

## Topic 1: Understand the tools used in managing money

After completing this topic, you will be able to:

- compare the different channels for managing money, including:
  - face-to-face contact and bank statements;
  - Internet banking and telephone banking; and
  - statements to mobiles and electronic statements;
- compare the automated tools used to transfer money electronically, including:
  - automated teller machines (ATMs);
  - Faster Payments;
  - cheques, direct debits and standing orders;
  - CHAPS and Bacs; and
  - PayPal;
- understand how these tools help you to keep track of your money; and
- understand security features and risks, including:
  - personal identification number (PIN);
  - security questions and passwords;
  - phishing;
  - identity fraud; and
  - card cloning.

### Channels that help you to manage your money

In this topic, you are going to study technology and see how it has changed the ways in which we can manage money.

We will start by looking at some of the older, more traditional, types of channel that are still used.

### Branch and face-to-face banking

Most major banks have an office in each town or city. These offices are called 'branches', or 'branch offices'. The branch has always been a place where banking business is done. It is where you can go to talk with the



branch manager or a customer service adviser about setting up payments, applying for a loan or arranging to have a savings account. Many people prefer talking directly to another person face-to-face to talking to them over the phone.



### **Activity 1a**

***Discuss why we like to talk about our shopping purchases with another person, whether that is the sales assistant or a friend.***

The reasons why we like to interact with other people include that we like to get their opinions, but – more importantly for financial services purposes – we like being able to ask questions to help us to understand the transaction.



### **Activity 1b**

***Think about a bank or building society branch that you may have been inside, either on your own or with your parents, or past which you may have walked.***

- ***What sort of words would you use to describe it? For example, does it seem welcoming to you or slightly scary?***

***The branch will have some tables and chairs, a nice carpet and a series of tills. Think about these features.***

- ***How do these features make you feel?***
- ***Would you go into a branch out of choice or only because you have to do so?***



**What do you think might be the main reason why customers prefer using other channels to manage their money rather than a branch?**

There are a number of reasons why alternative methods of banking that do not involve going into a branch can be popular with some people.

The main reason why people prefer to use other channels is that branches are only open for few hours a day. Some alternatives, such as using the Internet, are available 24 hours a day, seven days a week. If we use certain other channels, we can get banking when we want it. So although many of us might not want to arrange an overdraft at 2 am, it can be useful to know that we are able to do so on a Friday night before going out buy a new television on Saturday.

## Advantages and disadvantages of branch and face-to-face banking



### Activity 1c

**List the advantages and disadvantages of branch and face-to-face banking. Try to think of some others not already noted above. Think of the types of people who might prefer to do their banking 'in person' and the types of people who might prefer the alternatives.**

## Paper statements



A statement is a list of transactions on your account that is sent to you by post. There might be only one page of information or, if you tend to do a lot of transactions in a month, you might receive two or three pages. Statements are a very simple, but useful, way of managing the money that goes in and out of your bank account. You should check each transaction on the statements against all of your receipts and transaction slips for the month to make sure that all of the debits and credits are correct. You can write on your statement: some people tick each transaction as they check it.

Other paper documents that may be sent to you in the post by your bank (and other financial organisations) include information about current interest rates and charges that could apply to your account.

## Advantages and disadvantages of paper statements



### Activity 1d

**Can you think of some advantages and disadvantages of paper statements?**

**For example, one disadvantage will be that it is not good for the environment for so much paper to be printed each month. (Imagine the millions of sheets of bank statements that are sent out each year!)**

## Internet banking

Internet banking is an arrangement that allows you to manage your accounts online. It can be totally convenient and you can look at your accounts at any time. All that is needed is a computer and reasonable Internet access.

Most high-street banks offer Internet banking among their range of services, but there are some banks that do not have branches – that is, banks that operate *only* via the Internet. (You will, however, have the option of speaking to operator if you have a problem, or if the bank's servers fail.)

Examples of Internet-only banks include Smile, First Direct and Ing Direct.



## Setting up Internet banking

It is very easy to set up Internet banking. You will be given a customer identification name and a password, and you will need to answer some security questions. So that the bank can always be sure that it is you, and only you, that is able to access your accounts online, it will ask you to supply some information that only you are likely to know. It might ask you, for example, the name of your first school, or the name of your pet, or something else of your choice, such as the name of your favourite chocolate bar.

## Using Internet banking

You will need to 'log on' to a page that looks something like the illustration overleaf.

**internet banking log on**

Please log on using your username. If you have not set this up, you will be asked to provide a username, password and memorable question and answer.

|  |           |  |
|--|-----------|--|
| <p><b>log on</b></p> <p>Please enter your username.</p> <input type="text"/> <p>▶ <b>proceed</b></p> <p>If you have forgotten your username call us on <b>08 456 100 100</b></p> | <b>OR</b> | <p><b>set up new security details</b></p> <p>Select proceed below to set up your security details</p> <p>▶ <b>proceed</b></p> <p>▶ <b>frequently asked questions</b></p> |
|--|-----------|--|

Source: [www.firstdirect.com](http://www.firstdirect.com)

You will see that there are clear instructions about what you should do if you have forgotten your user name or if you want to change any details.

The next screen will ask you to enter your password – or to enter characters from your password – and also to answer a security question.

Please enter the **3rd, 5th and penultimate** characters from your **electronic password**, and the answer to your question.

▶ **forgotten your password?**

**what instrument do I play?**

▶ **forgotten your answer?**

- ▶ **back**                                      ▶ **exit**                                      ▶ **proceed**
- ▶ **i've forgotten both my password and memorable answer**

The answer to the security question in this case might be one of hundreds of instruments. The person in this case has chosen the question carefully, because they actually play four different instruments: guitar; drums; mouth organ; and string bass. This means that even their friends would not know which instrument they have chosen as the answer to the question.

Again, the site clearly tells you what to do if you have forgotten any of your logon information.

## Advantages and disadvantages of Internet banking

One advantage of Internet banking is that you can access your account 24 hours a day, seven days a week and 365 days a year. One disadvantage is that if you have a problem,

you cannot always solve it on the Internet: you may have to use another channel, such as speaking to someone over the phone.



### Activity 1e

**Make a list of some more advantages and disadvantages of Internet banking. Try to think of some that have not already included above.**

## Telephone banking

Telephone banking is an arrangement that allows you to telephone a call centre and talk to someone about your bank account. If the transaction is a simple one, such as ordering a statement or finding out your balance, you will be able to use your telephone keypad to select various options and use an automated service to answer your query. If your enquiry is more complex, or if you want to speak to a human being about your banking issues rather than a recorded message, you can use your telephone keypad to select this option and you are then usually transferred a real person.



Some providers offer telephone banking only, such as supermarkets. Other banks allow you to use telephone banking as well as the branches, offering you the advantage of convenience.

## Setting up telephone banking

To set up telephone banking, the bank will send you some forms to complete, or you will be asked to telephone a special number.

The operator will talk you through the process. You will be given a customer identification number, or a user name, and you will be given guidance to help you set up a password and a personal identification number (PIN) – that is, a unique four-digit number that only you know. You will also give the operator some answers to some special security questions (just like with Internet banking). All of these methods are designed to make sure it is only you who can get information about the account.

When you make the call, you will hear a recorded voice telling you that ‘the call may be recorded for security or training purposes’.



**Can you think of a possible conversation with a call centre after which you might want to ask them to check the recorded conversation?**

Customer service is important, and listening to calls to make sure that staff are polite and give the right information is part of making sure that the customer service is good. This means that if you complain about the way in which you have been spoken to, the call centre can listen to the recording and resolve your complaint.

More importantly, of course, if you called to arrange a payment that then was not made, you will be able to ask the call centre to check the recording and explain why your payment has not been made.

## Using telephone banking

When you telephone the bank, you will be asked to enter your customer number on the keypad. The automated voice will ask for two of the numbers of your PIN – for example, the first and fourth numbers.



**Why do you think you are asked for only two out of the four numbers of your PIN?**

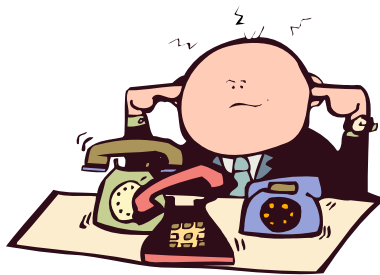
The reason that you are not asked for the whole of your PIN at any one time is for security purposes. Think about what might happen if you were not making the call in a private place and your PIN were overheard. (We will look at some of these risks later in this topic.)



### Activity 1f

**List all of the services and products that you can arrange with telephone banking of which you can think.**

You can, in fact, arrange for almost anything using telephone banking – especially as you can speak to an operator at any time and talk about your account. This means, then, that it can be almost like face-to-face banking.



## Advantages and disadvantages of telephone banking

One advantage of telephone banking is that you can speak to a real person. One disadvantage is that, although they may work late, some call centres are not open 24 hours a day, seven days a week and 365 days a year.



### Activity 1g

**Think of some other advantages and disadvantages of telephone banking that have not already be noted above.**



### Statements to mobiles

Some providers will send mini-statements to mobile phones. You have to set up an online bank account to do this. This is a very convenient way of keeping up to date with the status of your account at a time when you cannot get to a branch and when you are not near to your computer for online banking.

### Electronic statements

Internet banking allows us to look at statements online, which means that they are always up to date. Most online providers also allow you to look at statements going back over several years.

This has advantages: you do not have to keep old paper statements, for example, which have the risk of being lost anyway. More importantly, paper statements increase the risk of identity fraud, at which we will look at later in this topic. If you are being careful, you will shred all of your paper statements, and so electronic statements are very convenient and can be safer.

### Automated tools used to transfer money electronically

Banks have used computers and electronic transfers for a long time, and certainly since before they offered Internet banking. The banking industry has set up a company called 'UK Payments Administration' to administer the different types of payment at which we are now going to look.



### Automated teller machine (ATM)

Sometimes called a 'cash machine', a 'cash point', or a 'hole in the wall', the automated teller machine (ATM) is a tool designed to allow a customer to withdraw cash from their bank account at any time of day or night. To use an ATM, you will need a plastic card and a PIN.

At an ATM, you can select other options to help you to manage your money, including:

- request a balance;
- print a mini-statement; and
- change your PIN.

## Faster Payments

'Faster Payments' was started in June 2008 and the Faster Payments Service (FPS) allows customers to make faster electronic payments, typically via the telephone or Internet, enabling them to be processed in hours rather than days.

FPS allows customers to make almost real-time payments over the phone or via online banking all day, every day. Standing orders can also be processed using FPS.



### *Did you know?*

Most of the main banks have adapted their computer systems to handle Faster Payments, but some are still working on their systems. Visit [www.canipayfaster.co.uk](http://www.canipayfaster.co.uk) to see which banks offer Faster Payments.

There is a maximum limit for Faster Payments of £10,000 for each transaction. Standing orders paid by the banks can be up to £100,000. Some banks have put lower limits on the payments.

## Cheques

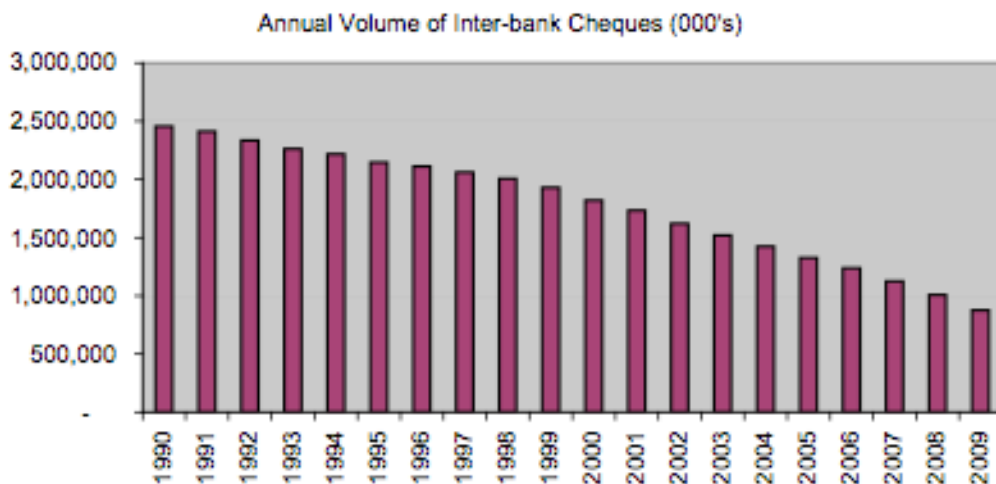
Cheques are written orders from account holders instructing their banks to pay specified sums of money to named beneficiaries. Preprinted on a cheque is the account number, the sort code for the branch with which the account is held and the cheque number. The account holder writes on the cheque the date, the name of the person who they want to pay and the amount that they want to pay them (in both words and figures), and then signs it.

The payee then takes the cheque to their bank and pays it into their account, in which it will show as a credit, although it will not be 'clear' for a few days. Under new rules introduced in 2007, a cheque paid into an account starts to earn interest after two days, can be drawn on after four days and is guaranteed not to 'bounce' after six days.

A cheque is a useful way in which to send money by post to pay for items if the retailer does not have the ability to take payment by debit card. Cheques are used less frequently now because most money transactions are done electronically.

### Did you know?

Although the volume of cheques being cleared is falling, over 1 million pieces of paper are still being handled a year – which is still a lot.



Source: Cheque and Credit Clearing Company (2009)

This volume is handled by computers and special equipment that can automatically read and sort cheques. The computers read the electronic digits at the bottom of a cheque.

## Direct debit

A direct debit is an instruction to the bank to let a company, such as an electricity company or phone company, take money out of your account to pay your bills. They are usually monthly payments and can be for the same amount or a different amount each time. For example, if you want the bank to pay your mobile phone bill each month, you can set up a direct debit, which tells the bank to allow the phone company to debit whatever the amount of the bill is that month.



Direct debits are very convenient and can be used to make sure that payments are made on time.

## Standing orders

A standing order is an instruction that you give to your bank or building society to make payments, usually on a regular basis, to a UK bank or building society account.

Any person or company with a current account at a bank or building society in the UK can set up a standing order. Your bank or building society will, on the day specified, debit your account and transfer the money to the bank or building society account of the recipient. Unlike a direct debit, the amount of a standing order is always the same each time.

## CHAPS

We can use CHAPS to send payments that have to arrive on time and within a single day. Individuals can use CHAPS for important large payments, such as buying a house or a car, and for payments that are urgent and cannot be sent through Faster Payments.



You will have to pay a charge to make a CHAPS payment.

### *Did you know?*

On 9 February 1984, the CHAPS sterling system commenced operations. At the end of 1984, the average daily volume and value transmitted was around 7,000 payments with an aggregate value of around £5bn.

Now, 25 years on, around 130,000 payments are made each day, with an aggregate value of around £300bn.

## Bacs

Bacs handles all of the automated payments made by banks and large organisations. It uses computers to take payments from one account and to pay them to another account.



The most common uses of Bacs are for direct debits and direct credits.

## Did you know?

In 2009, the UK payments systems processed:

- 294.7 million Faster Payments;
- 5.6 billion Bacs direct credits and direct debits;
- 39.1 million CHAPS payments; and
- 949 million cheques and credits.

These had a combined value of £69,400bn – that is, nearly four times the value of the world economy.

Source: [www.ukpayments.org.uk](http://www.ukpayments.org.uk)

## PayPal

PayPal is a secure online account that stores and safeguards your bank, credit or debit card details, and which allows you to pay or get paid safely and easily without sharing any of your financial information.

It is a payment system used mainly to pay for purchases from eBay – that is, an online marketplace – but it can be used for other payments if the seller decides to accept it.

PayPal is best explained using eBay as an example.

### Case study

When Veronica buys a vintage dress on eBay, the seller, Maureen, does not want to send the dress until she is sure that payment has been made. Like most eBay sellers, Maureen does not have the security or the computer equipment to take debit or credit cards, so she needs an organisation to take the cards for her – which is where PayPal fits in.

When Veronica makes the payment using PayPal, both she and Maureen receive an email confirming that the money has been paid through PayPal. Maureen is then happy to send the dress, confident that payment has been made.



## Keeping track

All of these channels for managing money and automated tools for the electronic transfer of money are used for keeping track of your finances. You can use any or all of the different channels to find out the balance of your account and to examine the transactions that have occurred. You can use mini-statements to check the last few transactions and you can use electronic statements to go back further to check transactions that happened months or years ago.

You can make payments to a variety of people or companies and you do not have to go into a branch to do this if you prefer not to do so.

It is important to keep track of your finances in order to budget properly and to plan for both the short term and the long term. In this way, you can make sure that you have enough money left at the end of the week or month to do things that you want to do and to buy the things that you want to buy.

## Security features of automated payments

### PIN

Your PIN is, essentially, your numerical signature and gives you access to your accounts. It is important that you memorise it and do not write it down. You will use your PIN at ATMs and to pay for items in shops, and you can change it at any time by choosing the 'change PIN' option at an ATM.

### Passwords

When using telephone banking or Internet banking, you have to use a password for security purposes. This is to ensure that nobody but the account holder can access the account, either to withdraw money or to do any other transactions on the account.

In addition to your password, you may be asked to provide a 'memorable number'. This should not be something that could be easily guessed. Maybe you could use your cousin's date of birth, or that of your dog, but it is not advisable to use things like your phone number because it would be one of the first numbers that a potential fraudster would try if attempting to access your accounts.

When you contact a telephone banking call centre, or to log on to the bank's website to carry out Internet banking, the first thing that you will be asked to confirm is your password, and then you might be asked to confirm, for example, the second and fifth digits of your memorable number.

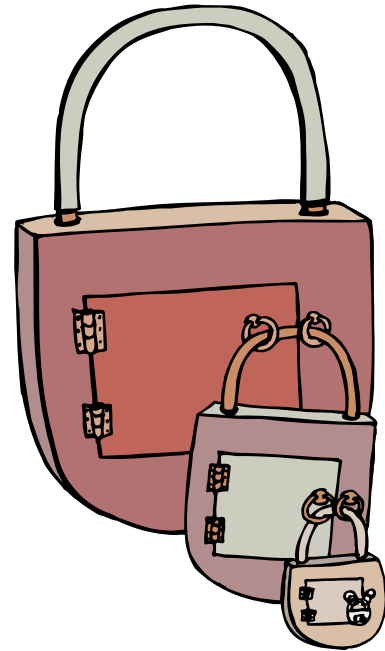
However, just to make doubly sure that you are the account holder, and not someone else who has managed to guess both your password and your memorable number, banks use 'security questions' too.

## Security questions

Security questions are used to protect your accounts further from potential fraud and misuse. The bank may ask you to choose a question and an answer – something that would be very difficult for a fraudster to guess.

An example of a security question might be: ‘What is your favourite food?’ Your answer might be ‘paella’ or ‘cheese on toast’. Or your question might be: ‘Where did you learn to swim?’ – or something even more obscure.

It is advisable to change your security question and answer periodically, just to be on the safe side. Like your memorable number, you will probably only be asked to confirm certain digits or letters of your security answer each time you use telephone banking. With Internet banking, you might be asked to type in the whole answer, or just certain digits – different banks use different systems.



### **Why do you think the call centres or online bank should ask only for certain characters of your password?**

The way in which your password is protected in this way is all to do with security – for example:

- if your telephone call is overheard, the person will hear that your password includes a ‘C’, but will not know the question and so will find it difficult to work out whether ‘C’ is the first fourth or last letter of the password;
- the provider’s computer generates the questions and so the operator will not know the password either; and
- with online banking, if by any chance your computer has been ‘hacked’, the hacker will only know the answer, but not the question, and so will not be able to work out the password.

Of course, it would be possible to make it really easy for someone to guess your password or PIN by using something such as your birthday or your street name – but you will take great care not to do so.

## Card cloning and copying

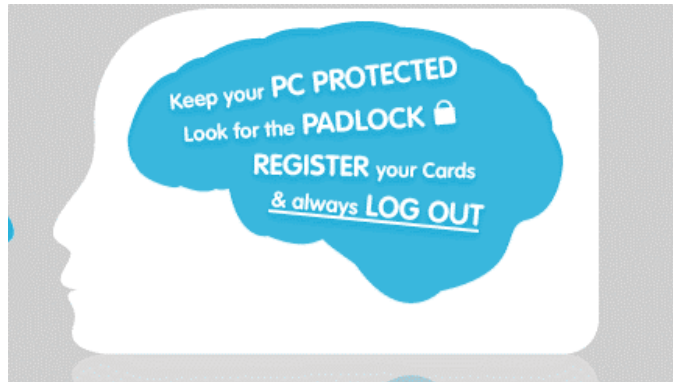
There is a risk that fraudsters will try to copy information off your cards. They can then use this information to make a copy – or ‘clone’ – of your card, which allows them to spend your money.

Alternatively, the copied information can be used to make purchases online. This is known as ‘Cardholder not present’ fraud, which is the fastest growing type of card fraud. When using your card online, there is a risk that some of the data can be obtained. We should always be ‘card smart’ to keep our cards and our personal details safe.



## Activity 1h

Visit [www.becardsmart.org.uk](http://www.becardsmart.org.uk) and watch the animation about using cards online.



**Why do you think that each of the stages shown is important?**

## Identity fraud

Identity fraud refers to the situation in which someone impersonates you without your knowledge or consent, or uses your personal information to obtain money, goods or services.

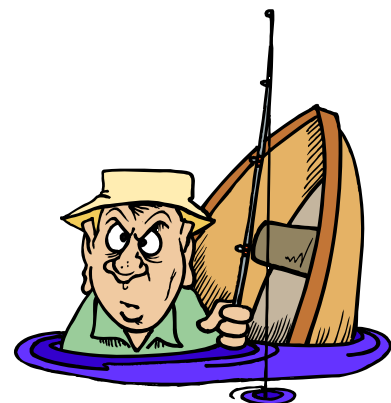
Your identity and personal information are valuable. Criminals can find out your personal details and use them to open bank accounts and get credit cards, loans, State benefits and documents, such as passports and driving licences, in your name.

If you find yourself a victim of identity fraud, you may find yourself receiving bills for accounts that you do not have and goods that you have not bought. You may even find yourself visited by debt collectors demanding payment for debts that you have not run up and your own applications for credit refused. Sorting out the mess can take you a very long time.

## Phishing

Phishing refers to the practice of sending spoof email that pretend to come from your bank or other financial provider asking you to confirm details such as your online banking passwords or PIN.

The emails can be very cleverly written and the website to which you are directed can look very convincing.



Remember, however, that a bank will never approach you for this information, so do not respond without checking first with the organisation concerned.



## Review questions

1. What sort of person would prefer in-branch face-to-face banking, and why?
2. Why are there so many security measures in place for anyone using telephone or Internet banking?
3. Why is the number of cheques being issued declining?
4. What is the main difference between standing orders and direct debits?
5. When using telephone banking, why would a call centre operator only ask you to confirm two or three letters or digits from your memorable number?
6. Why is it a good idea to change your security question and answer periodically?
7. Does a telephone banking call centre operator know your password, your memorable number, and your security question and answer?
8. What is identity fraud?

## Learning activities



### Internet

- Visit [www.firstdirect.com](http://www.firstdirect.com) and look for the tab marked 'Interactive'. Select 'User guides' and watch the demonstrations of how to set up an account and make a transfer.
- Visit [www.firstdirect.com](http://www.firstdirect.com) and look for the tab marked 'Interactive'. Select 'Podcasts', then 'Banking on the move', to see how a mobile phone can be used to manage your money.
- Visit [www.ebay.co.uk/paypal](http://www.ebay.co.uk/paypal) and watch the video that explains the system and its advantages for a consumer.
- To find out more on identity fraud, visit [www.identitytheft.org.uk](http://www.identitytheft.org.uk) or [www.moneymadeclear.fsa.gov.uk/news/scams](http://www.moneymadeclear.fsa.gov.uk/news/scams), both of which are sponsored by the government.
- Visit [www.smile.co.uk](http://www.smile.co.uk), [www.firstdirect.com](http://www.firstdirect.com) and [www.ingdirect.co.uk](http://www.ingdirect.co.uk), and see if you can find out which organisations own them.



### Group

In your groups, think of ten questions that someone might use as their 'security question' for use with telephone and Internet banking. They must be questions that the account holder could never get wrong, but the answers to which a fraudster could not guess.



### Individual

Visit a bank branch and look at some leaflets.

- Does someone ask if they can help you?
- Do you feel comfortable?
- What hours is the branch open?



## Key points for Topic 1

You should now understand:

- the different channels through which you can manage your money;
- the different ways of managing your money, getting access to your money and keeping track of your money, including: paper statements; branch visits and face-to-face meetings; telephone banking; Internet banking; statements to mobile phones; and electronic statements;
- the automated methods of transferring money and be able to compare them, including: Faster Payments; CHAPS; Bacs (including direct debits and direct credits); standing orders; cheques; ATMs; and PayPal;
- the security features of the tools and channels used, including: PIN; security questions; and passwords;
- the security risks of the tools and channels used, including: phishing; identity fraud; card cloning; and cardholder not present fraud.