How Would You Like to Pay?

Student’s booklet

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UNIT 7
How Would You Like to Pay?

You will learn how to

- Distinguish the pros and cons of different payment methods, in person and over the Internet.
- Compare and choose among options for making and receiving payments, in terms of convenience, cost, security and speed.
- Identify counterfeit euro banknotes.
- Order a bank transfer.
- Write a bearer or order cheque.
- Calculate currency exchange correctly.
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7.1 Introduction

Money is used to exchange goods and services. We have different options for making payments: in person, at the bank and through various channels available over the Internet. There are also different ways to receive money from others and transfer it between individuals and organisations.

The following graphs show the proportion of the primary payment methods, other than cash, used in Spain and the European Union. We can see that electronic payment methods, without any physical movement of money, are the most widely used, while only an increasingly tiny percentage of payments are currently made by cheque.

In this unit, we won’t discuss credit and debit cards; given their importance, we dedicate a whole unit to payment cards.

The choice of one payment method over another will depend on several factors:

» The preference of the creditor: Sometimes you have no choice because the person to be paid imposes the payment method. For instance, some merchants only accept cash and some service providers prefer to collect by direct debit or credit card.

» The geographical location of the creditor: If you can’t go to the creditor in person, you’ll need a safe way to send the money. If you have to send the payment abroad, you may have to pay in the currency of that country.

» The convenience (both to send and receive the payment), speed, cost and safety of the transaction.
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7.2 Cash

When we talk about cash we’re referring to banknotes (bills) and coins. In Spain and all euro zone countries, euro banknotes and coins are the only payment method considered legal tender. This means that no commercial establishment, bank, public administration or other creditor in these countries can refuse payment in cash with euros, although they could refuse other forms of payment, such as cheques or credit cards.

Nevertheless, each country can set limits and conditions to this rule, according to their tax laws and for the prevention of crime and fraud. We should use banknote denominations that correspond to the amount to pay for goods and services. Although no shop can refuse payment with a banknote that is legal tender, they may not have enough change. While there are no limits for using euro coins for payment, no one, except for public sector cashiers, is required to accept more than 50 coins for a single transaction.

7.2.1 Pros and cons of using cash for payments

» Accepted everywhere.

» Speed

» No identification (presentation of ID or passport) is required.

» Risky: danger of theft or loss.

» Possibility of fraud (counterfeit notes).

» You can’t use cash for online payments.

7.2.2 How to spot a fake banknote

Counterfeit bills are worthless, so you have to be careful not to accept any. The truth is that most counterfeits could be easily detected, but get slipped into circulation because people have the habit of grabbing their change and putting it in their purse or wallet without looking.

Euro banknotes are made using sophisticated printing technologies and incorporate several security features that make spotting fakes easy.

The only things you have to do are feel, look at and tilt the banknote. Let’s see these simple steps. Try doing the following tests with genuine banknotes of different denominations. Afterwards, it will be easier for you to spot a fake one.

It is a criminal offence to try to pay with money that you know or suspect to be counterfeit. Banks and businesses are required by law to remove from circulation any bills they suspect might be counterfeit, and you should not accept a banknote if you have doubts about its authenticity.
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Security features you can check by touch:

» **Paper**: Euro banknote paper is made of pure cotton fibres. Genuine banknotes have a crisp and firm feel (resistant and rough to the touch).

» **Raised print**: This creates an effect that you can feel on the main image (an illustration of a door or window) and in other areas on the front of the bill. If you run your finger across the front of a genuine banknote or lightly scratch it, you can tell that the ink is thicker in some parts.

» **Raised lines**: €200 and €500 denominations also include raised lines on the edges to help visually impaired people identify the banknotes.

If you look at a genuine euro banknote against the light, you can see the following security features on the front and back:

» **Watermark** created by using different thicknesses of paper: If you observe the banknote against the light, you can see its value and the main image. On the new Europa series banknotes, you can also see a portrait of Europa (a figure from Greek mythology).

» **Security thread** incrusted in the paper: If you look at the banknote against the light, the security thread appears as a dark line. The € symbol and the value of the banknote can be seen in tiny white lettering in that line.

» **See-through number**: (only first series banknotes) The marks printed in the top left corner on the front, and the top right corner on the back of the banknote combine to form the value. If you look at the banknote against the light, you can see the complete number.

Some of the most sophisticated and difficult to counterfeit security features can be viewed **by slightly tilting the banknote**.

» **Hologram** (denominations of €50 and higher of the first series): The hologram image on the front changes between the value of the note and a window or doorway.

» **Hologram band**: On the front of the Europa series banknotes, there is a portrait hologram – the silvery stripe on the right – that when tilted, shows a portrait of Europa, the main image and the value of the note. On €5, €10 £20 banknotes of the first series, the hologram image shows the value of the banknote and the € symbol.

» **Glossy stripe** (€5, €10 and €20 denominations of the first series): On the back, a gold-coloured stripe appears showing the value of the banknote and € symbol.

» **Colour-changing number**: On the Europa series banknotes, the emerald number on the front displays an effect of the light that moves up and down. On £50 and higher denomination banknotes of the first series, the number on the back changes colour, from purple or olive green to brown.
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7.3 Electronic payment methods

7.3.1 Transfers

A bank transfer, also called a wire transfer or credit transfer, is a transaction in which an account holder orders money sent from one account to another. The receiving account can be in the name of the same or different person or company. You can also transfer money to an account by paying cash.

Transfers can be to and from accounts at the same bank (in Spanish this is called "traspaso"), or between accounts at different credit institutions.

Aside from the participating banks, the following figures intervene in money transfers:

» **The sender** or payer is the account holder who orders his or her bank to transfer the funds.

» **The beneficiary** or payee is the holder of the account that receives the funds.

To transfer funds, the sender must give the bank a written order with detailed payment instructions. You can also transfer money through your online banking service by completing a digital transfer order.

**How long does it take?**

Even though the sender’s account is debited the moment the transfer goes through, the money is not immediately available to the beneficiary, unless both accounts are at the same bank.

For transfers in euros when the accounts of both the payer and payee are within the European Union, the payee’s bank should receive the funds by the end of one business day following the day the transfer was ordered.

**Fees**

Banks will typically charge a fee for transfers to other credit institutions but not between accounts at the same bank. They usually charge a percentage of the amount transferred, with a fixed minimum fee. The charges tend to be higher for transfers to or from banks outside of the SEPA zone.

If you plan on making a lot of payments using transfers, you should compare the fees charged by different banks before deciding where to open your account. Some online bank accounts include free transfers.

**Did you know?**

The Single Euro Payments Area, SEPA, is an initiative that provides a standardised way for individuals, companies and other economic agents within the same area to make payments in euros.

SEPA specifically covers the following payment methods:

» Transfers
» Direct debits
» Cards

This means that a person or company in Spain can send or receive a transfer to or from another bank account within the SEPA zone with the same characteristics, speed and security as a domestic transfer.

There are 36 members in SEPA, creating a single market for payments in euros: the 27 EU member states, plus Iceland, Liechtenstein, Norway, Switzerland and the United Kingdom. Andorra, Monaco, San Marino and the Vatican City also participate.

**SEPA**

Single Euro Payments Area
Types of transfers

Depending on the execution period, there are:

» Ordinary transfers and urgent transfers. The latter, like their name suggests, are faster and tend to have a higher cost.

Depending on the geographical area, there are:

» National (or domestic) transfers, in which both the transfer order and reception of funds by the beneficiary take place in Spain.

» Foreign or cross-border transfers, when the sender makes the payment in Spain and the beneficiary receives funds in another country, or when the sender pays from another country and the beneficiary receives the money in an account in Spain. Since 2014, credit transfers between any accounts within the SEPA zone have the same conditions as domestic transfers.

You need the IBAN for both domestic and foreign bank transfers.

7.3.2 Direct debits

Direct debits are an electronic payment method in which you instruct your bank to pay, until further notice, all the bills you receive from a company or other creditor. The bank takes care of paying the bills using the money in your account. Once you give the direct debit authorisation or mandate, all subsequent payments will be made, until instructed otherwise, without you having to do anything. Direct debits are also called “pre-authorised debits”.

This service is for periodically recurring payments, such as telephone, water and electricity bills, a gym membership, or a magazine subscription, in other words, payments that you have to make every month, every quarter or with any other frequency.

The following figures intervene in direct debits:

» The payer (or debtor): The one who makes the payment from a bank account.

» The beneficiary (or creditor): The company or person that is owed money and issues the bill or invoice to collect.

» The payment service provider: A credit institution or payment institution.

Direct debits are a convenient way to ensure the timely payment of your bills, directly from your bank account. Nevertheless, you need to keep track of the payments you make and receive. You have the right to return a direct debit from another company if you don’t agree with it. *

* If the payment was not authorised, the return period is 13 months. If it was authorised, the return period is eight weeks, provided that:

» No exact amount is specified in the direct debit authorisation,

» And the amount exceeds what could reasonably be expected, considering the amount of the other, previously paid direct debits.

Some demand current and saving accounts include direct debits for free, while other may charge a fee for this service.
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7.4 Cheques

A cheque (or check) is a physical payment document, with which a person (the drawer) orders a bank or other financial institution (the drawee) to pay a specific amount of money to another person or company (the payee). The money in the drawer’s bank account is used to pay the cheque. The drawer and payee can be the same person. For instance, you can write a cheque to yourself to withdraw money from your own account.

Although cheques were once widely used for payments, their usage has been in decline for some time now, due to the greater convenience, speed and safety of electronic alternatives.

7.4.1 Elements of a cheque

1. Name of the bank (drawee) and branch office of the account.

2. IBAN (and CCC during a transition period).

3. The amount of the cheque expressed in numbers. It’s good practice to write a symbol, such as a hashtag (#) on either side of the figure so that no one can write additional digits (e.g., turn €50.00 into €950.00).

4. Name of the person to be paid with the cheque (payee). This can be:
   - An order cheque: The name of the payee (person or company) is written on the cheque. This is the only person that can cash or deposit the cheque, so they must present identification and endorse it (sign it on the back).
   - A bearer cheque: Instead of specifying a name, the words “to bearer” (“al portador”, in Spanish) are written, indicating that whoever presents the cheque can cash or deposit it. Be careful with bearer cheques; if lost, anyone can cash them.

5. The amount of the cheque written in words: If there is a discrepancy with the amount written in numbers, the amount in words takes precedence. If the writing doesn’t take up the whole space, it’s good practice to fill it in with a line so that others cannot alter the amount by adding words.

6. Location and date of issue.

7. Space reserved for the drawer’s signature. This signature should be handwritten. If the cheque is issued from a company bank account, an authorised representative must sign, along with his or her title, and normally the company seal.

8. Magnetic printing area.
7.4.2 Drawbacks of checks

The usage of cheques has declined with the emergence of other, more convenient payment methods like cards, transfers and direct debits but, above all, due to the difficulties of cashing certain types of cheques.

The drawer must have sufficient funds in his or her account when the cheque is presented to be cashed. In other words, just because someone pays you with a cheque, it doesn’t mean that you’ll be able to cash it. If the drawer doesn’t have enough money in his or her account, the bank won’t pay you (only up to the amount available in the account), and it will be up to you to claim your payment.

Banks charge a fee for each cheque returned for insufficient funds, and it’s the person who presents the cheque for collection who has to pay the fee, not the person who wrote the cheque. If you want to cash a cheque without paying any fees, you have to go in person to the drawee branch office. You probably won’t have to pay any fees if you deposit the cheque in an account at the same bank.

Due to these difficulties, many creditors only accept certified cheques as payment. With a certified cheque, the bank that has to pay (the drawee) verifies that sufficient funds exist and that the cheque will be paid. To ensure the transaction, the bank retains the amount of the cheque from the drawer’s account, in addition to a fee for this service. The bank writes “confirmed”, “certified” or a similar term on the cheque and signs it.

If someone is going to pay you by cheque:

» Make sure that the cheque is filled out correctly.

» An order cheque (with your name on it) is safer than a bearer cheque.

» If you don’t know the payer well, ask for a certified cheque, when possible.

If you need to pay with a cheque:

» Don’t fill out the cheque until you have to hand it over or use it.

» Never give a “blank” cheque, i.e. signed but without writing in the amount. This is an extremely risky practice; another person could write in whatever amount they wanted, and you would have to pay.

» Keep in mind that cheques are payable on sight, i.e. when they are presented, even if you write a later date.

» Always keep your chequebook in a safe place and if it is lost or stolen, report this to your credit institution immediately. In the case of theft, you should also file a report with the competent authorities.
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7.5 Foreign currency

If you buy something in Spain or another euro zone country, you pay with euros. But if you want to buy something outside of the euro zone, you’ll probably have to pay for it with that country’s money.

To do that, you’ll first have to purchase some of that money. For example, if you’re going on a trip to Switzerland, you’ll have to buy Swiss francs. Since you won’t be able to purchase anything in Spain with francs, if you still have any left at the end of your trip, you’ll have to exchange them (sell them) for euros.

In international trade, payments are usually in the seller’s money. For example:

- If a Spanish businessperson sells shoes to a Swedish importer, the latter will have to pay for the shoes with euros.
- If a Swedish businessperson sells gloves to a Spanish importer, the importer will have to pay for the gloves with Swedish krona.

7.5.1 Foreign currency: banknotes and other currency

Each country represents its money as monetary units, called currency: the US dollar is the official currency of the United States, the euro is the official currency of the countries belonging to the euro zone, the pound sterling is the official currency of the United Kingdom, etc.

That same currency becomes foreign currency when it represents a monetary function in another country. In Spain, a bank account in US dollars or pounds sterling is a foreign currency account. A money transfer in euros or Swiss francs from the United States is a foreign currency transfer.

Banknotes are treated differently from other representations of the same currency, such as money in a bank account, cheques, promissory notes, transfers, etc.

Did you know?

Each currency has a three-letter ISO identification code.

For example, USD is used for the US dollar, EUR for the euro, GBP for the pound sterling, and JPY for the Japanese yen.
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7.5.2 Where can you exchange money?

You can exchange foreign currency at:

» **Credit institutions.** At banks, savings banks and credit unions you can do all kinds of transactions with foreign currency: buy and sell banknotes and cheques, take out loans in foreign currency, open an account in another currency, etc. Keep in mind that, although most banks offer foreign currency exchange, they are not required to do so. This service, like the rest of banking services, is provided at the discretion of each entity.

» **Authorised currency exchange establishments.**

7.5.3 Exchange rates and commissions

The exchange rate is the **number of units of one currency needed to obtain one unit of another currency**. This "price" of a currency is set by supply and demand in international currency markets and fluctuates constantly depending on many factors, such as the economic growth, inflation or domestic consumption of a nation.

On exchange rate publications, for both banknotes and other foreign currency, you can find two rates:

» **The purchase (or buy) rate:** This is the price at which banks and other currency exchange establishments buy foreign money.

» **The sell rate:** This is the price at which banks and other currency exchange establishments sell foreign money.

**Example**

<table>
<thead>
<tr>
<th>EUR/GBP</th>
<th>Foreign Banknotes</th>
<th>Foreign Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase rate</td>
<td>0.89</td>
<td>0.84</td>
</tr>
<tr>
<td>Sell rate</td>
<td>0.77</td>
<td>0.82</td>
</tr>
</tbody>
</table>

Even though the European Central Bank and the Banco de España publish a non-binding euro exchange rate against other currencies for informational purposes, banks and other exchange bureaus are free to apply other buy and sell rates.

The exchange rate for banknotes is different from the rate for other forms of currency. This is due to the added costs of handling cash for credit institutions and exchange bureaus (physical handling, transportation, insurance, etc.). These costs are passed on to the person buying or selling the banknotes, through the exchange rate.
Here's an example:

<table>
<thead>
<tr>
<th>EUR/GBP</th>
<th>Foreign Banknotes</th>
<th>Foreign Currency</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.89</td>
<td>0.84</td>
</tr>
<tr>
<td>Sell rate</td>
<td>0.77</td>
<td>0.82</td>
</tr>
</tbody>
</table>

1 euro = units of pound sterling

Remember that the exchange rates in this table (EUR/GBP) indicate the amount of pounds per unit of euro. The currency in the numerator is always the base currency or reference unit.

For banknotes, the numbers in the table mean the following:

When the bank buys pounds sterling, it will pay you 1 euro for every 0.89 pounds that you hand over.

When the bank sells pounds sterling, it will give you 0.77 pounds for every euro you pay.

Suppose you need 300 pounds sterling to cover your expenses for a study trip to the United Kingdom. According to the exchange rates in the table, the bank will charge you:

\[
1 \text{ euro} = 0.77 \text{ pounds} \\
X \text{ euros} = 300 \text{ pounds} \\
X = 300 / 0.77 = 389.61 \text{ euros}
\]

Following along with the same example, suppose you don’t spend all your pounds and have 95 left when you return home. A few days later, you go to the bank to exchange them for euros. Assuming the rates remain the same, the bank will pay you the following amount of euros:

\[
1 \text{ euro} = 0.89 \text{ pounds} \\
X \text{ euros} = 95 \text{ pounds} \\
X = 95 / 0.89 = 106.74 \text{ euros}
\]

Financial institutions usually charge a minimum commission, regardless of the amount of currency exchanged. Some exchange bureaus don’t charge commissions but offer less favourable exchange rates (their commission is already factored into the rate).

As with exchange rates, banks and other institutions are free to set their commissions, which tend to be higher for banknotes than for other forms of currency due to the additional costs mentioned earlier. Credit institutions and other currency exchange establishments are required to display their exchange rates and commissions to the public, in their premises and on their websites.
You can usually exchange banknotes, traveller’s cheques and other forms of currency, except coins. If you still have foreign coins left after a trip, it’s best to spend them or change them for banknotes before returning home. Otherwise, you’ll have to save them for your next trip.

The purpose of this table is not to know the exchange rates, since these change all the time, but to see some of the many currencies that exist around the world, traded in currency markets.

### FOREIGN CURRENCY EXCHANGE RATES
Real exchange rates published by a credit institution in July of 2018 (units of foreign currency per 1 euro).

<table>
<thead>
<tr>
<th>Currency</th>
<th>Currency name</th>
<th>Purchase rate</th>
<th>Sell rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUD</td>
<td>Australian dollar</td>
<td>1.621900</td>
<td>1.518300</td>
</tr>
<tr>
<td>CAD</td>
<td>Canadian dollar</td>
<td>1.596200</td>
<td>1.494200</td>
</tr>
<tr>
<td>CHF</td>
<td>Swiss franc</td>
<td>1.20500</td>
<td>1.12800</td>
</tr>
<tr>
<td>CNY</td>
<td>Chinese yuan renminbi</td>
<td>8.02990</td>
<td>7.51690</td>
</tr>
<tr>
<td>CZK</td>
<td>Czech koruna</td>
<td>26.67570</td>
<td>24.97130</td>
</tr>
<tr>
<td>DKK</td>
<td>Danish krone</td>
<td>7.69800</td>
<td>7.20620</td>
</tr>
<tr>
<td>GBP</td>
<td>British pound sterling</td>
<td>0.90850</td>
<td>0.85050</td>
</tr>
<tr>
<td>HKD</td>
<td>Hong Kong dollar</td>
<td>9.57590</td>
<td>8.96410</td>
</tr>
<tr>
<td>HUF</td>
<td>Hungarian forint</td>
<td>332.96690</td>
<td>311.69310</td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese yen</td>
<td>133.98010</td>
<td>125.41990</td>
</tr>
<tr>
<td>MAD</td>
<td>Moroccan dirham</td>
<td>11.43940</td>
<td>10.70860</td>
</tr>
<tr>
<td>MXN</td>
<td>Mexican peso</td>
<td>23.09510</td>
<td>21.619500</td>
</tr>
<tr>
<td>NOK</td>
<td>Norwegian krone</td>
<td>9.70990</td>
<td>9.08950</td>
</tr>
<tr>
<td>NZD</td>
<td>New Zealand dollar</td>
<td>1.77070</td>
<td>1.65750</td>
</tr>
<tr>
<td>PLN</td>
<td>Polish zloty</td>
<td>4.17480</td>
<td>4.16870</td>
</tr>
<tr>
<td>RON</td>
<td>Romanian leu</td>
<td>4.80530</td>
<td>4.498300</td>
</tr>
<tr>
<td>SEK</td>
<td>Swedish krona</td>
<td>10.57660</td>
<td>9.90080</td>
</tr>
<tr>
<td>SGD</td>
<td>Singapore dollar</td>
<td>1.64300</td>
<td>1.53800</td>
</tr>
<tr>
<td>TRY</td>
<td>Turkish new lira</td>
<td>5.52130</td>
<td>5.16850</td>
</tr>
<tr>
<td>USD</td>
<td>US dollar</td>
<td>1.22030</td>
<td>1.14230</td>
</tr>
<tr>
<td>ZAR</td>
<td>South African rand</td>
<td>16.14270</td>
<td>15.11130</td>
</tr>
</tbody>
</table>
7.5.4 Convertible and non-convertible currencies

Of the 165 different currencies that exist around the world, only 11 comply with all the conditions to be used as payment in international trade transactions. They are the following:

<table>
<thead>
<tr>
<th>Currency</th>
<th>ISO Code</th>
<th>Country of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>EUR</td>
<td>Euro zone countries</td>
</tr>
<tr>
<td>United States dollar</td>
<td>USD</td>
<td>United States of America</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>CAD</td>
<td>Canada</td>
</tr>
<tr>
<td>New Zealand dollar</td>
<td>NZD</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Australian dollar</td>
<td>AUD</td>
<td>Australia</td>
</tr>
<tr>
<td>Japanese yen</td>
<td>JPY</td>
<td>Japan</td>
</tr>
<tr>
<td>British pound sterling</td>
<td>GBP</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Swiss franc</td>
<td>CHF</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Swedish krona</td>
<td>SEK</td>
<td>Sweden</td>
</tr>
<tr>
<td>Danish krone</td>
<td>DKK</td>
<td>Denmark</td>
</tr>
<tr>
<td>Norwegian krone</td>
<td>NOK</td>
<td>Norway</td>
</tr>
</tbody>
</table>

Other currencies are only used within the territory of their respective countries (and in some cases, border countries). They only have value for domestic purchases and payments. In international trade transactions for import and export of goods and services, as well as financial operations such as loans and investments between countries, only the 11 convertible currencies are used.
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