

Money

and other
payment instruments



Middle School Edition



Financial Education
know then decide



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Money



Money is what we use to buy the things we need, pay for the services we use, or pay people's wages. The quantity of economic exchanges taking place in today's world would be impossible without something as practical and efficient as money.

Its most obvious function is therefore as a means of payment.

Money is also what allows us to measure the value of things, and can be used as a **unit of measurement**.

This means that the value of things may be expressed in terms of how much money you need to buy them: this amount of money is called the **price**. A clear and visible unit of measurement allows us to compare the prices of merchandise or to know how many economic resources we possess. This helps us to decide whether or not to buy something and how to manage what we have in the best possible way.



Money can be described as a **store of value** as it can be kept over time. It can be saved: we can decide not to use it all now and to keep some of it to spend later. If we save even small amounts of money now, in the long run we will have stored enough to buy things we cannot afford today, or we will have a reserve to use in times of need.

Money is not something that has always been used, though. Its introduction was the result of a long search for a payment method to facilitate the exchange of goods and services.

The origins of money

For thousands of years all trade was based on barter, which consists in exchanging one good for another.



Cowry shells were widely used as a form of payment before coinage

Among ancient civilizations, such as the Sumerians, Babylonians, Assyrians, Egyptians, Phoenicians, Mycenaeans, Cretans and Greeks, trade flourished long before money started to circulate. Each of these peoples produced an overabundance of some goods that they used to barter for other goods. For example, the Egyptians exchanged linen, corn and papyrus for cedar wood from the Lebanon and incense, gold, ivory and slaves from the lands along the Nile. In exchange for cereals, dates, sesame oil, cattle and leather, the Sumerians imported stone for building from Egypt, metals from the Indus Valley, wood from the Lebanon and even lapis lazuli from Afghanistan.

Of course, these are only some examples of the intensive trading activity that contributed to the development of great and sophisticated societies.



Purple dye was obtained from Purple Dye Murex Snails

Even without money, trade could still take place fairly successfully because some special goods, such as metals, cattle, salt, purple dye, wood, and so on, had a **commonly known value** which was the basis on which trading was carried out.



Salt was a commodity widely used in barter

These were examples of what economists call **commodity money**. This kind of money served the three typical functions of currency: a means of exchange, a unit of account and a store of value.



Gold dust or gold nuggets were a widespread form of commodity money



Within small communities or in small scale trading, it was always necessary to find someone who owned what one wanted and was willing to exchange it for something else.

This coincidence of needs (**double coincidence of wants**) was not always easy to accomplish: more often than not people had to go from

barter to barter, good to good, and village to village before they were finally able to get exactly what they were looking for.

How much milk could you get in exchange for a woollen blanket? People had to go through **tough negotiations** before agreeing on how much of their goods was enough to barter for what they needed: they had to come to a **shared assessment of the goods** they wanted to swap.



Then again, not all kinds of goods could be divided into exact quantities, so very often people had to **make do with an approximate exchange**.



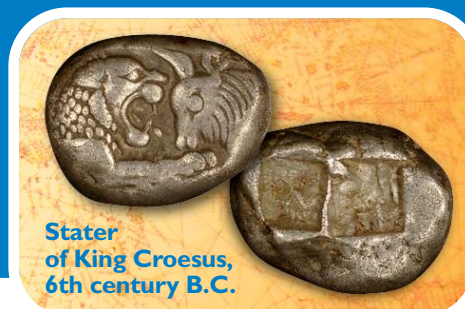
Finally, people found **saving extremely difficult**.

In a barter economy you can only save goods that can be stored over time and whose value will remain stable.

Those who owned perishable goods (e.g. milk, fruit, meat, eggs) had to exchange them quickly for something that, though not needed in the immediate future, could be stored over time and maybe exchanged later for something else. This unfortunately meant that not everyone could ensure their future wellbeing.

Paying for things, understanding the value of something, and saving were extremely complicated in a barter economy.

The first coins



Stater
of King Croesus,
6th century B.C.

Precious metals proved to be the most appropriate commodity money; they were rare enough, and widely appreciated for their beauty and pliability; they defied corrosion and their appearance and quality remained unaltered over time; they carried much value while occupying very little space, and **they could be divided into pieces of different sizes**.

This way it was possible to match the exact value of the goods people wanted to buy.

Using the raw material was very inconvenient, however, as, at every barter those accepting payment had to make sure of what they were getting. They had to check the metal's **authenticity** (i.e. that it was actually either gold or silver), its true **weight**, and its **purity** (i.e. that it was not mixed with less precious metals).

This meant that every merchant had to carry at least a set of scales and a special stone (called a **touchstone**) to perform all the necessary checks.

This inconvenience was solved by **minting coins** in different sizes.

Minting coins

*Impression of an image or an inscription on the surface of **planchets** or **blanks** (rounded pieces of smooth metal) with a special stamp called a **coin die**.*

The touchstone

The touchstone is a stone made of a special material containing silicon (black jasper or Lydian stone). The purity of gold is verified by rubbing it on the stone and then checking the colour of the traces left behind.

Each coin was assigned a **specific value** - set by the inscriptions and the images affixed by the king - which depended on the quantity of precious metal it contained within a **system of multiples**

and submultiples of the **base measurement unit**. The existence of coins of different value made purchases much easier: all you had to do to be sure you had received the exact amount for each payment was to **count the coins**.

The word “money”



The word “money” originates from one of the nicknames of the goddess Juno, also called Juno Moneta, as she acted as a counsellor (from the Latin verb monēre, which means to advise, warn, admonish).

In Rome the mint, that is, the building where coins were produced, was located on the Capitoline Hill, close to the Temple dedicated to the goddess. The goddess' nickname was probably transferred to what was produced in the mint the coins.

In his *Histories*, the Greek historian Herodotus wrote that the Lydians (inhabitants of a region of present-day Turkey) were the first to mint coins made of precious metals. From there the use of coins spread to the Greeks, who inhabited the colonies and then on to other populations.

The use of coins only spread across the globe much later, with the birth and development of two great empires: that of **Alexander the Great** and the **Roman empire**.

During the Roman period the production of coins was so plentiful that several **monetary reforms had to be enacted** to organize the value of the coins in circulation and to confer mintage rights.

Despite a few minor innovations, in the many centuries that have passed coins have remained pretty much identical to the **Roman model**.



An authority guarantees the value of money

The coins bore the impression of the face of the king or the seal of the city or state that had minted them. The impression of the authority on the face of a coin guaranteed its value.

With this guarantee, everyone would accept the coin and its circulation spread. Over the course of history, kings have often used a smaller quantity of precious metal than the value imprinted on the coin, keeping part of it as a tax (seigniorage). When the treasury was empty, kings minted coins with less precious metal and added base metal. Those who possessed such coins, however, knew that the State would never refuse them.



Nero, gold coin,
Mint of Rome,
A.D. 64-65.

The use of precious metal coins had many costs:

> **Opportunity cost:** if used to produce coins, precious metals could not be used for other purposes (e.g. making jewellery). The authorities had to decide which use would be best;

> **Safe custody cost:** those who possessed precious coins had to bear the cost of protecting them against theft;

> **Haulage cost:** those who had to buy goods in faraway places had to pay for the coins to be transported or had to pay an intermediary to take charge of their transportation;

> **Information cost:** those who accepted a payment might not know the value of the coins they received and so had to bear the cost of checking it.

With the development of trade, the expansion of markets and the increase in volumes, more and more money was needed. The greater demand for precious metals and the rising costs of using money made it necessary to find a payment method that would not be affected by a glut or a shortage of the precious material and, more importantly, would be practical and convenient.

The origins of the banknote



Paper money was created in order to meet the **need for a practical and low cost method of payment** dictated by the development of trade, which coins alone were unable to satisfy.



The first paper money appeared in China during the 9th century A.D. Notes were made of material obtained from the bark of the mulberry tree. The sovereign **imprinted his seal on them** so that they could be used for all payments. As Marco Polo wrote in his book *The Travels of Marco Polo*, no one could refuse such payment or they would face the death penalty. Paper money did not appear in Europe until much later as the result of a very long process tied to the activities of merchants, goldsmiths, money changers, and bankers.

At the end of the 14th century, **goldsmiths and merchants** started to issue **paper receipts** in exchange for the precious metal they kept in store for merchants. On those receipts, called **banknotes**, the goldsmiths undertook to give back the coins or the gold.

We still use this name for paper money today.



At first, banknotes were only issued by **banks** when they accepted deposits in precious metals or granted loans to the State or to private citizens.

The merits of the banknote

The banknote soon proved to be a very useful commercial tool: payments ended with banknotes exchanging hands, without the need to physically deliver coins.

People possessing a banknote could go to the bank that had issued it and ask for its value in gold. This is what made banknotes universally accepted.

However, banknotes were only used for large commercial operations, to pay taxes or for important transactions.

As an example, in Italy, around 1860, paper money accounted for only a small proportion of all the currency in circulation, which was still dominated by coins.

Convertibility

This means that banknotes are redeemable for their value in gold if taken back to the bank that issued them. This exchange (or conversion, which gives us the term convertibility) of paper money for gold is no longer possible because the acceptability of a banknote is based on the stability of the State in which it is used. When the authorities declare that banknotes cannot be converted, it is called "hat money".



The guarantee of value

Unlike silver and gold coins, banknotes are not made of precious materials. They are not actually worth the value written on them, they only represent it.

The banker issuing the banknote guaranteed it with his signature or his symbol indicating his treasury contained the exchange value in gold of the amount indicated on the note.

Anyone possessing a banknote could redeem it for its value in gold. That way the convertibility of the banknote was guaranteed and this ensured confidence in the banking system.



At first several banks could issue notes.

Not all of them, though, did so wisely. Some issued banknotes for an exchange value over and above the value of the precious metals stored in their treasury. This way they risked not being able to give the same value in gold to those who asked for it.

It was difficult to know which banks were playing fair and therefore which banknotes were safe so it became necessary to establish rules that would guarantee the notes issued.

The central bank

Because the existence of several note-issuing banks caused confusion, countries decided to entrust just one with the task.

This way they could control the situation and guarantee security. Each country called this bank the central bank.



Rome, Palazzo Koch,
headquarters of the Bank of Italy

Nowadays central banks all over the world not only issue money and guarantee price stability, they also carry out very important tasks such as supervising banks' relationships with their customers.

Legal tender and restrictions on the use of cash



*Banknotes and coins are **legal tender**. By using banknotes and coins to make a payment, the buyer frees himself of any obligation towards the vendor.*

Bear in mind, though, that in Italy no one is obliged to accept more than 50 coins for a single payment and that, since 2015, only sums below €3,000 can be paid in cash. This means that sums equal to or above the limit of €3,000 must be paid using an alternative method of payment.

Legal tender

Legal tender is the combination **of banknotes and coins** issued by a country or by a union of countries under specific laws and international agreements.

People accept legal tender because they trust it can be used for debt payment and because they trust the **central bank** which controls its issuance, regulates its value, and protects its authenticity.

The public's confidence in the legal tender depends on both the **stability of its value**, which the central bank regulates through **monetary policy**, and the **physical characteristics of the banknotes**, which help distinguish genuine from counterfeit banknotes, and prevent easy counterfeiting.



As an example, before the introduction of the euro, the Italian Lira was the legal tender in Italy.

The Bank of Italy printed the banknotes and the State Printing Works and Mint produced the coins.



The group of states within the **European Union** that has adopted the euro (19 from 2015) is called the **euro area**. Lithuania was the last country to enter the group (January 2015).

In the future other countries might decide to join as well.

The **European Central Bank (ECB)** acts as the central bank for the euro. It is located in Frankfurt, Germany.

The governors of the central banks of the **19 countries belonging to the euro area** contribute to the decisions of the ECB regarding the quantity of banknotes to be printed and coins to be minted, that is, the quantity of money to be put into circulation.

The euro area



Although not members of the European Union, another six countries have adopted the euro: the Vatican City State, the Republic of San Marino, the Principality of Monaco, the Principality of Andorra, the Republic of Kosovo, and Montenegro.

The advantages of the euro

Being able to pay **with the same currency** inside the euro area makes it easier for people to move from one place to another whether it is for a vacation, study or work.

Prices are transparent and this is helpful to consumers as **it is easy to make comparisons** and choose the cheapest supplier within the euro area.

The introduction of the euro helped to save huge amounts of money **by eliminating the costs of currency exchange** as there is no longer a floating exchange rate.

The euro: banknotes and coins



Euro banknotes

The designs on the euro banknotes represent **the common roots and traditions** of all the members of the European Union as well as **the ideals of harmony and solidarity among nations** shared by their citizens. The designs are by Robert Kalina, of the Austrian Central Bank, who won a competition run by the European Union in 1996.

The name “**euro**” was chosen by the European Council in Madrid in 1995 and recalls the word “Europe” in the different languages spoken within the area. The chosen symbol is €, an arc with two horizontal stripes inspired by the letter epsilon in the ancient Greek alphabet, as the word Europe comes from Greek. The two horizontal stripes symbolize stability, which is a requirement for any currency.

On the front (or obverse) of the banknotes, the **12 stars** symbolize the cohesion, solidarity, harmony and dynamism of the European Union.



The images of **windows and gateways** in different styles represent the common artistic heritage and the spirit of openness and cooperation among nations.



On the back (or reverse), the images of **bridges** symbolize the ideals of communication and friendship among nations.



The images on the banknotes do not reproduce existing monuments, but **evoke architectural styles over the centuries in Europe** (Classical, Romanesque, Gothic, Renaissance, Baroque and Rococo, 19th century architecture, and modern 20th century architecture).

The idea was to avoid any symbol that could be connected to a specific country and to underline instead the unifying spirit of the euro and make sure that the citizens of each nation feel equally represented. The face value of the banknotes is only written in figures as it would be impossible to write it in letters in each of the languages used within the euro area.

€5 – new banknote

Size: 120 x 62 mm

Colour: grey

Architectural style: Classical

**€5**

Size: 120 x 62 mm

Colour: grey

Architectural style: Classical

**€10 – new banknote**

Size: 127 x 67 mm

Colour: red

Architectural style: Romanesque

**€10**

Size: 127 x 67 mm

Colour: red

Architectural style: Romanesque

**€20**

Size: 133 x 72 mm

Colour: blue

Architectural style: Gothic

**€50**

Size: 140 x 77 mm

Colour: orange

Architectural style: Renaissance

**€100**

Size: 147 x 82 mm

Colour: green

Architectural style:
Baroque and Rococo**€200**

Size: 153 x 82 mm

Colour: yellow-brown

Architectural style:
19th century iron
and glass architecture**€500**

Size: 160 x 82 mm

Colour: violet

Architectural style:
20th century architectureSource: European Central Bank <http://www.ecb.europa.eu/euro/banknotes/html/index.en.html>

Helping the blind and visually impaired

Euro banknotes were designed with the needs of the blind and visually impaired in mind. Although the features of the banknotes were conceived for them, they are also much appreciated by people who do not have sight problems.

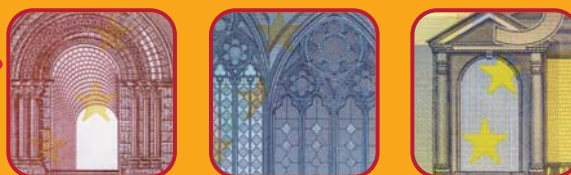
> Different formats:

the banknotes of lower value are smaller in size; those worth more are larger.



> Contrasting colours:

each banknote denomination is in a colour that contrasts with the ones below and above it.



> Large numbers:

the value of the banknote is written in large numbers.



> Raised print:

the main image and some of the areas on the front (obverse) of the banknotes are raised and can be detected by touch. These effects are made using a special printing technique called intaglio (engraving).



The euro banknotes carry the **signature of the President of the European Central Bank**.

The current President is Mario Draghi, former Governor of the Bank of Italy.

The security features

Euro banknotes have advanced security features that make them much more difficult to counterfeit and at the same time help people check their **authenticity**.

The reason for having so many security features is that counterfeiters are only able to reproduce some of them. So when you check a banknote make sure that all the security features are present. This is how you do it:



> Touch the banknote

You can feel the **raised print**.



> Look at the banknote against the light

You can see the **watermark** reproducing the image printed on the front of the banknote, the see-through number, the € symbol embedded in the hologram, and the security thread.



> Tilt the banknote

On the front you can see the **hologram** (an iridescent 3-D image). On the 5, 10 and 20 euro banknotes the hologram is an iridescent stripe next to the right margin.

On the 50, 100, 200 and 500 euro banknotes there is a hologram patch on the right side of the front.



On the back of the lower denomination banknotes there is a glossy vertical stripe, while on the higher denomination notes the value numeral in colour-changing ink appears in the bottom right corner.



Most people check the authenticity of banknotes by examining only their visual characteristics, but those who handle cash as part of their work, like supermarket cashiers, must also check other features, such as the **texture of paper** and, using a special lamp, **some properties that are invisible to the naked eye**.

The equipment that banks use to count money runs even more checks on yet other security features of the banknotes.

The most advanced and hi-tech security elements are known only to a few people and can only be detected by the **extremely advanced sensors** installed on the automatic machines used by central banks.



The security features lose their effectiveness over time. At first, when they are new, they guarantee maximum protection, but as legitimate users become familiar with them, so do counterfeiters who then find it easier to reproduce the notes, which have to be changed.



Specialized technicians from the **ECB** and the national central banks (**NCB's**) devise new features to replace the existing ones so that users (the general public, cashiers, producers of money-counting equipment, professional cash handlers, national central banks) can check the authenticity of the banknotes.

Euro coins

There are **eight euro coins**, with the following:

1, 2, 5, 10, 20 and **50 cents** and **€1** and **€2**.

Each coin has **a design on one side**: the imprint of the map of Europe (from the 10 cents to the 2 euro coin) or of the globe (1, 2, and 5 cent coins) and **on the other, a national design** chosen by each member state, surrounded by the 12 stars of the European Union.

The coins also have specific features that make them hard to counterfeit. Some of these features help blind or visually impaired people to distinguish between the different coins.

European common side

The 8 coins are different in size, weight, material, colour, thickness and shape of the edge.



PORTRAIT OF DANTE ALIGHIERI
BY RAPHAEL SANZIO



THE "VITRUVIAN MAN"
BY LEONARDO DA VINCI



THE STATUE OF
EMPEROR MARCUS AURELIUS
ON HORSEBACK



SCULPTURE BY
UMBERTO BOCCIONI



DETAIL FROM
"THE BIRTH OF VENUS"
BY SANDRO BOTTICELLI



THE COLOSSEUM



THE MOLE
ANTONELLIANA



CASTEL
DEL MONTE

Italian National side

There are coins with 8 different values and so there are **152 coins** in circulation (that is 8 coins for 19 states), without taking into account the commemorative coins and those minted by the Republic of San Marino and the Vatican City State, which, though not members of the European Union, have adopted the euro as their official currency.

Some national faces of the euro coins



Austria - €1
Wolfgang Amadeus Mozart
(1756-1791)



Belgium - €1
King Albert II



Cyprus - 50 cent
Cargo ship



Estonia - €2
Geographical image
of the country



Finland - 50 cent
Rampant lion



France - €1
The tree of life



**Germany
50 cent**
The Brandenburg Gate



Greece - €2
The nymph Europa
kidnapped by Zeus



Ireland - €2
Celtic harp



Latvia - €1
A Latvian folk maiden



Lithuania - €2
Vytis, the silver knight



Luxemburg - €1
His Royal Highness
Grand Duke Henri



Malta - 5 cent
Altar from the
pre-historic temples



**The Netherlands
€1**
Queen Beatrix



**Portugal
50 cent**
Seal of the first king
(1142)



**Slovenia
20 cent**
Lipizzaner horses



**Slovakia
50 cent**
Bratislava Castle



Spain - 50 cent
Miguel de Cervantes
(1547 - 1616)

Some celebratory or commemorative coins

Since 2003 member states have been able to mint celebratory or commemorative 2 euro coins as legal tender. Some common commemorative coins have also been minted.



2004 – Greece Olympic Games in Athens 2004

At the centre of the coin is a discobolus depicted as he prepares to throw the disc. To his left is the logo of the Olympic games “ATHENS 2004” and the five Olympic rings. To his right is the figure 2 and the word ΕΥΡΩ. The year is marked at the bottom of the coin, on the outer ring, and is split in two by one of the 12 stars that symbolize the European Union.



2007 – Common 50th anniversary of the Treaty of Rome

The Treaty of Rome is shown signed by the six founding members of the Economic European Community against a background that evokes the paving of the Piazza del Campidoglio in Rome, designed by Michelangelo.



2009 – Common 10th anniversary of Economic and Monetary Union

At the centre of the coin is a stick man whose left arm merges into the € symbol. This conveys the idea of the single currency and thus of the Economic and Monetary Union. Above the image is the name of the country issuing the coin, below it “EMU 1999-2009” in the respective language



2011 – Belgium 100th anniversary of International Women’s Day

At the centre of the coin are the effigies of Isala Van Diest, the first female Belgian doctor, and Marie Popelin, the first female Belgian lawyer. Below the image, the year 2011 and the names and symbols of their professions. Above it, the letters BE in reference to their nationality. On the left of the letters is the Mintmaster’s mark, while on the right is the mint mark.



2005 – Finland 60th anniversary of the establishment of the United Nations and 50th anniversary of Finland’s membership

At the centre are pieces of a jigsaw puzzle that form the image of a dove of peace. Below it, on the left, is the inscription FINLAND - UN, on the right is the year of issue. Above the year, close to the edge of the puzzle is the letter “K”, the engraver’s initial. The letter “M”, the mint mark, can be found below the dove.



2009 – Italy 200th anniversary of the birth of Louis Braille

The coin depicts a hand reading a book written in Braille. The index finger points to the name and dates of the inventor, while two stylised flying birds symbolize the freedom of knowledge.



2011 – Italy 150th anniversary of the Unification of Italy

The coin bears the image of three Italian flags fluttering in the wind; each one represents 50 years of history (at 1911, 1961 and 2011 respectively) and the continuity between generations.



2012 – Common Ten years of euro banknotes and coins

Chosen through a web vote to commemorate 10 years since the adoption of the euro. The symbol of the euro is displayed on the globe to symbolize its importance as a player in the markets and everyday life. All around the globe you can see a family of four (a symbol for ordinary people), a ship (symbolizing all trade), a factory (symbolizing industry) and wind-power stations (symbolizing energy).

Activities of the central banks



Producing banknotes

The **Eurosystem** decides the volume of banknotes required each year and assigns the **euro area central banks** an amount of each denomination to produce.

The **national central banks** then **manufacture the banknotes** requested by the Eurosystem and either issue them directly (as does the Bank of Italy, for example) or they pass the task on to a third party.

How banknotes are produced



If you are curious and want to know more on how banknotes are produced, you can give a look at the ECB's website and find out. Just follow the link below:

*[http://www.new-euro-banknotes.eu/
Educational-Downloads/
KNOWLEDGE-OF-BANKNOTES](http://www.new-euro-banknotes.eu/Educational-Downloads/KNOWLEDGE-OF-BANKNOTES)*

As well as producing the amount of banknotes assigned, each central bank also manages the banknotes **circulating in its own territory** regardless of where they were produced.

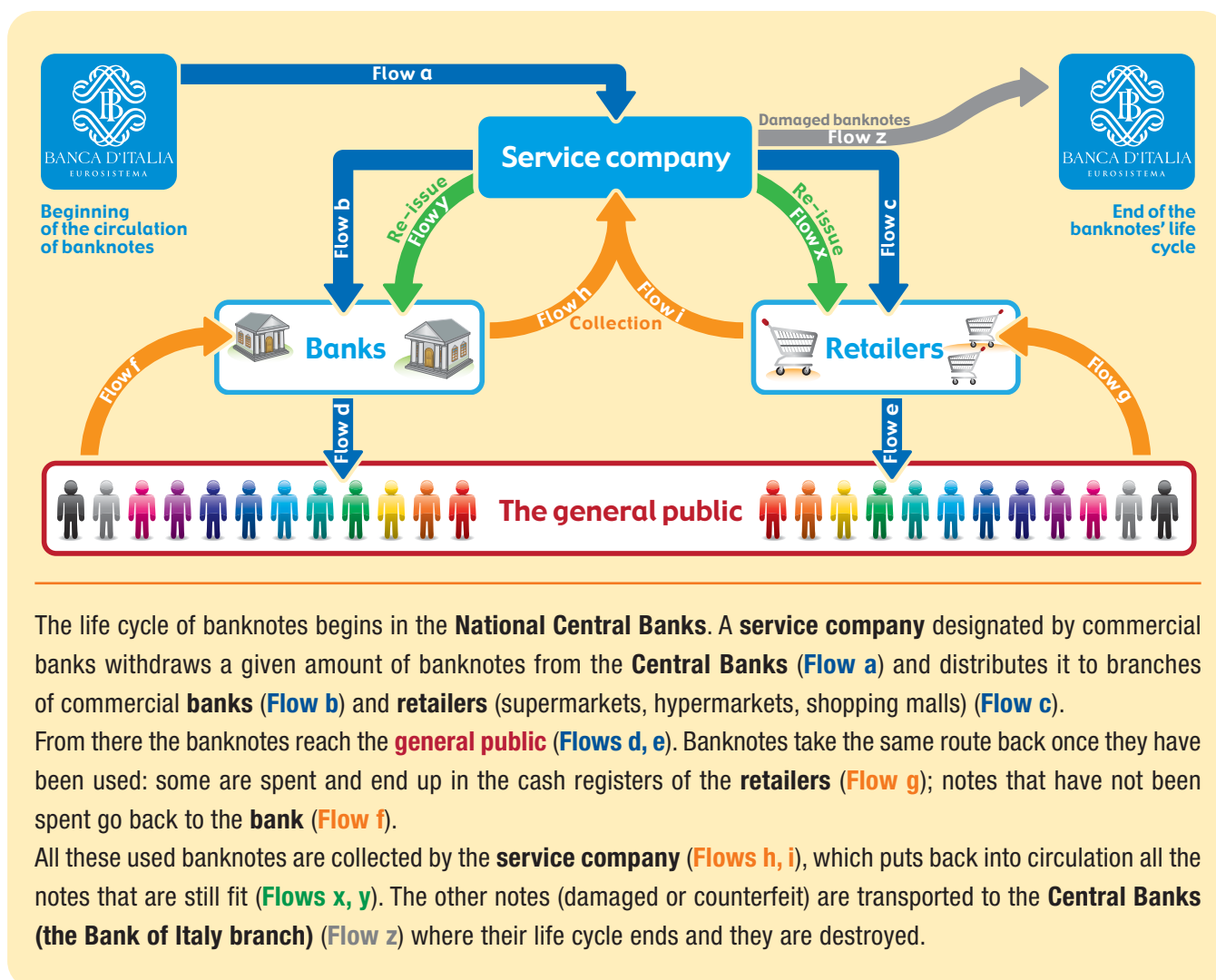
Protecting the euro against wear and tear

Banknotes are easily damaged as they pass from hand to hand.

Once banknotes become worn it is more difficult to tell them apart from counterfeits. Therefore, after issuing them the national central banks have to **check that the banknotes in circulation are in good condition, replacing worn ones and withdrawing counterfeits**.

Professional cash handlers have a very important role in sorting the banknotes.

How banknotes reach our pockets



The life cycle of banknotes begins in the **National Central Banks**. A **service company** designated by commercial banks withdraws a given amount of banknotes from the **Central Banks** (**Flow a**) and distributes it to branches of commercial **banks** (**Flow b**) and **retailers** (supermarkets, hypermarkets, shopping malls) (**Flow c**).

From there the banknotes reach the **general public** (**Flows d, e**). Banknotes take the same route back once they have been used: some are spent and end up in the cash registers of the **retailers** (**Flow g**); notes that have not been spent go back to the **bank** (**Flow f**).

All these used banknotes are collected by the **service company** (**Flows h, i**), which puts back into circulation all the notes that are still fit (**Flows x, y**). The other notes (damaged or counterfeit) are transported to the **Central Banks** (**the Bank of Italy branch**) (**Flow z**) where their life cycle ends and they are destroyed.

Professional cash handlers



Banks, the postal service and the service companies specializing in the transportation and handling of cash are required by European regulations to make sure that the banknotes and coins they receive, and which must be re-issued, are authentic and fit for circulation.

The banknotes and coins that are, or are thought to be, damaged or counterfeit must be withdrawn and sent to the national central bank.

In some countries **cash is still very widely used. The use of cash, however, has many drawbacks:**



> **It is very costly**

The combination of production costs (raw materials, printing, coin manufacturing) and distribution costs for both coins and banknotes **is an expense borne** by countries and therefore also by their citizens;



> **It encourages illegal activities**

A cash payment **leaves no trace** whereas all transaction using other payment methods are recorded by the bank. Bank records can be checked by the authorities and so anyone engaged in illegal activities will want to use cash to avoid inspection;



> **It makes it harder to fight tax evasion**

Cash payments help people to **hide some of their earnings** to avoid paying taxes. The audit trail left by other payment methods helps the authorities carry out investigations and discourages tax evasion.

Restrictions on the maximum amount payable in cash can help reduce the costs associated with its use.

Central banks guarantee that banknotes are both safe and of good quality and do their best to keep the costs as low as possible. At the same time, they encourage people to use other payment instruments, which are increasingly practical, convenient and safe.

Bank money



The development of payment instruments besides cash is strictly tied to the function of banks within the modern economic system.

Banks' main activities are **gathering the savings** of the general public and **making loans**. In performing these functions, banks bring together those who do not have enough money and those who do and who want to earn some interest on it.

The bank acts as an “intermediary” – since it is not necessary to physically hand over the money as other payment instruments can be used: money is simply transferred from one bank account to another by means of a simple accounting entry.

The network of accounts that customers open at banks allows money to be moved between accounts at the same bank and to accounts opened at other banks. All this is possible thanks to **computer technology**, linking all the banks, and to a set of rules and procedures that are the same for all operators.

The bank account thus is the main tool used to prevent money physically changing hands during transactions. Cheques, payment cards, SEPA credit transfers, and SEPA direct debit only work through bank accounts. All are normally associated with the personal account of each customer and can be called **bank money**.

Compared with cash, bank money offers at least **four big advantages** in terms of:

- > **SECURITY** because it reduces the risk of loss or theft;
- > **CERTAINTY** because its circulation is governed by tight, confidential or strictly personal procedures;
- > **LEGALITY** because, through the computer networks that check and record every payment, illegal activities are prevented;
- > **CONVENIENCE** because it allows purchases to be made at any time, in any place (including via the internet), without having to take out cash in advance.

Bank accounts

Bank accounts are widespread because they help people to manage their money.

They work like a moneybox, allowing easy access to savings to pay for current expenses.

People with a bank account can deposit money they don't need immediately and to add to their savings. Bank accounts make it easier to manage both functions of money: as a means of payment and a store of value.

Banks usually offer account holders an **interest rate** - generally very low - on deposited sums that are not used.

Bank accounts, though, have costs called **fees and charges** and customers pay for transactions made through their account.

These costs are not the same for all the banks so when you decide to open a bank account you need to **find all the information on the fees and charges applied**

and compare them so that you can choose the account best suited to your needs.

... what about under 18?

Even under 18 can have a bank account, but only open with the help of their parents. For 12 to 17 year olds banks offer accounts with limited fees and charges with on-line services and the possibility of paying with debit card. For younger children passbook savings accounts are the best option.

A bank account is regulated by a contract between the customer and the bank.

To be able to choose the best account for you, you need to read the documents that the banks have to provide. That way you can evaluate carefully the terms and conditions that govern the contract.



Through the various accounts banks provide their customers with a series of payment instruments. These can replace both cash and visits to the local branch.

Post offices now offer a similar service: the **post office current account**.

The advantages of a bank account

Bank accounts are very popular because they offer many advantages:

> SAFETY

People's savings are much safer in a bank than at home;

> PRACTICALITY

Payment instruments associated with bank accounts allow payments to be made without cash, even at a great distance;

> CONVENIENCE

Bank services associated with bank accounts allow regular payments to be made and received automatically (paying bills, receiving wages, etc...);

> SPEED

By using the new services available on the banks' websites account holders can access their accounts and make transactions via their computer or Smartphone.

Savings accounts



Passbook savings accounts are particularly well-suited to children and teenagers because the fees and charges are either very low or non-existent, depending on the terms and conditions applied by the banks. Post offices also offer savings accounts for minors.

Under 18 must always be accompanied by a parent or a legal guardian. They can deposit or withdraw money up to a limit fixed by the bank. Interest rates, the annual percentage of the deposit sum paid by the bank sums are higher than those usually applied to current accounts.

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USING A BANK ACCOUNT

Account holders need to check all the transactions made through their account by themselves and by the bank.

Customers should always know how much money is in their account and must be sure **not to spend more than they have**.

To make it easier to check transactions, banks regularly send out a document called a **statement**.

To check everything listed in the statement, the account holder must keep the bills and receipts for every transaction made and place a tick against each item on the statement.


Bank overdraft

If more money is going out than is coming in, the account will show a debtor balance for the customer.

This means that the bank has lent the customer the sums used to make payments and this resulted in an overdraft.

The bank applies a debtor interest rate on the sums lent.


Statement

This is the document that the bank sends to all account holders at specific times of the year and that gives clear and complete information on the account as follows:

- > **movements in the account** (deposits and withdrawals)
- > **fees and charges**
- > **balance**, that is the amount of money left in the account after all credit and debit transactions have been recorded.

To correct any mistake made, customers must **immediately report** the problem to the bank.

If customers access their accounts from their personal computer (**Internet banking**) they must **store** all the secret codes that give access to the account **with great care** to prevent anyone from finding and using them.

Personal cheques



The personal cheque is a payment instrument which customers use to instruct the bank to pay a certain amount of money out of their account to someone else. It is pre-printed according to a standard scheme and contains the words “personal cheque” and the name of the issuing bank.

The beneficiary can collect the sum at the bank branch that issued the cheque or take it to his/her own bank and ask to have the sum credited to his/her account by filling in a form.

To write a cheque you need to:

- **Be an account holder** and have the bank’s authorization to make payments by personal cheque;
- **Deposit a specimen signature** at the bank so that it can check the signature on the cheque is authentic;
- **Have enough money in your account** to cover the cheque. Issuing a bad cheque has serious consequences.

Cheque book and specimen signature



Cheques come in books of 10 or 20. Each cheque is made up of two parts that can be separated by tearing off the main section. The smallest part, the stub, remains attached to the book and is used to record the details of the cheque, such as the amount and the name of the person paid. The largest part is the actual cheque, which is made out, signed, detached from the book and given to the person expecting payment. To check whether the signature is authentic, the bank compares it with the specimen signature deposited on a special form on the day the account with the bank was opened.

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WRITING A PERSONAL CHEQUE

A cheque must be filled in, in every part, with indelible ink, because banks can refuse payment if even only one element is missing.

How to fill in a cheque

Place

The place where you make out the cheque.

Date

It shows the day, month and year. Banks register the payment on the day indicated on the cheque.

Amount in figures

It must be written with two numbers after the decimal point.

Amount in letters

When you write the amount in words you need to write the amount in full, followed by the word ONLY.

Beneficiary

Name and surname of the person you are paying.

Signature

Account holder's signature (matching the signature on record at the bank).

N.B. The amount must always be written twice, once in figures and once in letters. If the two do not match, the bank usually has three options: accept the cheque for the amount in letters, contact the customer to check on the correct amount, or return the cheque.



Filling in the cheque completely and accurately protects the person writing it (the drawer) from possible alterations of its content against his/her will.

The person receiving the cheque as payment (the beneficiary) must make sure that the cheque is intact and contains all the necessary information and must promptly either credit it to a bank account or go to the issuing bank to withdraw the sum in cash.

Holders of cheque books must keep them with great care.

The loss or theft of the cheque book must be reported immediately to the police and to the bank, with a request to block all the remaining.

SEPA credit transfers



SEPA credit transfers are one of the most common methods **of making payments or transferring money to distant places.**

With a SEPA credit transfer you ask the bank to transfer a certain amount of money from your bank account to the account of another person (beneficiary).

The form used for a transfer can **be filled in at a bank branch** or **via home banking** on a personal computer.



IBAN

The IBAN (International Bank Account Number) is a code attributed to every bank account to identify it in national or international payments. It can be from 15 to 28 characters long and always starts with two letters which indicate the name of the state where the account is held. As an example, in Italy it is made up of 27 characters: the first two are always the letters IT, which stand for Italy, while in Germany it is made of 22 characters and the first two are always the letters DE (Deutschland).

SCT

*SCT is the acronym for the **SEPA Credit transfer** that will appear on your bank statement.*



MAKING A SEPA CREDIT TRANSFER

The form ordering a SEPA credit transfer must specify the **amount** to be transferred, the **reason for the transfer**, the **name of the beneficiary** and his/her **IBAN**. To receive a payment in this way you need to be an account holder. Transfers from one account to another usually take place within one working day.

SEPA direct debit



SEPA direct debit are used to **make regular payments**, such as water, gas, and electric bills, **automatically**.

You can only use this service if you are an **account holder**.

To make payments by SEPA direct debit you must go to the bank or, in some cases, to the utility company, and sign the **pre-authorized debit agreement**.

On the due date the bank will make the payment and debit the amount to your bank account without having to ask for your permission each time.

SEPA

*Acronym for **Single Euro Payments Area**. The Single Euro Payments Area eliminates the differences when dealing with national and European payments. Thus, all SEPA payment instruments within Europe follow the same rules.*



SDD

*The **SEPA Direct Debit (SDD)** is the technical definition of the European direct debit. It appears on your statement next to the amounts of your direct debit bills.*



MAKING PAYMENTS BY DIRECT DEBIT

When you pay utility bills by SEPA debit transfer you can **ask for a refund** within eight weeks if the amount is higher than expected based on your spending habits and the terms and conditions of the contract.

As for the other payment methods, the new European regulations provide that **payments can be contested** within 13 months of the due date if not authorized (i.e. if the SDD agreement had not been signed).

Payment cards



Payment cards are **plastic cards with a microchip and a magnetic strip** that you can use to pay for goods and services in stores and on the Internet without having to use cash. These cards also allow you to withdraw money from Automatic Teller Machines (ATM).

Companies, usually banks, issue the cards **after you sign a contract** detailing all the terms and conditions of use.

Cards are not usually issued for free and **the cost of use** varies from bank to bank, also according to the services offered with the different kinds of cards.

It is very important to obtain all the necessary information before choosing the card best suited to your needs.

There are different kinds of cards:

> Debit cards

> Credit cards

> Prepaid cards



To be issued a **debit** or a **credit card** you must have a current bank account.

In the case of **prepaid cards** the money is saved “in their memory” and so you don’t need to have a bank account.

Payment cards are electronic devices and so for all payment or withdrawal operations they need to be inserted into the slot of a terminal in order to:



> make a payment

in stores, restaurants or hotels you insert your card into a **POS** (Point Of Sale) machine. This device, located at the cash desk, “talks” to your and the vendor’s bank.

After the machine accepts the transaction, **the transfer** of the sum on the bill is authorized and the money is moved from your bank account and transferred to that of the vendor. The POS machine then prints out a **receipt**.



> withdraw money

you insert your card in an **ATM** and key in your **secret PIN**. The database then processes the operation and allows withdrawals, or access to the information on your bank account. ATMs only print out a **receipt** at your request.

At the end of the transaction it is advisable to ask for the receipt and **to keep it**.

The withdrawal of money at an ATM is free of charge only if it belongs to the same circuit as the bank issuing the card.

PIN

Acronym for **Personal Identification Number**.
This code must be kept safe and must not be shared with anyone.

ATM

Acronym for **Automated Teller Machine**.

ATMs can distribute banknotes, receive deposits, allow payments, supply information on payments made by the cardholder and on the balance in the account. They work day and night without any interruption.

Debit cards

A debit card is an electronic card connected to a bank account.

It allows you to use the money deposited in your account to **pay** for goods and services **in your country and abroad**, within the daily and monthly spending limits fixed by the bank.

When you pay with a debit card the sum is **immediately withdrawn from your bank account**, the same as if you had withdrawn it at the bank. If the amount you need for the purchase is higher than the amount deposited in your account, the transaction will be refused.



Debit cards work on circuits that are country specific (e.g. Bancomat in Italy), but they also work internationally on some specific circuits (e.g. Cirrus or Maestro).



To **make a payment** you insert the card in the **POS** machine at the store and key in your secret **PIN**. The machine will print out **two receipts**: the vendor gives you one together with the receipt for your purchase and keeps the other.



By inserting the card in an **ATM** and keying in the secret **PIN** you can **withdraw cash** up to the daily and monthly limits agreed with the bank. At an ATM you can also request information about your bank account, pay utility bills, top up your phone or pay cash and cheques into your account.

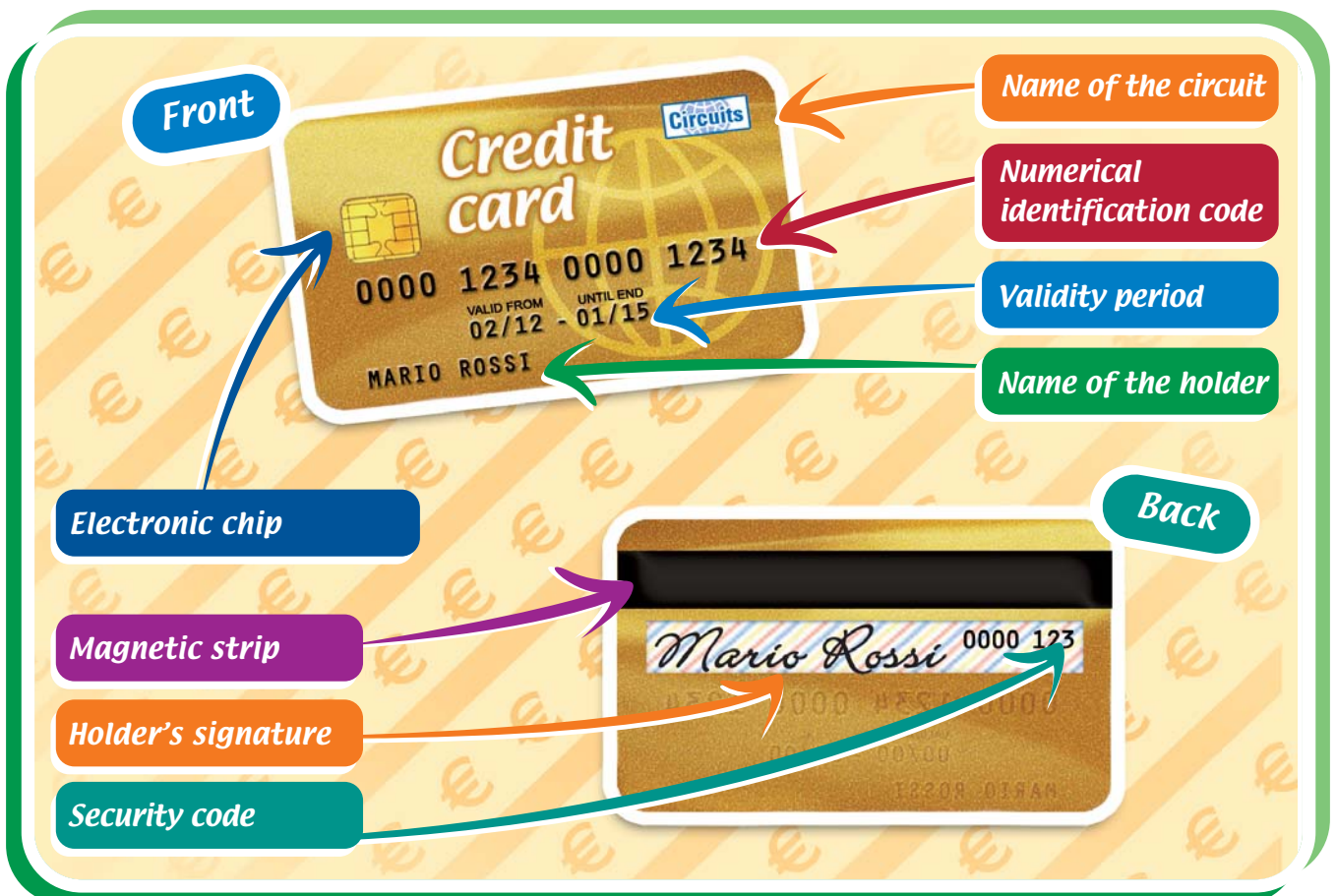
Credit cards

Credit cards are issued by the bank to trusted account holders. They can be used to **make payments in your country and abroad with money**



that is not immediately withdrawn from the bank account but **advanced by the bank** issuing the card. The card holder can therefore make a payment even if there is not enough money in the account at the time. The money must be paid back to the company issuing the card at a later date.

There are two ways of paying back the sums by the bank: either by repaying the entire amount on a given day or by paying it back in fixed installments over a longer period of time (although in this case the bank will charge an interest rate on the money advanced).



Credit cards can **only be used by the holders** so you must **sign your card** on the back as soon as you receive it. You will also have to **sign a receipt** at every purchase.

Banks usually set **a monthly spending limit** which is generally higher than the one set for debit cards.



If you go online you can use a credit card to pay for goods and services all over the world.

To make a payment in a shop, you insert your card in the vendor's **POS machine** and **sign the receipt** it prints out.

The vendor will check that the **signature on the back of the card** is the same as the one on the receipt and may ask you for identification to make sure you actually are the card holder.



The vendor keeps the **signed receipt**.

You receive a copy of the receipt as a reminder of the purchase, together with the receipt for your purchase.



To **withdraw money** from an **ATM** you insert your credit card and key in your secret **PIN**.

Withdrawing money at an ATM using a credit card is more expensive than doing it with a debit card.

Prepaid cards



Prepaid cards can be obtained from banks, post offices, and some stores.

You will be asked for a small sum, which is the cost of the card itself, and to lodge an amount of money of your choice, which will be credited on the card and that is the maximum amount you can spend. Some prepaid cards can be topped up.

Adults often choose this kind of card because it is safer; in case of loss, theft, or fraud only the money still credited on the card is at risk, as the card is not connected to any account. Prepaid cards are particularly well-suited to young people as the amount they can spend is limited. There is also a limit on the total amount that can be credited to the card each year.

There are different kinds of prepaid cards:



> Disposable card:

the credit can only be used at the issuing company. For example, a prepaid SIM card can only be used to make phone calls and the credit cannot be spent on anything else;



> Prepaid card with limited use:

the credit can only be used in a certain retail chain. You can spend the money at the issuing store or at any of the stores belonging to the same chain;



> Prepaid card:

the credit can be spent at numerous stores and online. This kind of prepaid card can even be used to withdraw money at ATMs.

To buy goods and pay for them you need to insert your card in the vendor's **POS machine**.

As proof of the transaction the POS machine will print out **two receipts**; the vendor keeps the first and gives you the other as a reminder of the purchase.

To withdraw money at **ATMs** you must insert the card and key in your **PIN**.

Examples



I want to go on a trip but I don't want to carry a lot of cash and risk losing it.

I can apply for a prepaid card to make payments and buy whatever I need without worrying about how to keep my money safe.

I have used all credit on my phone and I cannot call home to tell my parents I will be late.

With a disposable card I can top up my credit and stop my parents from worrying about me.



I don't have enough money to buy the book I need.

With the prepaid card I can go to an ATM and withdraw some money.





USING A PREPAID CARD

- 1) Do NOT keep the PIN code with the card** otherwise, in case of loss or theft, someone else will be able to withdraw money from your account.
- 2) Choose an ATM in a secure location and make sure no one is watching you.** If you don't feel safe or if someone is standing too close to you, postpone the operation until later.
- 3) Cover the keypad with your hand while keying in the PIN code.**
It is best if you stand straight in front of the ATM and close to the keypad to prevent anyone seeing what you are doing.
- 4) Put the money away quickly.**
If you want to count the banknotes, do it quickly while still standing close to the ATM so that your body shields the money from others.

WARNING

In case of theft, fraud or loss of the card, **call your parents immediately!**

Theft, fraud or loss must be reported immediately to the bank **so that the card be blocked**. You can do that either by going to the nearest branch or by calling the dedicated toll free number. Theft, fraud or loss must also be **reported to the police**. It is advisable to give the bank **a copy of your statement to the police**.



SOME TIPS

A few **simple tips can** help us make payments on the web securely.

The first thing is to make sure you are using **secure sites**, which are **identified by a small padlock icon**.

Also it is best **not to give out** your codes, passwords or confidential information **online**.

The latest technology



Nowadays many people use the internet and the new electronic payment methods allow us to buy and sell online. The use of payment cards is very common for distance purchases and prepaid cards are the most frequently used thanks to their security features.

People can use their mobile phones for purchases and soon it will be possible everywhere to pay just by placing your cell phone near a special POS machine.

Nowadays it is already possible to send money by mobile phone using the beneficiary's phone number for the transfer.

It has been a very long process to bring us from barter to bank money. Under pressure from an ever-changing environment, communication tools and technology are constantly evolving to provide new methods of contact and exchange.



Money has lost its physical characteristics to be able to travel fast through the web, but research is pushing even farther ahead: special devices that scan fingerprints, eyes and face shape or voice recognition systems are able to offer us new payment methods that are even more practical, quick and secure.

The future of money still has many surprises in store for us.

The Bank of Italy is the central bank of the Italian Republic.

Its aims include:

- ensuring the transparency of banking and financial services
- improving citizens' financial knowledge
- helping consumers make informed decisions.

This leaflet, which the Bank has prepared specifically for middle school students, is part of this commitment.

www.bancaditalia.it