|  |
| --- |
| **Financial institutions and systems: Financial institutions**   * nature, benefits and risks to small business of the following types of electronic processing: * **EFTPOS (Electronic Funds Transfer at Point of Sale)** – system where the business arranges with their bank to be linked electronically so the customer can pay by presenting either a debit or credit card to pay for products. Funds are transferred from the customers to the business.   **Benefits:**  - More convenience for customers, some customers may not buy if they don’t have the cash  - Less handling of cash by the business. Less opportunity of theft.  - Improved cash flow as the business receives funds immediately at the point of sale rather than having to set up an accounts receivable ledger or wait for cheque to clear.  **Risks:**  - Service fees – the bank might charge service fees if you want to offer **EFTPOS** payments  - Reliance on electrical and mobile phone infrastructure  - Technical problems (internet is down and/or power outage) so payments can not be accepted.   * **Direct debits** – an arrangement made with the bank where regular recurring payments are transferred electronically at the same time every period, such as rent, and other fixed payments can be made by setting up an automatic request to transfer funds. A direct debit is made from a business account to a supplier’s account.   **Benefits:**  - Gives their customers flexibility of payments without the business having to chase them  - Payments from credit customers easily processed  - Funds received immediately rather than having to handle customer’s cheques which take time to be presented  **Risks:**  - Fraud & identity theft can cause extra problems for business to solve  - No money in the customers bank account and so the business won’t receive payment.   * **Online Banking** – a system offered by banks where funds can be transferred between entities electronically, without the use of cash   **Benefits:**  - The business can accept payments from credit customers electronically rather than by cheque  - Could lead to increase in business due to convenience offered its customers.  - All payments and receipts recorded automatically allowing for better control  **Risks:**  - Identity Theft: info held on bank server and could easily be stolen by hackers  - Phishing: a criminal sends out emails to people with fake links trying to get those people to click on the links and give away their personal information, e.g. banking details  - Failing to change passwords can increase risk of accounts being compromised by hackers   * **Electronic bill payments** –A system that uses netbank facilitiies to allow businesses to pay suppliers by using online banking rather than using cash or cheque. Bank will transfer funds directly to supplier and debit the payer’s account.   **Benefits:**  - Can be accessed 24 hours a day  - No cost for customer to use electronic banking payments  - Can be used internationally in any currency  - Funds can be transferred and cleared in real time  - There is electronic proof of the transaction on the bank statement  **Risks:**  - Risk of password and log in details being used fraudulently  - Incorrect transfer details may be used so statements should be reconciled  - Data can be subject to theft and hacking  - Fees to set up own biller code and process transactions   * **Credit card** – a system of payment where funds are transferred to the business via the card company and cardholder pays provider at a future date. Funds are provided by an outside provider allowing the user to pay the provider at a later date. A form of short-term finance for both the business and its customers.   **Benefits:**  **-** Gives the business a short-term form of financing  - Gives their customers flexibility of payments without the business having to chase them  - Payments from credit customers easily processed  - Funds received immediately rather than having to handle customer’s cheques which take time to be presented  - Secure means of purchasing online  **Risks:**  **-** Fraud & identity theft can cause extra problems for business to solve eg. if card is lost or stolen.  **-** Interest charges may apply and are usually high  **-** Credit cards may have online service costs (eg, annual fee) |