

# Electronic Payment Instruments

SLIDE 1: silent

SLIDE 2

This module deals with electronic payment instruments. These instruments allow people to make payments and other transactions without using cash, simply by transferring money from their account to another account.

Electronic payments have been made increasingly fast and secure by technological advances, and involve a number of intermediaries. As well as those that directly provide the service (banks, Poste Italiane, electronic money institutions and payment institutions), there are a number of other operators in charge of processing these transactions.

Always remember that every payment service provider operating in Europe must be an authorized and supervised intermediary.

SLIDE 3

Cashless payment instruments are constantly evolving.

Cheques were once common, and have now almost entirely disappeared. Instead, we use:

- Credit transfers
- Payment cards (debit, credit and prepaid cards)
- Direct debit

As technology opens up new possibilities, intermediaries can use them to offer increasingly user-friendly solutions that are consistent with our normal usage and that are extensions of the three main instruments mentioned above. Two of them are:

- E-wallets (electronic wallets)
- Closed-loop payment systems (closed circuits)

We can use these new instruments with confidence, provided we clearly understand what kind of service we are purchasing and how consumer protection works (we will discuss this in detail below).

SLIDE 4

Compared to cash, electronic instruments offer significant advantages:

- They are more integrated with our daily life, which is increasingly digital; they are also required for online purchases
- They enable payment traceability. We can recover information about our old payments and keep better track of our expenses. They are also an aid to ensuring lawful and transparent financial relationships.

- They are more practical: they allow us to make purchases using the money on our account without carrying any cash, even if we are on holiday somewhere remote!

However, we mustn't forget that they can carry new types of risks, which we can call digital risks. These risks include scams and data theft – but also the risk of losing touch with reality and overspending, which can happen when we don't see the banknotes physically leaving our wallet.

## SLIDE 5

The first cashless payment instrument we are going to talk about are credit transfers. These are orders given by a debtor (also called 'originator') to transfer money from their own payment account to the account of a creditor (or 'beneficiary').

- When a credit transfer is made between accounts held at the same bank, it is called a giro transfer. In this case, the money is usually transferred very quickly.
- The transfer takes longer, instead, when it involves two different intermediaries, as the intermediaries need time to interconnect. The money, however, has to be credited to the beneficiary's account within one working day.

The cost of credit transfers may vary, depending on the conditions applied by our intermediary, as well as the country of the beneficiary. As a rule, we will pay more for a credit transfer towards the United States than towards Italy; in this case, we also need to factor in the cost of the currency exchange. It is advisable to find out about the costs before carrying out a transaction.

## SLIDE 6

Thanks to a recent development, we now have instant credit transfers, which allow us to transfer money in real time, within seconds of the payment order. Instant credit transfers are generally more expensive than ordinary credit transfers.

When are they useful? When we have to make sure our beneficiary receives the sum immediately, for instance when paying for goods or services. Instant credit transfers are also good for businesses: the seller can check immediately that the money has been credited and ship the goods right away.

As of 9 January 2025, banks that provide instant credit transfer services to their customers may not charge fees that are higher than those applied to ordinary credit transfers.

## SLIDE 7

International Bank Account Numbers (IBANs) are the codes that identify current accounts internationally, and we must pay close attention to them. It is essential that we double check the IBAN to make sure it matches the beneficiary's account. If we make a mistake and provide our bank with an incorrect IBAN, we may be unable to recover the sum transferred. When a customer supplies a wrong IBAN, that is, the intermediaries cannot be held responsible for carrying out the transaction as requested by the customer, and. While intermediaries are expected to make every reasonable effort to recover the funds, they may be unable to have the money returned to the customer.

Beware!!! Instant credit transfers make paying attention to the IBAN ever more crucial, as the sum will be paid within seconds of the payment order and we may find ourselves unable to recover it in case of error!!!

## SLIDE 8

Payment cards can be divided into three main categories: credit, debit and prepaid.

All three allow us to withdraw cash from automated teller machines (ATMs) and to make purchases in shops and online.

The cards may be issued by the bank where we hold our account, as is the case with debit cards. They may also be issued by other intermediaries, as usually happens with credit cards. Prepaid cards are 'loaded' using electronic money; they don't require an account.

## SLIDE 9

What are the costs of having a payment card? The card holder usually pays a fixed fee to purchase the card, as well as an annual fee which is sometimes included in the fixed charges for the current account to which the card is linked. There are usually no charges for payments made with cards in shops, as the transaction fees are billed to the shopkeeper.

Fees for cash withdrawals from ATMs vary depending on whether the ATM is managed by the bank that issued your card, e.g. the bank where you hold an account, or by a different bank. In the first case, the withdrawal may be free of charge, in the second it usually has a cost.

Beware: before withdrawing cash abroad, find out what the costs are. They may be high, especially those for foreign currency cash withdrawals.

## SLIDE 10

Payment cards are generally plastic cards, but they may also be fully digital.

They contain information identifying the holder (name and surname) as well as a security code.

It is increasingly common for cards to use contactless technology, meaning that you only need to tap your card against a panel on a POS terminal or a bank's ATM to make purchases or withdrawals. For purchases below a certain threshold, some cards do not require you to insert your PIN.

## SLIDE 11

Credit cards are payment instruments that allow you to make purchases in stores and online, without necessarily having the amount of money needed available in your account at the moment of purchase. The amount you spend using your credit card will normally be billed to you a few weeks later, so it is important to have the money available in your account at the due date.

They are called credit cards because the amounts you spend or withdraw are advanced by the credit card company – meaning this credit is effectively a loan to be repaid on a specific date. The company issuing the card normally sets a monthly spending limit, whose value depends on the cardholder's overall financial situation. People in high income brackets are generally granted higher credit limits.

Credit cards can normally be used for cash withdrawals as well, albeit for a high fee, as you are effectively being loaned the cash you withdraw.

## SLIDE 12

When you use a credit card, you can repay your credit card bill in one of two ways. You can do it all in one go (by the due date agreed with the intermediary), or in monthly instalments (this is a 'revolving' credit

card). In the first case, the bank grants us an interest-free deferment, whereas in the case of a revolving card, interest is charged. If we choose to pay by revolving card, the total cost of our purchase will include interest charges on the loan as well as any further expenses for ancillary services. Revolving credit cards are commonly offered by intermediaries: before applying for one, bear in mind all the fees attached and carefully consider other types of financing, which may prove less expensive.

#### SLIDE 13

Let's move on to debit cards, which are also known as Bancomats in Italy, after the name of the main payment circuit. Debit cards are a payment instrument issued directly by the intermediary, such as a bank, upon opening a current account. The amount paid or withdrawn by debit card is debited directly to your account, which means a sum that is at least equal to the one debited has to be immediately available (whether as a deposited in your account or through an overdraft agreement).

Generally, the cardholder pays an annual fee (usually lower than a credit card annual fee), which is sometimes included in the fixed charges for the current account. Charges may apply for cash withdrawals from ATMs at banks other than the cardholder's bank or for cash withdrawals abroad. Take these factors into account as you make decisions about how to use your card.

#### SLIDE 14

Prepaid cards work on the principle of prepaying ('loading') a sum of money to the card issuer. They allow the card holder to buy goods and services or to withdraw cash from ATMs up to the prepaid amount. It is like having an electronic wallet from which you deduct the amounts spent with each use. You don't need to have a current account to use a prepaid card and you can load it in several ways, but different charges will apply.

A common type of prepaid card, also called an account card, has an IBAN associated with it. These cards can be used to carry out transactions in a similar way to current account cards, such as making credit transfers or having one's wages paid directly to them.

#### SLIDE 15

Direct debit is a similar form of payment to credit transfer, to the extent that it is a way of transferring money from one account to another, except it works the other way around. Here too, the payer's account is debited and the amount is credited to the payee's, but the instruction comes from the payee.

It is important to remember that the payee can only order a payment to be made *from* our account if we have previously authorized them by giving them a payment mandate.

We can grant authorization for a one-off payment or for recurring payments.

Direct debit is chiefly used to automatically make recurring payments on predetermined due dates, such as utility bills (electricity, gas, telephone, etc.) or loan payments.

#### SLIDE 16

Let's move on to online payments. Among the most widely used online payment instruments are payment cards, which can be used on their own or through an e-wallet, such as Google Pay or Apple Pay.

An alternative form of payment is by credit transfer, which involves logging into our home banking to access our current account, or allowing an authorized Payment Initiation Service Provider (PISP) to access our account directly from an e-commerce website.

Another type of credit transfer involves transferring money between two e-money accounts using closed circuits, such as Paypal and Satispay.

There is no single most recommended payment method. The choice is personal and depends both on the payment instruments that are available to us, and of course on the payment options provided by the seller.

## SLIDE 17

Among the most innovative payment solutions are e-wallets. We may see them as virtual containers in which customers are able to record the details of their own payment instrument(s). They are generally applications that can be downloaded to a smartphone, PC or tablet and can be used both in shops (through the shopkeeper's POS) and online (for instance with app stores and internet shops). As mentioned, Google Pay and Apple Pay are examples of e-wallets.

## SLIDE 18

To complete our list of possible payment solutions, let's look at closed circuits. Closed-loop payments involve transfers of money between customers and merchants who are both customers of the bank. This way, the credit transfer from one account to the other can be recorded through a simple internal registration system. Some examples of closed circuit providers are Paypal and Satispay, which offer e-money accounts. When you open an e-money account with one of these circuits, you need to link it to a payment card or to a current account you hold at a separate intermediary, so that the sums of e-money can be easily transferred for use in the closed circuit (in short, cards and credit transfers are used to load e-money onto a Paypal or Satispay account).

## SLIDE 19

We conclude our overview with a few pieces of advice on your payment behaviour and tips on what to do if any problems arise...

## SLIDE 20

Cashless payment instruments are practical. One click may be enough to make an online purchase, but remember you are spending real money!

Behavioural finance research shows that we are more prone to feeling the pain of paying in cash than by card. With cards, therefore, we may be at greater risk of overspending or losing track of our expenses. By regularly checking the list of your card transactions, you can monitor your expenses and promptly spot any unauthorized transactions. Activating an automatic notification service via text alert or app is also advisable.

## SLIDE 21

Payment instrument users must be careful and diligent. Below are a few rules for preventing or limiting losses from theft or fraud, making it easier to get reimbursed if they occur:

- Always keep your PIN and your payment card separate
- Promptly block your card in case of loss or theft
- Don't share your account/banking app access credentials with anyone

## SLIDE 22

How can you obtain a reimbursement in case of payments you have not authorized?

If you find an unauthorized payment on the card statement, contact the issuer and ask for reimbursement.

Disputing a transaction must be done as soon as possible, and in any case within 13 months of the payment date. If you act with care and diligence, the issuer is required to reimburse you for the stolen amount!

Should any problems arise with a reimbursement to which you believe you are entitled, you can file a complaint with the intermediary and, if they don't reply or if their reply is unsatisfactory, you can then submit a complaint to the Banking and Financial Ombudsman (ABF). Filing a complaint with the ABF costs €20 and your complaint will be dealt with promptly.