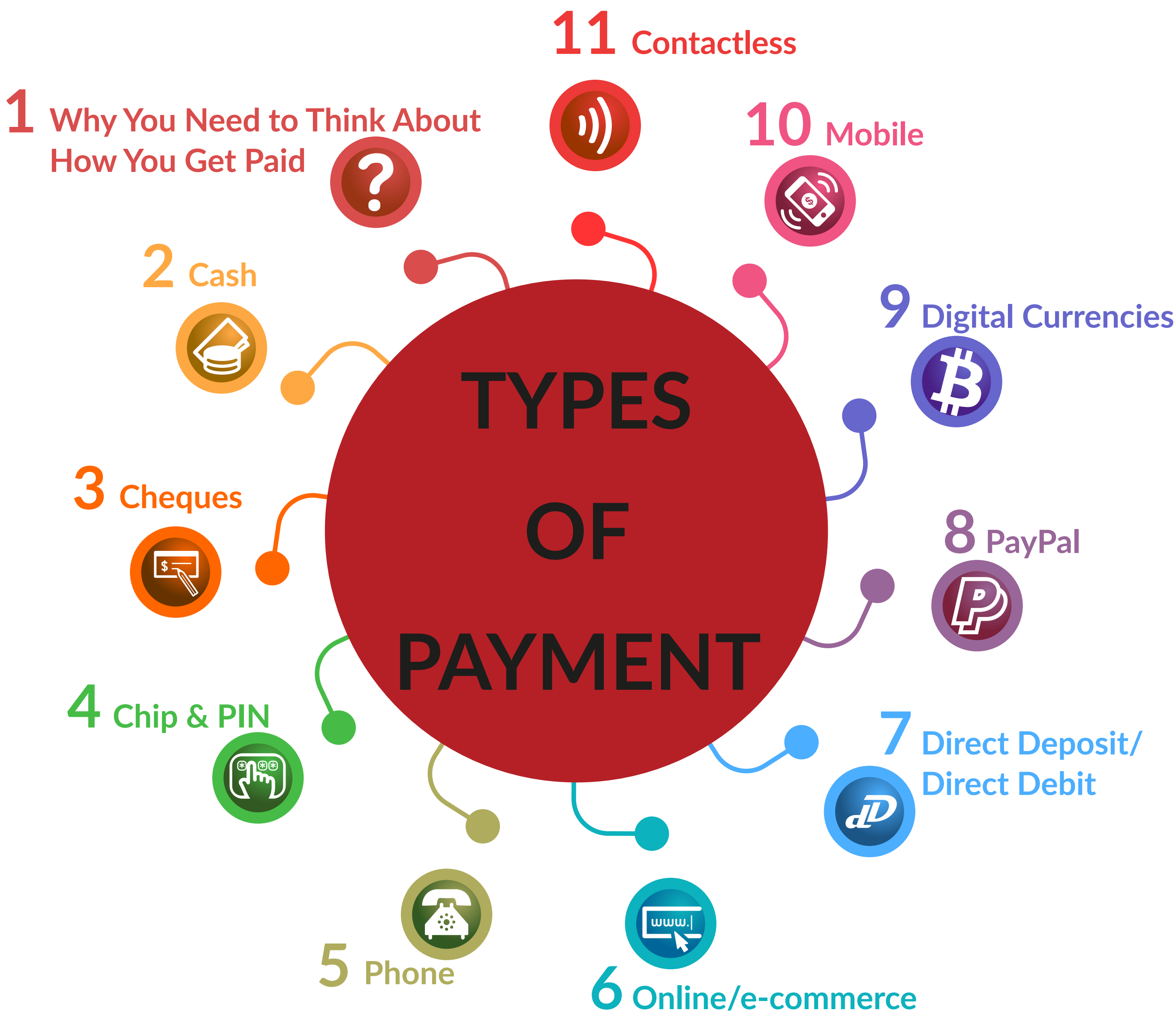
TYPES OF PAYMENT

Introduction

The credit card as we know it today was introduced by John Biggins, a Brooklyn-based banker, in 1946 and was called 'the Chard-It' credit card. Some readers will remember that in the early 1980s, many credit card transactions were manual in that they were paper-based. Luckily, the rise of the IT industry heralded new ways to electronically process the mountains of paper-based credit card information.

Fast forward to 2016 and we are witnessing another revolution in the payment industry – the rise of mobile payment systems. It will not be long before we look back and examine our wallet full of redundant plastic credit and debit cards.

As the market changes, so too must your business and how it presents itself, especially in how it accepts payment for its goods and services.



Why You Need to Think About How You Get Paid

Once you have marketed your products or services and secured the business, you will need to have good methods in place for receiving payments.

With the advent of the digital age, payment methods have been revolutionised. The days of 'the cheque is in the post' are almost at an end. In Ireland, the Banking & Payments Federation has stated that cheque volumes have declined by 48% since 2005. With the development of internet banking, the widespread use of credit cards and online payments now morphing into contactless, the way businesses interact with their customers will radically change over the next twenty years.

In the meantime, you may have to maintain multiple payment methods to service all your customers and supply chain companies. End users may want to use cash, cheque, credit cards and electronic transfers, whereas some of your suppliers may insist on payment upfront or only via electronic transfer. You will need to decide how to cater for everyone within your operation, bearing in mind ease of payment, security, as well as any costs to your business.

Cash

The earliest recorded use of coins dates back to 1500BC in Anatolia, modern-day Turkey. Cash has been the dominant form of payment right into the 21st century. Its advantages are numerous: payment is instant and excludes any third-party involvement; unlike cheques and credit cards, there are no transaction fees associated with it, nor is there a requirement for specialist software or hardware to process payment. In many cases, businesses will offer two prices: a discounted one for payment with cash, and a second one with every other payment form.

But cash does come with a warning. Unless you receive documentation, in some instances there is no proof of purchase and therefore no comeback if something goes wrong with your purchase. Cash has security risks and can attract the attention of thieves. At a practical level, trying to pay for a high value item (such as a car) is impractical in terms of transporting the required amount of cash. Due to the advent of international crime, many banks require proof that large amounts of cash are not the outcome of money laundering or illegal activities.

Cash payments mean keeping a 'float' on your premises, being able to store the money securely, and making regular visits to the bank to make deposits.

Cash payments also require good bookkeeping because they must be declared to Revenue, and if unaccounted for, it may result in heavy fines and/or a jail sentence.

However, with the advent of credit and debit cards and contactless payment options, for many people, cash has ceased being a convenient way to purchase goods or services.

Cheques

As mentioned previously, the use of cheques is in decline. Many stores and suppliers have ceased to accept them, and this is supplemented by government agencies, who continue to move towards electronic forms of payment. Since 19 September 2014 it has been no longer possible to make cheque payments to the public sector. However, they continue to be a popular payment method for small businesses, sole traders and the over-65s. This is largely because a signed and crossed cheque is a more secure method of payment than cash.

A disadvantage of cheques is the clearing time. Often it takes 6 days before you can be sure that the cheque won't bounce and the money is securely in your possession. This is changing with the advent of cheque imaging (sending a digital image of a written cheque electronically for clearing). This will reduce the time for payments to clear via your bank from six to two days, thus improving cash flow for many businesses that continue to rely on cheques as a form of payment. Since some banks charge business accounts for cheque transactions, it is worth shopping around for the most favourable fees.

Chip & PIN

EMV payments, (Europay, MasterCard, and Visa), has become one of the most popular payment methods in recent years because it is simple and convenient. By 2012, with 40 billion transactions, credit cards were the most widely used cashless payment method in the European Union.

Businesses offering this service require a merchant account. This facilitates the transfer of payment from a credit card provider to your main bank account. For in-store use, you will also need a chip and PIN machine. Since there are numerous providers for both services, shop around to minimise your costs. Unless you have a mobile version of a chip and PIN machine, you will need to have a power source and phone line available to operate it. (Companies such as SumUp are now offering this payment service through a tablet and smartphone.)

Although chip and PIN has reduced the instances of fraud, it hasn't eliminated it. In 2012, global credit card fraud stood at $11.27 billion dollars. In Ireland, the figure was almost €26m. Remember too that if a cardholder's bank refunds the value of fraudulent purchases, not only does the business lose the value of the sale, it will also pay an administrative fee to the bank for the transaction.

Phone

Commonly known as 'cardholder not present' (CNP), this can be a useful method for businesses to receive payments for their services or products. Payments can be processed through most chip and PIN machines. A major downside is that there is no 'PIN' verification (as the purchaser isn't there in person to key in their four-digit code). If you are the victim of a fraudulent sale, card-processing banks may not take responsibility for the fraud and frequently the business will be out of pocket.

Alternatively, you could consider using a third-party company that would process payments on your behalf. Normally they will charge a percentage of the purchase price for this privilege.

Online/e-commerce

In 1995, less than 1% of the world's population had access to the internet. By 2014, this had risen to 40%: over 3 billion users. There has also been a corresponding growth in online sales, with many businesses now accepting payments through a website or other electronic interface. This remains the fastest growing method of payment in the world today. It gives you access to a larger market as customers can purchase at any time from anywhere.

To trade on the internet, businesses need an e-commerce merchant account (which is different from a traditional chip and PIN merchant account), a payment gateway to accept payment, and a 'shopping cart' function to facilitate customer purchases. Remember too that there are fees attached to creating this platform, and in many cases it is best to hire I.T. specialists to deliver this functionality.

e-commerce merchant account → Payment gateway → Shopping cart

Like Chip and PIN payments, the threat of fraud is real. A key consideration for you and your customers is security. It is essential to utilise e-commerce solutions that place a premium on security and online protection.

Direct Deposit/ Direct Debit

Known as an electronic funds transfer (EFT), this is normally used for business-to-business transactions, but has become popular too for individuals paying for high-value items or services. It is a bank-to-bank transfer, and normally clears within 48 hours.

One common transaction is Direct deposit. Beneficial to employers, it sees salary and wage payments automatically transferred to employees' bank account. On the other hand, employees can use it to cover their monthly mortgage or rental payments, utility bills and recurring expenses.

Historically, Direct deposit worked well within individual European countries, but was a problem for international transactions because of different banking rules in different countries. With the growth of international trading, the European Union initiated legislation called Single Euro Payments Area (SEPA), thus creating a standardised payment system in all EU countries with effect from 1 February 2014. This has had the effect of removing commercial, technical and legal barriers to a single domestic payments market.

Your payment is made within a guaranteed time frame and banks are not permitted to deduct anything from the sum transferred. It is also law to make available simple and clear information regarding charges or fees applicable to the transfer.

PayPal

PayPal has become synonymous with non-merchant online account payments. Since they host the merchant account rather than the business itself, the business utilises the PayPal interface, thus avoiding the task of creating a payment gateway on its own website. Other companies offering such services include Worldpay and Stripe.

As with credit card companies, be aware of the charges and fees applied to use such a platform. PayPal can also stop payments, freeze your account or extract money back from you if they consider a customer's complaint against you to be valid. It is important to check out the terms and conditions of the payment processing company as well as ensuring that your brand and offering matches what your publicity has been communicating, otherwise you could lose financially.

Digital Currencies

A very recent phenomenon, this is where electronically-created and stored virtual money is used to purchase goods and services. The most familiar in today's business world is Bitcoin, although the currency isn't in widespread use. Most banks generally do not accept or offer services for digital money as it is highly volatile.

These currencies use peer-to-peer technology, operating with no central authority. Transactions are completed quickly, they are irreversible and compared to credit/debit card payment methods, fees are generally lower. A third-party payment service is required, as is a terminal if you want to operate it in-store, although customers can use apps specific to their smartphone or tablet.

In the case of Bitcoin, the majority of users are legitimate, but the decentralised, anonymous nature of these transactions has also created a significant black market presence.

Mobile

According to Goldman Sachs, global spending via mobile is forecast to jump from $204 billion in 2014 to $626 billion in 2018. As smartphone and tablet ownership increases in our society, their role in retail becomes more important as customers increasingly prefer to pay using contactless technology, text messages and data transfers.

For example in Ireland, 64 million online and mobile payments were made in 2014; averaging at least 5 million per month, this rose to 6 million in the last quarter of the year. More than 20 million mobile banking payments and 44 million online banking payments were made. 2.3 million customers were active users of online banking from Oct.-Dec. 2014, while 1.2 million were active users of mobile banking. This activity generated a 2.6% increase in the number of online banking payments. (Banking and Payments Federation Ireland).

And in the United States, InternetRetailer has predicted that purchases via tablets and mobile phones, will account for 27% of all online sales ($133 billion) by 2018.

So whether we have a love/hate relationship with our mobile phones or tablets, they have become our companions and their role in the future of retail cannot be underestimated. In Ireland alone, there are now at least four devices that connect to the internet in every home. They all give the customer the opportunity to purchase goods or services and increasingly, Irish consumers are using mobile devices for banking or purchases.

Contactless

Known as 'wave and go' technology, contactless allows consumers to use their credit/debit cards or smart cards to shop without a PIN number being required when settling at the point of sale. Users swipe the card over a machine, and the individual's bank account is debited to the value of the transaction. Currently, transactions are limited to 15€ or less (which mitigates the risk of banking fraud on high value items) but providers have plans to increase this limit to 30€ come October 2015 (and to £30 in the sterling zone). The technology has now evolved to be embedded in certain smartphone models and carries the same protection as credit/debit card transactions; this is probably the way the platform will develop over time.

With the launch of Apple Pay in July 2015 (Britain is the first country outside the USA to offer Apple's contactless payment system) the number of contactless users should increase, although the Apple technology will only be available to those owning the new Apple Watch or iPhone 6. When used to pay online, Apple Pay will operate similarly to that of PayPal on Samsung smartphones, which utilises a fingerprint to authenticate payments, thus avoiding the requirement to use credit card details and PIN number. One advantage is that no charge is incurred by businesses supporting the system.

In Ireland, there has been a mixed response to contactless and usage wouldn't be as widespread as in Britain or France. This is partly due to a slow take up on the part of retailers (currently over 80% of contactless transactions are handled by ten merchants, such as McDonalds, Subway and Boots the Chemist) as many businesses refuse to accept contactless as a payment option for fear of being charged per transaction.

In Britain, contactless payment transactions were up 255% in 2014, with 58m contactless cards in circulation that generated £2.32 billion (although this still only accounted for 2.7% of all card transactions).

Interestingly, the technology was used most often in London, where since September 2014, the Transport for London (TFL) has accepted contactless payments on buses and at stations. Since then, 41m journeys have been made using contactless.

But to take advantage of this evolving technology, businesses will be required to invest in new terminals and, depending on your bank, fees could be levied per transaction. In the first instance, it would be prudent to speak with your bank to see what strategy they have endorsed for deploying contactless technology.

Apart from these individual settlement platforms listed above, other less common payment methods include promissory notes, bank drafts, money orders and postal orders. It is also good to remember that no single payment type is the best solution for every business, and depending on how tech savvy your customers are, a variety of payment channels will continue to be a requirement.

WHO WE ARE

Big Red Book is the largest and longest establish Irish company that supplies accounting software to the small business market.

Big Red Book is designed for ease of use so you can spend more time running your business rather than worrying about the accounts.

We understand that doing accounts can be a challenge so we provide free training. We also have an expert customer service team to ready to take your call and help you with any support issues.

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