

Viewpoint: Enhancing Wire Transfers to Attract Consumers

American Banker | Wednesday, March 11, 2009

By George Thomas

The Federal Reserve Board's recent announcement on offering same-day automated clearing house services for certain debit transactions has struck fear into the hearts of wire transfer product managers.

Even though the announcement clearly stated that the services would not include credits, the bankers believe this is the beginning of a slippery slope that will eventually erode their franchise. The sad fact is that they will be right unless they make a dramatic shift away from a fortification mentality and move to an aggressively proactive strategy.

Wire transfer product managers have a history of not embracing change, as evidenced by their opposition to the effort to add structured invoice remittance data for business payments to wire transfer messages. The argument presented by the product managers was that their customers did not want this feature, even though the Association for Financial Professionals, which represents corporate treasurers, had been telling the banking industry for years that this was a needed service for business payments.

The Clearing House and the Federal Reserve conducted joint quantitative and qualitative research to help convince the bankers that business customers wanted and would use this service. The qualitative portion of the research consisted of eight focus groups (medium and large businesses) in New York, Chicago, Dallas and San Francisco — a perfect opportunity for wire transfer product managers to understand the needs of their customers. Not one bank showed up for the focus groups in New York.

It became apparent to me that it was not an issue of whether businesses wanted enhancements to the wire transfer process, but the fact that these systems generate lucrative income without any additional investment.

Rather than taking a defensive posture, isn't it time for the managers of bank funds transfer operations, CHIPS and Fedwire to begin developing a strategy to expand their offerings, thereby making wire payments more relevant in the modern world.

A huge opportunity is the consumer market, which has so far been excluded from wire transfer services. The obstacles are access, pricing and ease of use.

To make a wire transfer payment today, a consumer typically must visit or call the branch to initiate the wire. Though some banks have the capability in their Internet banking platforms to initiate wires, they are not consumer friendly. The initiation instructions and data entry are too complex, and a manual process is required to pre-approve the recipient.

Pricing has been prohibitive. The consumer originating the payment is assessed a hefty fee of \$25-50, and the recipient is charged a fee \$10-20. This pricing is not conducive for wide-scale consumer use. The future strategy for the wire transfer systems is quite simple.

New transaction types need to be created that would accommodate transactions initiated or received by consumers. The following applications should be developed to increase volume and revenue.

Account-to-account transfers. This would include transfers to your own accounts at other institutions and transfers to other people (person-to-person). The electronic initiation channels that exist today (e.g. Internet and mobile) could be used, and cash could be withdrawn via the ATM networks. Why not compete with Western Union and MoneyGram? The payment would get there quicker with finality.

Expedited bill payment. This would be extremely valuable for consumers in their efforts to avoid late fees on loans or credit cards. The service needs to be priced reasonably on both sides. It has to be significantly less than the penalty fee for the consumer and a minimal charge to the biller so as not to create a disincentive.

Emergency payroll. There has been a crying need for years to help companies that miss a payroll deadline and need to guarantee that their employees will get paid on payday. The companies would pay appropriately for this service, but the recipients must not be charged.

Worker remittances. Explore opportunities to leverage the wire transfer systems to deliver these remittances to foreign countries at an affordable price.

Universal payment identification codes. These can be used to facilitate account-to-account and business-to-business payments.

The investments made today may save the wire transfer systems from financial ruin by preventing others ([PayPal](#), ATM networks and domestic and international ACH networks) from siphoning off the volume until only a few high-value payments are left.

The only path for a lucrative future for wire transfers is to go on the offensive and make them the payment vehicle of choice for a broad constituency.