

## TOPIC 3b

# How do bank accounts work?

### PLEASE NOTE:

From now on, we use 'bank' and 'bank account' as general terms. But this also covers building societies and credit unions.

This topic helps you to:

- ▶ understand what a current account is and how it works;
- ▶ understand how to make payments safely from an account;
- ▶ know about depositing and withdrawing money and checking statements.

### CURRENT ACCOUNTS

A current account lets us store and manage the money we use every day. You can:

- ▶ take out money you need as cash;
- ▶ pay in more money when you want;
- ▶ set up automatic payments for regular bills.

When money is paid **in**, this amount is a **CREDIT**.

When money is taken **out**, this amount is a **DEBIT**.



Credits: in

Debits: out



### SORT CODE AND ACCOUNT NUMBER

When you open a bank account, it has:

- ▶ a **SORT CODE**, which identifies the bank and the branch where you opened the account; and
- ▶ an **ACCOUNT NUMBER**, which is eight digits and unique to you.

#### EXAMPLE

Sort code: 76-54-32

Account number: 12345678

Every account number is different. Everything to do with your account has your number on it.

### DEBIT CARDS

Debit cards are plastic cards used to make payments out of your account. You can use a debit card in shops and on the internet to buy items and services.

### CHIP AND PIN

Most cards have 'chip and PIN', a type of security to keep your money safe.

A PIN is your **personal identification number**: four digits that you choose and tell nobody else.

To buy something with your card, you put it in the shop's **card reader** machine



The machine reads the info on the card's chip, including your account number

You enter your unique PIN, then the card reader tells your bank to pay for the item from your account

Please enter your PIN

Chip and PIN means that if someone else tried to use your card, they would not be able to without knowing the PIN.

### CONTACTLESS CARDS

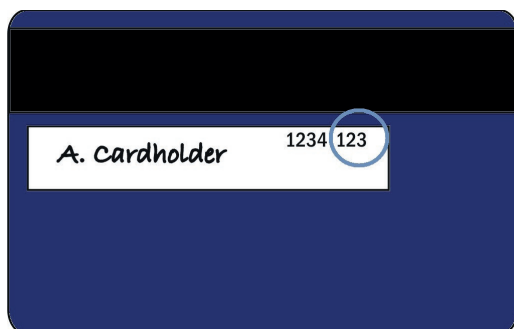


With contactless cards, a person only needs to touch the card's contactless symbol on a card reader to pay for items up to a low limit.

This makes payment simpler for smaller items, as the customer is not always asked for their PIN. The debate about contactless security goes on.

### WHAT ABOUT BUYING ON THE INTERNET?

To buy online, you will need to enter many different numbers on the debit card, including a three-digit **SECURITY NUMBER** on the signature strip on the back of the card.



You may also be asked to enter a chosen memorable word or digits from your PIN, but never the full PIN.

### HOW DO WE DEPOSIT AND WITHDRAW MONEY?

#### AUTOMATIC TELLER MACHINE (ATM)

An ATM lets us withdraw money from our account when we need it. ATMs are found in bank branches, outside of banks and in some shops.



We insert a debit card and enter our PIN to prove the account is ours, then choose how much money to take out.

Some ATMs also let us deposit (ie pay in) cheques, which are written instructions to pay money from one account to another.

Watch **USING AN ATM** to see the different parts of the machine and the steps involved.

#### IN BRANCH

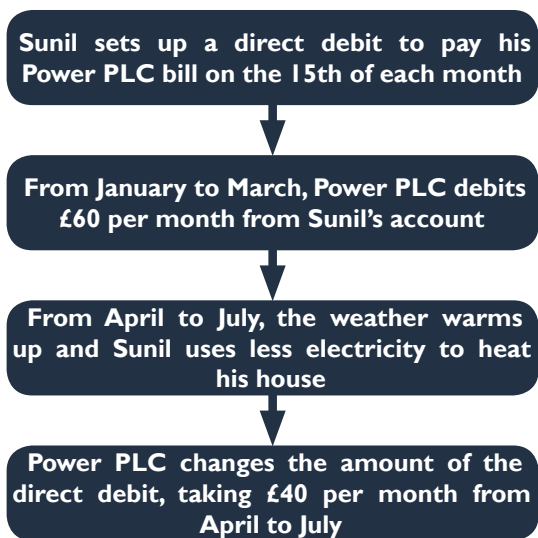
We can go to our bank, talk to a cashier at the counter and use our card to pay in and withdraw money. Lots of banks also have deposit machines, to pay in cash or cheques without a cashier.

### HOW DO WE PAY OTHER PEOPLE?

Lots of payments that we need to make will be regular. For example, bills for electricity may be monthly. Water bills might be every three or six months.

#### DIRECT DEBITS

A 'direct debit' is an instruction to your bank to let a company collect money from your current account. The amount debited can change.



The **DIRECT DEBIT GUARANTEE** means that if your bank, or the person you are paying, debits too much money by mistake, you can report it and get your money back straight away.

### STANDING ORDERS

A standing order is like a direct debit, but the amount paid per month is always the same. If you bought a magazine subscription for £5 a month, you might set up a standing order.

#### ONLINE ACTIVITY

Decide whether Sunil should use direct debits or standing orders in **ACTIVITY 3B**.

### CHEQUES

Sarah wants to send her sister Catherine £20 for her birthday.




She does not want to send cash, because it might get lost in the post.

Sarah writes a cheque to Catherine for £20.

When Catherine deposits it, £20 will be debited from Sarah's account and credited to Catherine.

Most money is now paid and received electronically, but paper cheques are still useful when payment cannot be made by debit card. Some shops and traders do not have card readers.

 Watch **HOW TO WRITE A CHEQUE** to learn more about this payment method.

### HOW DO WE KEEP TRACK OF OUR MONEY?

A bank statement lists:

- ▶ all the **DEBITS** out of your account (money you withdraw, payments for bills and items);
- ▶ all the **CREDITS** into your account (money you pay in, earnings from employment).

With internet banking, you can check your statement at any time. Statements can also be sent to you on paper.

When you use an ATM, you can get a mini-statement that shows only the last few transactions.

Description	Paid in	Paid out
Direct debit	-	£28.50
Credit	£120.00	-
Standing order	-	£76.00

Statements help us keep track of the money in our account. We can see when we are low on money, and check that payments are being debited and credited as expected.

Checking your statement gives you peace of mind. If you don't recognise any of the payments into or out of the account, you must tell your bank.

#### ONLINE ACTIVITY

Check whether everything is OK with Penny's and Mario's bank statements in **ACTIVITY 3C**.

### FURTHER ...

Complete the Topic 3 activities online.