Electronic Payments: What Are They, Types, and Benefits



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What Are Electronic Payments?

Electronic payments are payment methods that involve the transfer of funds electronically rather than using physical money.

Even paper checks are processed electronically now, so the money is immediately withdrawn from the account.

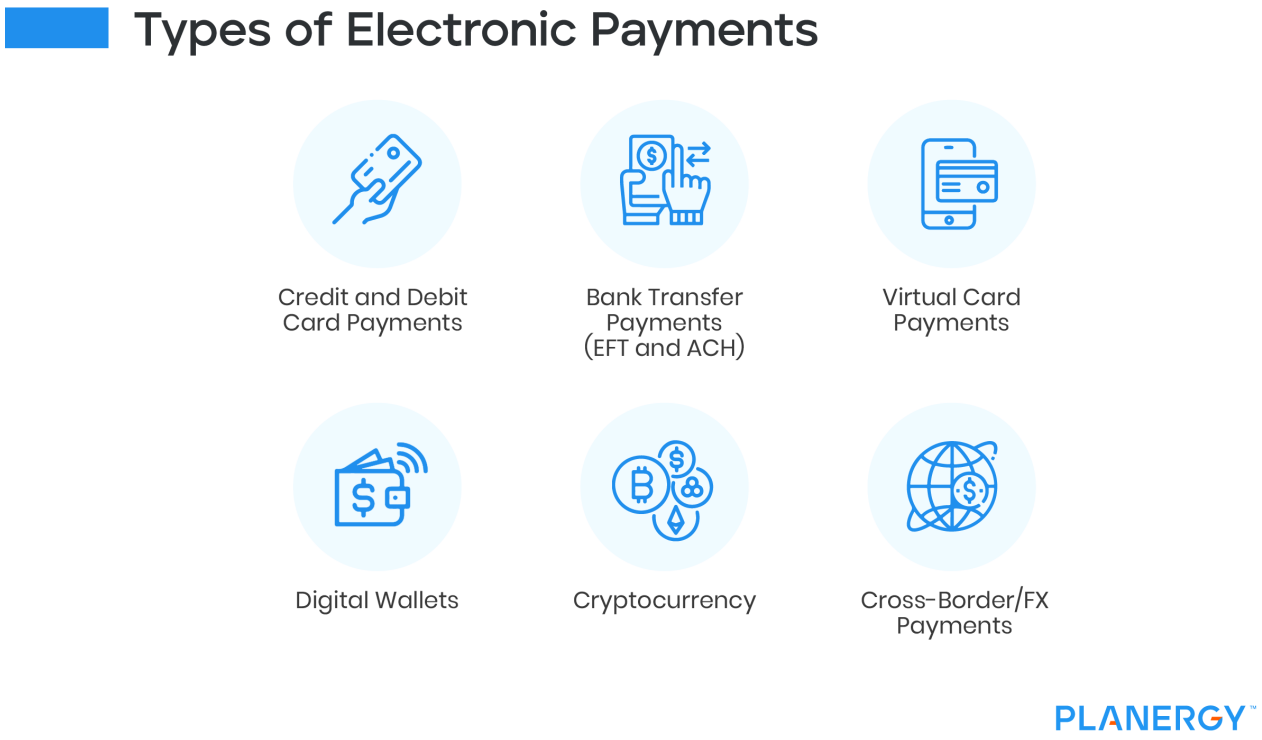
Types of Electronic Payments

Common types of electronic payments include credit and debit cards, mobile payment apps such as Apple Pay and Google Pay, online banking transfers,

cryptocurrency (Bitcoin, Litecoin etc.), digital wallets (PayPal), direct debits, and gift cards.

These forms of payment offer greater convenience for both customers and businesses.

While some payment options require the user to have a formal bank account with a financial institution, others do not.



Credit and Debit Card Payments

Credit and debit card payments allow customers to purchase goods or services online using their bank-issued credit or debit cards.

Credit cards issued by banks and financial institutions are a type of revolving loan that allows customers to borrow money up to a predetermined limit.

Debit cards, on the other hand, draw from a customer's existing funds and can be linked to either checking or savings accounts.

Both types of cards provide speed and convenience for customers, as well

as added security features such as fraud protection.

Two of the most popular names in global payment solutions are Mastercard and Visa.

Your credit or debit cards may have either of these logos – signifying you can use them with whatever merchants accept them.

Bank Transfer Payments

Bank transfers are a safe way to transfer money, especially when compared to a cash transaction. They are also faster, and can be used to make purchases.

There are several ways to accomplish this, from phone banking to online payments.

Also, be sure to double-check your recipient's name and account number. If you have the wrong account, it can be tricky to retrieve the funds.

One of the cheapest and fastest ways to make an electronic payment is by using a wire transfer. A wire transfer is an electronic funds transfer (EFT) that can be sent to anyone in the world.

It works by withdrawing the funds from a sender's bank account, and then sending them to a destination.

There are two types of automated clearing house (ACH) transfers: regular, which take a few business days, and same-day. While regular ACH transfers are free, same-day transfers can be made for a small fee.

The ACH network handled 29.11 billion payments in 2021, and the volume continues to grow. Many larger banks can process a single ACH payment in a matter of hours.

Virtual Card Payments

Virtual card payments are a type of electronic payment where customers can purchase goods or services online with a virtual card instead of a

physical card.

A virtual card is a payment instrument that has the same attributes as a traditional credit or debit card but exists solely in an electronic format.

Virtual cards can be generated and used instantly, making them an ideal online purchase solution. Additionally, they offer increased safety and security compared to using physical cards.

Digital Wallets

Digital wallets offer an easy and convenient way for consumers to pay for goods and services online. These digital payments solutions eliminate the need for physical credit or debit cards.

In addition to eliminating the need for plastic, the convenience and security of electronic payments also allow users to transfer funds internationally.

Digital wallets are available for both individuals and businesses. They are a downloadable mobile app that enables customers to pay via phone.

A digital wallet is an encrypted software application that allows consumers to store their personal and financial information. The information stored includes name, shipping address, credit card details, e-coupons, and tickets.

Users can add a virtual card to their wallet and authorize it to make payments using their bank account. This helps reduce the risk of fraudulent transactions.

Some credit card issuers offer enhanced rewards when customers use their digital wallets.

Cryptocurrency

The cryptography of the blockchain system is the backbone of cryptocurrencies. It chains together a decentralized network of computers to create a distributed database.

This allows for peer-to-peer transactions. Using cryptography also makes it almost impossible to counterfeit.

Many countries have started to regulate cryptocurrencies. In the US, taxpayers are required to report the sale of cyrptocurrencies to the IRS on their annual tax returns.

Although some countries have not adopted cryptocurrencies as a means of payment, interest in cryptocurrencies has grown in recent years.

As a result, the cryptocurrency industry has increased in size. The cryptocurrency market is expected to reach $2.2 billion by 2026, with a compound annual growth rate of 7.1%.

There are currently thousands of different cryptocurrencies. Many are used for online payments. Cryptocurrency advocates argue that a decentralized system will be more secure and efficient.

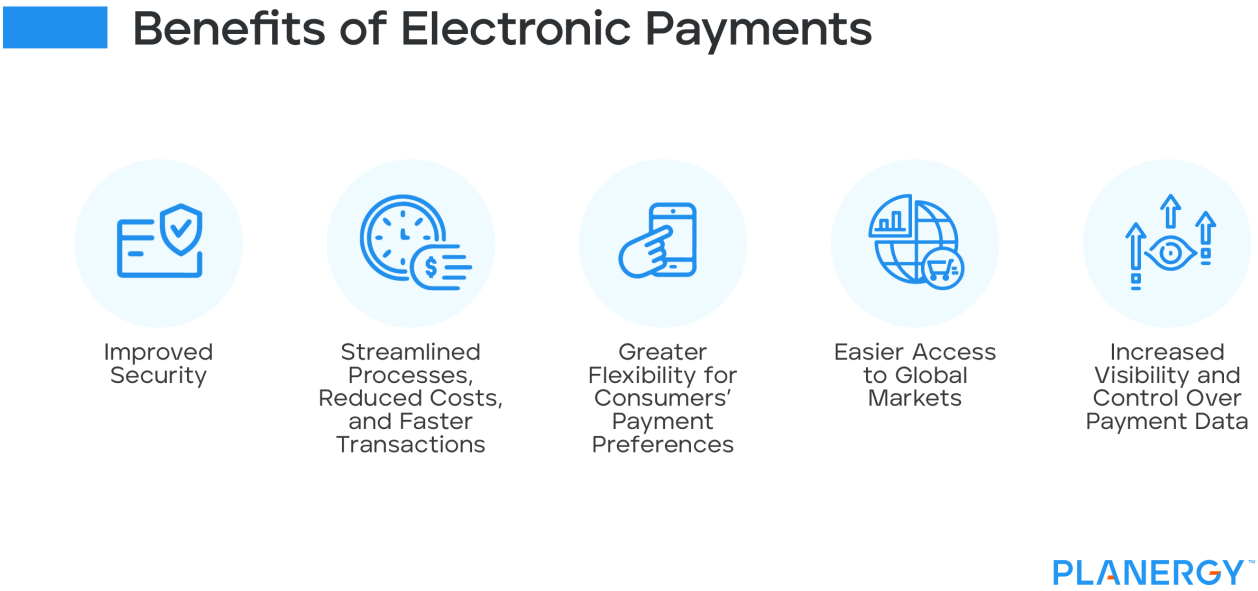
- ### Cross-Border/FX Payments

  Cross-Border/FX Payments are payments that involve international currency transfers.

  These payments allow customers to send and receive funds in different currencies and ensure that the correct amount is delivered to the recipient.

  Cross-Border/FX Payments often have lower transaction fees than other forms of payments, making them an attractive option for customers looking to save money.

Benefits of Electronic Payments



- ## Improved Security

  Electronic payments improve security by providing an added layer of protection from fraud and identity theft.

  Compared to traditional forms of payment like cash or checks, electronic payments use encryption technology and secure servers that protect sensitive financial information from hackers.

  Additionally, electronic payments are less susceptible to counterfeiting than physical forms of payment, making them a safer option for businesses that want to protect their customers' data and money.

- ## Streamlined Processes, Reduced Costs, and Faster Transactions

  By transitioning to an electronic payment system, businesses can drastically reduce paper, ink, and postage costs while significantly reducing the time required for manual check printing and mailing.

  Adopting an e-payments strategy can potentially save your accounts payable department as much as 80% on payment processing fees.

Greater Flexibility for Consumers' Payment Preferences

With the variety of electronic payment options available, consumers can choose the payment types that work best for them.

From one-time payments with an electronic check, to recurring direct deposits from employers, electronic payments put customers in control of how to make payments at the point of sale, whether they want to allow a one-time payment or consent to and enroll in recurring billing.

- ## Easier Access To Global Markets

  Electronic payments make it easier for businesses to access international markets. Not only can payments be made quickly and securely, but small business owners can also benefit from reduced transaction costs, improved security and authentication protocols, and better compliance with local laws.

  Furthermore, the ability to accept payments in multiple currencies opens up new opportunities to reach customers worldwide without additional overhead expenses.

- ## Increased Visibility and Control Over Payment Data

  Electronic payment systems offer invaluable insights into payment statuses, financial metrics, and comprehensive audit trails.

  These systems also minimize the costs associated with data entry errors and the likelihood of them occurring.

Though electronic payment methods have numerous benefits, each method has its own pros and cons.

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Advantages and Disadvantages of Various Electronic Payment Methods

ACH Debit Pull

ACH debit pulls are a popular payment method for payroll and online payments. With this system, the payee initiates the “pull” of funds from the payer’s account using an electronic batch payment system.

The benefits of ACH debit pulls include cost-efficiency, as it is usually free or at a low cost, and quick processing time.

The downfall is the increased risk, since it requires vendors to have access to your bank account information.

ACH Credit Push

ACH credit push is an electronic payment method often used for known vendor payments.

Differentiating itself from ACH debit pull, the payer initiates the payment by “pushing” funds out of their account using an electronic batch system.

Its benefits include low processing costs relative to credit cards, plus the option to choose between a one-time or recurring payments.

However, banks charge a fee for ACH credit pushes, which makes them expensive to process; plus, because it involves real account information, it is higher risk and most often reserved for large corporations with a high payment volume.

Moreover, ACH debit pulls and ACH credit pushes require additional administrative time for reconciling invoices due to the manual transfer of transaction data.

Credit Card

Credit cards are a popular payment option for retail purchases, allowing

cardholders to borrow money from the issuing bank up to a predetermined limit.

The advantage of this payment method is that it involves merchant-initiated transactions paid directly from the cardholder's credit line, making them quick and convenient.

Some vendors may not accept credit cards because of higher processing fees. And because they involve just one string of numbers on a plastic card, they are more susceptible to fraud.

Debit Card

Debit cards are commonly used for retail purchases, with the payment being "pulled" from the cardholder's bank account as opposed to charged to the cardholder's credit line, like in credit card payments.

The advantages of using debit cards include the vendor having the certainty of payment, along with the time and effort savings that come along with it.

However, compared to credit card payments, debit card processing fees aren't much cheaper for the vendor.

Wire Transfer

Wire transfers are real-time payments made for both domestic and international purchases, wherein the cash is instantly moved from one account to another.

These transfers can be initiated in a matter of minutes and processed quickly, usually within the same day in the U.S., making them a more dependable option than paper checks.

That said, wire transfers come with a hefty price tag and pose a major security risk to payers due to the immediacy of funds availability – making them an attractive target for those looking to hijack bank information.

Commercial Card

Businesses issue commercial cards to employees to allow direct payment from a corporate line of credit for business purchases, typically T&E expenses and vendor payments.

These cards are cost-efficient, quick, and offer good security. However, they can be tricky to follow up on and reconcile with invoices.

Purchasing Cards (P-Card)

P-cards are similar to company cards, in that they allow purchases without requiring invoices.

These cards usually come with tighter restrictions and spending caps than commercial cards. However, they are still low-cost, secure, and quick.

One downside is that it can be challenging to audit individual P-card transactions for potential fraudulent activity or risk.

Virtual Cards

Virtual cards are a payment method free of physical plastic, as businesses can generate a single-use 16-digit number authorized for a specific payment amount. This is how financing company Affirm, works with many online merchants.

Advantages include no cost to the payer, fast transactions, and heightened security from tokenization – which keeps bank information from being compromised. Also, businesses can benefit from rebates when using virtual cards.

Unfortunately, fewer vendors accept virtual cards compared to other electronic payment methods. We expect this to change in the future as more vendors understand the benefit virtual cards offer.

Automate Your Electronic Payments with PLANERGY

Using our automated system, you can automate invoice payments according to vendor terms, making sure payments are made on or before their due date.

You have more control over cash flow, and don’t have to worry about missing payments.

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