recap what we have learned in this topic.

We have learned about:

- the channels through which people can manage their money;
- the tools that banks provide to help customers manage their money;
- the ways in which people can pay bills and transfer money.

Key terms

Bacs – a payment clearing scheme that allows electronic payments to be made between bank accounts.

Channel – in relation to banking, a channel is just a way of accessing the bank's services.

CHAPS – the electronic Clearing House Automated Payment System, which is used for very high-value payments and payments between large companies.

Cheque – a written order by the account holder to pay someone else.

Chip and PIN – the UK smart-card payment system for debit and credit cards, which uses a computer chip within the card itself, and a personal identification number (PIN) chosen by the customer.

Clearing – the process by which a cheque or card payment goes through the banking system.

Contactless payments – where payment is made just by touching a card on a card reader in a shop, although sometimes the buyer may also be asked to enter their PIN for security.

Current account – a bank account used for convenient access to funds, with payments often (and easily) coming in and going out.

Debit card – a card used by the account holder to make payments or withdraw money from their current account.

Drawer – the person writing a cheque – the technical term for taking money from one's own account is 'drawing' money out, hence the term 'drawer'.

Faster Payments – a way to make electronic payments to another bank account.

Mobile phone apps – Pingit, Zapp and Paym are examples of specially developed apps for people to pay bills and send money via their mobile phones without entering bank details each time.

Payee – the person who will receive the money.

PayPal – an example of an online payment service, which facilitates secure online payments between parties with PayPal accounts. Accounts are linked to a customer's debit or credit card, but card details are not revealed when payment is made to another account.

Sort code – a special number that identifies the bank and directs cheques and payments to the right place; similar to a postcode.

Statement – also known as a bank statement, a simple record of all money coming in and all money going out of an account, set out in date order.

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