



*Welcome to the Public Awareness column prepared by the Reserve Bank of Fiji. This month's article introduces the types of payment mechanisms available in Fiji and how they work.*

## **Types of Payment Systems and Instruments**

Everyday people trade/exchange goods and services for money. With money being the major medium of exchange, payments systems were developed out of a need to facilitate growth of commerce and economic development. In this article different types of payment systems are discussed: what payment mechanisms are available in Fiji and how they work.

To begin, let's define payment systems. They are systems that facilitate businesses and consumers to transfer funds to one another. While cash is an important payment instrument that people use in their daily lives to purchase goods and services, other payment instruments are also available and widely used. All payment systems in Fiji are regulated and supervised by the Reserve Bank of Fiji.

Different types of payment systems are available through different platforms and these can be categorized into two broad divisions: Large Value and Retail Payment Systems.

### **Large Value Payment System**

This system typically processes high value critical payments. It is an essential payment system which ensures the smooth functioning of the economy and the financial system. If this system fails, it could trigger disruptions or transmit shocks within the economy. Currently, all banks in Fiji use FIJICLEAR to make large value payments. This system enables payments to be made electronically within Fiji and transactions are settled in real time i.e. as it happens. Other advantages of FIJICLEAR are its speed, reliability, safety, convenience, cost and accuracy. FIJICLEAR can be used for small and medium payments as well.

The commercial banks also use SWIFT (Society for the Worldwide Interbank Financial Telecommunication) to facilitate FIJICLEAR transactions. SWIFT is also used by commercial banks to make large value payments on a daily basis both domestically and internationally. This

enables banks to automate and standardize financial transactions, thereby reducing operational risk and eliminating inefficiencies.

## **Retail Payment System**

This payment system is as important as the large value payment system and has a larger user group. A person with a payment card of any kind is part of the retail payment system. At the retail level most transactions involve cash, cheques or cards.

### **Retail Payment Instruments:**

- 1. Cash** – is the preferred method for small payments because it involves no credit and therefore no promises. With cash, you can usually purchase goods and services easily as it is widely accepted. Carrying too much cash is risky as it can lead to theft and other problems. However, people still carry cash for its convenience and flexibility. From the payee's point of view, transactions are completed immediately and this cash can be re-used for other transactions.
- 2. Cheques** – a cheque is an order to transfer funds from the payer's bank to the account of the payee. Cheques are generally valid for six months after the date of issue. The use of cheques has traditionally dominated Fijian non cash payments. Despite the development of other payment instruments, cheques remain an important form of payment. A cheque is effectively a future promise to pay the amount stated on it and needs to be presented to a bank in order to obtain the payment. Cheque clearance usually takes 3 - 4 working days.

#### ***Advantages***

- Safer than cash e.g. a crossed cheque can only be deposited into the payee's account.
- Preferable for large amounts and a large number of payments to avoid carrying large sums of cash.
- Payments can be made at your convenience and posted to the payee.

#### ***Disadvantages***

- Can take up to 3 – 4 working days before funds are available to use.
- There is no guarantee that the payer has sufficient funds and hence the cheque may become dishonored (bounce) by the bank.
- There are extra costs if the payee wants an immediate clearance of funds. Cheques also have other administrative costs associated to it.

3. **Debit Card** – is a payment card where the transaction amount is deducted directly from the card holder’s bank account upon authorization. In Fiji, anyone having a bank account and an ATM card can make payments using the card at any merchant with an EFTPOS machine. The commercial banks are in the process of achieving total EFTPOS interoperability in Fiji. This will allow the public to use any bank’s debit card at any EFTPOS machine. This project will be completed in a few months.

**Advantages**

- Card payments will only be accepted if the card holder has sufficient funds in his/her account.
- Can be used for mail order or online purchases.
- Less risk than holding cash. The risk of theft is mitigated by having pin codes.

**Disadvantages**

- Takes up to three days for money to be received and acknowledged.
- Operated at a fee payable to the bank.

4. **Credit Card** – enables its holder to buy goods and services with a credit line given by credit card issuer. Funds are settled at a later date. Card holders are billed on a monthly basis and bear financial charges (interest) on outstanding amounts if payments are not made by the due date. Credit cards are issued through commercial banks and/or other issuers.

**Advantages**

- Guaranteed payment up to an approved limit.
- Can be used for mail order and online purchases.

**Disadvantages**

- A fee is paid to the bank for this service.
- High interest rates make credit cards an expensive mode of borrowing.
- Theft – if the card is stolen or if internet payment sites are not secure.

5. **Direct Debit** – money is transferred automatically from a payer’s to payee’s bank accounts. The payer must instruct their bank to make direct debit payments and the payee provides amounts and dates of the payments. This facility can be used for paying different amounts and is useful for paying regular bills.

### ***Advantages***

- Businesses are guaranteed payment.
- Customers don't have to remember payment dates.
- Customers don't have to write cheques and post them.
- Businesses can change amount and payment dates.

### ***Disadvantages***

- Monies are paid even if there is no money in the customer's account. Therefore the customer can incur a bank overdraft at a high interest rate.
- Customers may fail to check price increases and budget according.

***Standing Order*** – in this facility money is transferred automatically from the customer's account at regular intervals. Such orders can only be used for paying the same amount. Customers do not have to write cheques or remember payment dates. However, payments may not be made if there are insufficient funds in the customer's account.

6. ***Internet Banking*** – a fast and convenient way of performing banking transactions such as transferring funds from your savings to current account or to a third party account.

### ***Advantages***

- Payments are made at your convenience.
- Secured by user name and password.
- Can be used from anywhere in the world with internet access.

### ***Disadvantages***

- Access to computers and internet services is required.
- Internet comes at an additional cost.

7. ***Mobile Banking*** - a service provided through the combined effort of a bank and a mobile service provider, to perform common banking transactions. An active bank account is needed and a mobile phone equipped with features required by the bank.

### ***Advantages***

- Secured to ensure user information is available anytime.
- Fast and convenient.
- Payments may be made from anywhere that has your mobile network coverage.

### ***Disadvantages***

- Mobiles need to be kept safely, otherwise misuse may occur.
- Mobile phones come at a cost and need to be recharged.

**8. *Mobile Money*** – allows customers to make payments to selected merchants and other individuals through their mobile phones. Bill payments and purchases of goods and services are among the cashless transactions that can be made. To enjoy the benefits of mobile money, the customer has to register and open an account with the mobile money service provider. Examples of mobile money services in Fiji are Vodafone’s M-Paisa and Digicel Mobile Money.

### ***Advantages***

- Fast, reliable and efficient mobile payments may be made at any time of the day.
- Convenient for making payments to and receiving payments from people in remote areas.
- Available in any part of the country where there is network coverage.
- The mobile wallet is protected by a pin and if the phone is lost/stolen your money is still safe.

While the service has a fee, the benefits may be assessed by comparing costs of making payments through alternative means. A registered agent is required to cash in or cash out of their mobile accounts.

### **Conclusion**

In a monetized economy there are many different types of transactions that are conducted daily that facilitate the transfer of goods and services from one place to another, or from one person to another. Payment systems play an important role in any country.

The article describes the different types of payment systems. Customer preferences are based on availability, costs and convenience. Payment systems are very important in the functioning of the economy. The Reserve Bank is an integral part of the payment systems as it monitors, supervisors and regulates the whole payment system processes.

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