

PAYMENT SYSTEMS

There are five main types of payment systems: cash, checking transfer, credit cards, stored value, and accumulating balance.

Cash

Cash- which is legal tender defined by a national authority to represent value, is the most common form of payment in terms of number of transactions. The key feature of cash is that it is instantly convertible into other forms of value without the intermediation of any other institution.

Why is cash still so popular today? Cash is portable, requires no authentication, and provides instant purchasing power for those who possess it. Cash allows for micro payments (payments of small amounts). The use of cash is "free" in that neither merchants nor consumers pay a transaction fee for using it. Using cash does not require any complementary assets, such as special hardware or the existence of an account, and it puts very low cognitive demands on the user. Cash is anonymous and difficult to trace, and in that sense it is "private." Other forms of payment require significant use of third parties and leave an extensive digital or paper trail.

Float the period of time between a purchase and actual payment for the purchase.

Checking Transfer

Checking Transfer -A checking transfer represents funds transferred directly via a signed draft or check from a consumer's checking account to a merchant or other individual. Checks can be used for both small and large transactions. Checks have some float (it can take up to 10 days for out-of-state checks to clear).

Credit Card

Credit card- represents an account that extends credit to consumers, permits consumers to purchase items while deferring payment, and allows consumers to make payments to multiple vendors at one time.

Credit card association- nonprofit association that sets standards for issuing banks.

Issuing bank -bank that actually issues credit cards and processes transactions.

Processing center (clearinghouse) -institution that handles verification of accounts and balances.

Credit cards offer consumers a line of credit and the ability to make small and large purchases instantly. They are widely accepted as a form of payment, reduce the risk of theft associated with carrying cash, and increase consumer convenience. Credit cards also offer consumers considerable float. With a credit card, for instance, a consumer typically need not actually pay for goods purchased until receiving a credit card bill 30 days later.

Stored Value

Stored value payment system -account created by depositing funds into an account and from which funds are paid out or withdrawn as needed.

Debit card -immediately debits a checking or other demand-deposit account.

For many consumers, the use of a debit card eliminates the need to write a paper check. However, because debit cards are dependent on funds being available in a consumer's bank account, larger purchases are still typically paid for by credit card,

Accumulating Balance

Accumulating balance payment system -account that accumulates expenditures and to which consumers make periodic payments.

PAYMENT SYSTEMS STAKEHOLDERS

The main stakeholders in payment systems are consumers, merchants, financial intermediaries, and government regulators. Each of these stakeholders has different preferences. Consumers are interested primarily in low-risk, low-cost, refutable (able to be repudiated or denied), convenient, and reliable payment mechanisms. Consumers have demonstrated they will not use new payment mechanisms unless they are equally or more beneficial to them than existing systems. In general, most consumers use cash, checks, and/or credit cards. The specific payment system chosen will change depending on the transaction situation. For instance, cash may be preferred to keep certain transactions private and anonymous, but the same consumer may want a record of transaction for the purchase of a car.

Merchants are interested primarily in low-risk, low-cost, irrefutable (i.e., final), secure, and reliable payment mechanisms. Merchants currently carry much of the risk of checking and credit card fraud, refutability of charges, and much of the hard-ware cost of verifying payments. Merchants typically prefer payments made by cash, check, and to a lesser extent credit cards, which usually carry high fees and allow transactions to be repudiated after the fact by consumers.

Financial intermediaries, such as banks and credit card networks, are primarily interested in secure payment systems that transfer risks and costs to consumers and merchants, while maximizing transaction fees payable to themselves. The preferred payment mechanisms for financial intermediaries are checking transfers, debit cards, and credit cards.