

Different payment methods in the hotel industry finance essay



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The forms of payment accepted in hotels have changed over the years. Most hotels still accept a variety of methods of payment mainly so as to provide a service to their clients and to generate additional earnings through exchange. A large number of independent travellers now use some form of credit or charge card. Hotels are now very familiar with a wide range of cards, often with 'dual' ownership (e. g. the HCIMA have their own version of Barclaycard). There will always be a number of other transactions within the hotel regardless of the method of payment. These transactions will often be paid through a number of other methods. Upon departure, guests can settle their account in one of a number of different ways:

- € **Cash**
- € **Foreign currency**
- € **Cheque**
- € **Traveller's cheque**
- € **Foreign cheque**
- € **Debit card**
- € **Credit card**
- € **Charge card**
- € **Ledger payment**
- € **Voucher (e. g. travel agent, A & TO).**

In dealing with each of these methods of payment, the hotelier must assess the impact of three major factors: liquidity, security and worth.

Liquidity

It is advantageous to the hotel if the account is paid in cash, as the hotel can immediately use the money to purchase goods itself, or bank the money and earn interest on it. Payment by ledger, however, will take much longer – perhaps as much as two or three months may pass before the money can be re-used in the business.

2. Security

The two sides to security are as follows:

- € The likelihood of forgery or fraud by each of the payment methods.
- € The subsequent risk of theft once the hotel has the money. Payment by cheque is a greater security risk than accepting cash in Payment of the account. It would be difficult to trace stolen

Currency if the hotel was robbed and cheques would unlikely is taken as they won't be of any value to a thief.

Worth

The total amount of money the hotel receives in payment will not be the same in every case. Handling charges, commission and delays in payment will cost the hotel money. But because of

The extra commission, accepting payment in foreign currency will usually mean that when guests use this method of payment, the hotel gains an extra profit. Table 9. 1 shows that the profitability of the hotel may be affected by the variety of payment methods used

by the guests

Method of

Payment

Security

Liquidity

Worth

Cash

The risk of losing cash through theft is high, but the risk of forgery is low.

Immediate

100 %

Foreign

currency

The risk of losing foreign currency through theft is high, but the risk of forgery is low.

1 Day

102 %

Cheque

Cheques carry a high risk of fraud

e. g. non-payment. If security

checks are carried out, risk of theft

is low.

3 Days

98 %

Traveller's

cheque

Safe method of payment if control

checks are carried out properly.

Low risk of forgery.

4 Days

98 %

Debit Card

Safe method of payment if control

checks are carried out properly.

Low risk of forgery.

3 Days

99 %

Credit card

Safe method of payment if control

checks are carried out properly.

Low risk of forgery

3 Days

96 %

Charge card

Safe method of payment if control checks are carried out properly.

Low risk of forgery

3 Days

96 %

Ledger payment

If creditworthiness is established before hand, it is a safe method of payment, however there is always a risk of non-payment of accounts

30 Days

98 %

Voucher (e. g. travel agent,

A & TO)

If creditworthiness is established before hand, it is a safe method of payment, however there is always a risk of non-payment of accounts

60 Days

89 %

Table 9. 1 Security, Liquidity and Worth of the various methods of payment

Cheques

Payment by cheque use to be one of the most common methods of payment. It reflected the decline of payment method in cash in recent years. Cheque guarantee cards guarantee the payment of the cheque to an agreed amount (usually £50 or £100). But there are a few simple rules that need to be followed.

The guarantee provided by cheques guarantee cards are:

- € Only one cheque is used per transaction
- € It is signed in the presence of the cashier
- € The bank code on the cheque and the guarantee card agree
- € The card number is written on the reverse side of the cheque
- € The card has not expired.

A bank does not guarantee to honor a transaction where an account of is paid by issuing two cheques of £50. The transaction is changed to a cash one by putting the card number on the back of the cheque. The customer will then not be able to stop the cheque later. It is crucial that the cashier watches the customer sign the cheque and then compares to the signatures carefully as to

establish their similarity. Listed below are factors that need to be look into when handling cheques guarantee cards.

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1. Code Number

The bank sorting code number must agree with the code of the issuing cheque.

2. Card Number

The card number is written on the reverse of the cheque by the accepting cashier. It does not correspond to any other number on the cheque.

Expiry Date

The card will not be valid if it is out of date.

Signature

The signature must be checked against the signature written on the back of the cheque. The card should be examined to make sure that the signature panel has not been tampered with.

Crossed cheques are now mostly issued and therefore have to be paid into a bank account. With the signature of the payee at the back, it can be reassigned to a third party. In the case where a third party cheque is returned, the hotel has to contact the original drawer of the cheque to obtain settlement. It is for this reason that hotels do not accept third party cheques.

Date

When accepting a cheque, the cashier should check a number of points, one of the most important being the date. A cheque that has a date in the future

on it (a post-dated cheque) will not become valid until that date. A cheque more than six months old (stale) is no longer valid.

Crossing Cheques

The two most important rules about crossing cheques are as follows:

- € A/c payee: this means that the cheque can only be paid into the account of the person nominated. It cannot be assigned to a third party. This is useful for cheques sent by post.
- € Not to exceed xxx: this is crossing establishes a maximum

Value to the cheque and guards against fraud by making it more difficult to change the amount payable.

Traveler's Cheque

Traveler's cheques (Fig 9. 4) are issued in fixed denominations by major banks, travel agents and now building societies throughout the world. The customer will need to purchase them (before leaving home) using their own currency, or in the currency of the country being visited. These cheques need to be signed when purchased. The serial numbers are then noted by the issuing bank cashier. A service charge of 1% is normally paid to the bank by the customer. It

covers insurance against loss or theft. The issuing company will repay the customer within 24 hours should the traveller's cheques be stolen. It is for

this reason that traveller's cheques are found to be much more secure than currency. It is essential that the cashier should watch the guest sign and date the cheque when accepting these cheques. Should there be any doubt or irregularities about the signature, the customer can be asked to sign on the reverse of

the cheque. Proof of identity can also be verified by asking the guest to produce their passport before accepting the traveller's cheque.

Debit Cards, Credit Cards and Charge Cards

Debit Cards

The common alternative to cheques nowadays is debit cards such as Switch and Delta. The way that it works is similar to that of cheque whereby the outstanding sum is taken directly from the

client's account. But the transfer is through an electronic point-of sale and no cheque is necessary. The cashier and the payer will receive a slip notifying them of the details of the payment. This is usually the same card that is used to guarantee a cheque or withdraw money from a cash point. Bank Credit Cards Visa and Access are the two major bank credit cards in the UK. These cards are usually issued for free and customers need not to pay for any annual subscription. The customer uses the card to purchase goods and services by signing a sales voucher for the total amount of the account. The card company will send a statement to the

customer with information of all the transactions of the month before. The customer has the choice to pay the total owing or only a proportion of it. The

rest of it may be paid over a period of time. As the cards constitute a form of credit, the minimum payment is fixed by the government. The customer will receive a personal credit limit which must not be exceeded in any one month. Visa is an internationally recognized name, and while most countries use an additional name (e. g. Barclaycard in the UK; Carte

Bleu in France), all cards carry the name ' Visa' and bear the distinctive blue, white and gold stripe logo (Fig. 9. 5).