IBM Payments Center

Introduction to Paper Based Payment Systems

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01 Cash Payment

Cash payment is the oldest, most common payment system which is well known and is the most preferred method for small payments because it involves no credit.

With cash, you can usually purchase goods and services easily as it 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. This system is suited for small amounts of payments.

02 Paper Based Payment Overview

Paper-based payments are in the form of

- cheques,
- demand drafts,
- payment orders,
- banker's cheques,
- refund orders,
- warrants, etc.

These are also referred to as negotiable instruments.

Advantages:

- They are safer than cash for example a crossed cheque can only be deposited into the payee's account.
- They are preferred for large amounts and a large number of payments to avoid carrying large sums of cash
- Payments can be made at the payer's convenience and posted to the payee

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Disadvantage:

- Takes up to 3 – 4 working days before funds are available to use.
- No guarantee that the payer has sufficient funds and hence the cheque may become dishonored (bounce) by the bank
- Advisable to use demand draft or banker's cheque in such circumstances where trust is a factor.
- There are extra costs if the payee wants an immediate clearance of funds
- Paper-based instruments have other administrative costs associated with it.

03 Cheque Payment

A **cheque is a document you can issue to your bank**, directing it to pay the specified sum mentioned in digits as well as words to the person whose name is borne on the cheque. Cheques are also called negotiable instruments.

Key Cheque Payment Functionalities:
A cheque is an order to transfer funds from the payer's bank to the account of the payee.
Cheques are simply a payment instruction from the account holder to his/her banker directing that a certain sum of money should be paid to a specific individual or to the bearer of the instrument.
On receipt of cheques, the beneficiary will deposit it with his banker who will collect the money through a clearinghouse system, where banks in a clearing house, exchange cheques with one another and settle the payments by arriving at a net amount of payables and receivables.
After the exchange of cheque, the account of the issuer of the cheque is debited and the credit is passed on to the banker of the beneficiary.

04 Demand Draft Payment

A **demand draft is a method used by an individual to make a transfer payment from one bank account to another**. Demand drafts differ from regular normal cheques in that they do not require signatures to be cashed.

Key Demand Draft Payment Functionalities:
Demand drafts are used when one person wants to send or transfer money (remit) to another person who is in another city
The person wanting to send money deposits cash in a bank or issue a cheque in favor of the issuing bank, which issues him a demand draft. The demand draft is sent to the person who is to receive the money. The receiver gives it to the branch/bank where he holds an account and receives the payment.
Banks normally charge a commission for issuing Demand Drafts
A demand draft is a prepaid instrument; therefore, you cannot stop payment on it in the case of fraud or mis-intended recipient

05 Pay Order (Or) Banker’s Cheque Payment

The **Payment Order (or) Banker’s Cheque** is **a financial instrument issued by the bank on behalf of customer stating an order to pay a specified amount to a specified person within the same city**.

Key Pay Order(Or) Banker’s Cheque Functionalities:
Payment orders or Banker’s Cheques are similar to demand drafts but are usually issued for payments within a city.
These are usually valid for a shorter period of time compared to other instruments
Banks normally charge a commission for issuing Demand Drafts