ROLE OF ELECTRONIC FUNDS TRANSFER IN WIRING MONEY ONLINE

By Phillip Silitschanu

WIRING MONEY ONLINE - HOW IT BEGAN

It used to be that moving money from one country to another used to be timely, costly, complicated and – judging by the number of sunken ships full of gold – a dangerous proposition.[1] With the advent of the telegraph in the mid 1800's, the concept of transferring money electronically began to take hold. Because the transaction was transmitted by telegraph wire, it was called "wiring money."

As the ease of wiring money increased and the cost decreased, banks adapted with money wire and currency transfer services of their own. Over a century and a half later, the process of wiring money moved from modernized versions of early telegraph machines to modern, computerized digital communications networks. Wiring money online became possible – but not yet practical.

WHEN MONEY STARTED BECOMING AN INTANGIBLE ASSET

The banking technologies digital networks, magnetic strip credit cards and ATMs made people to wire money without holding physical cash and Money began to be seen as a digital asset.

More Technologies Needed to Enable Wiring Money Online

As modern digital banking networks became widespread beginning in the 1970's, they became platforms for other banking technologies. Credit cards with magnetic strips, combined with banks' new digital communications networks, enabled the rise of Automated Teller Machine (ATM) networks. All three technologies (digital networks, magnetic strip credit cards and ATMs) combined to be greater than the sum of their parts. Money began to be seen as a digital asset and becoming a more intangible asset. And, people now had the ability to wire money without holding physical cash.

Regulatory changes also helped spur growth of the spreading ATM network. A U.S. Supreme Court decision in 1985 held that banks could operate ATMs in various states, instead of only their home state.[2] With the restrictions on the spread of bank's ATMs lifted by this ruling, U.S. ATMs increased from fewer than 10,000 terminals in 1978 to approximately 324,000 by 2001.[3]

The Move to Wiring Money Online

While the trio of 1960's technology all converged to make electronic banking and money transfers a normal part of life, it was not until the 21st century and the global spread of the World Wide Web that wiring money online became the norm in virtually every corner of the world. Today, any person or business in a developed economy can wire money online – easily, quickly and economically.

Examples of Electronic Funds Transfer[5]

> **Electronic Wire Transfers**

> **Automated Teller Machine (ATM)**

> **Direct Deposit of Payroll**

> **Business-to-business payments**

> **Federal, state, and local tax payments.**

That activity is made possible, in part, by important new rules and standards established late in the 20th century to streamline electronic funds transfer processes and help make them more secure. In 1978, Congress passed the Electronic Fund Transfer Act (EFTA)[4] protecting consumers and businesses from liability due to incorrect or fraudulent electronic funds transfers.

Today, two networks settle most electronic funds transfers, including wiring money online. One is the network of automated clearing house (ACH) operators. ACH operators serve as the "plumbing" banks and other financial institutions use to quickly transfer money from bank to bank.

The National Automated Clearing House Association (NACHA), oversees the automated clearing house network and is the primary entity responsible for establishing and maintaining its operating rules.[5] By having all ACH operators adhere to NACHA's rules, banks can ensure that transfers are sent and received securely and accurately. The other method for electronic funds transfers are central bank wire transfer systems, such as the Federal Reserve's Fedwire system.[6] The Fedwire system is faster than ACH transfers when wiring money online, but fees are generally higher. The Fedwire electronic funds transfer network is owned and operated by the 12 U.S. Federal Reserve banks. They and other Fedwire participant banks can utilize the network for wiring money.

Difference between EDIs and EFTs

Electronic data interchange (EDI), is the electronic transmission of data between computers in a standard, structured format.
Electronic funds transfer (EFT) is the term used for electronic data interchanges that involve the transfer of funds between financial institutions.[5]

Emergence of Electronic Funds Transfer and Wiring Money Online

With the computer networking technologies that evolved beginning in the 1960's, and the legal and regulatory frameworks put into place in the 1970's and 1980's, the world was poised to take advantage of the World Wide Web's explosive growth from the 1990's up to today. The volume of electronic funds transfers increased exponentially. Between 1987 and 1999, total electronic funds transfer volume increased from 52.3 million transactions per year to 102.7 million transactions. By 2015, that number had increased to 142.7 million transactions, and it keeps growing: year-over-year growth from 2014 to 2015 was 5.7 percent.7

Conclusion

ACH transfers are a convenient and inexpensive way to send and receive funds and payments. They are very reliable and very low cost, but they can be slower than other transfer options. Businesses can weigh the pros and cons of each type of transfer option, to determine if ACH transfers, wire transfers, checks or other options are best suited to their particular needs.

About the Author

Phillip Silitschanu is the founder of Lightship Strategies Consulting LLC, and CustomWhitePapers.com. Phillip has nearly 20 years as a thought leader and strategy consultant in global capital markets and financial services, and has authored numerous market analysis reports, as well as co-authoring Multi-Manager Funds: Long Only Strategies. He has also been quoted in the US Financial Times, The Wall Street Journal, Barron's, BusinessWeek, CNBC, and numerous other publications. Phillip holds a B.S. in finance from Boston University, a J.D. in law from Stetson University College of Law, and an M.B.A. from Babson College.

[1] "Treasure on Sunken Spanish Galleon Could Be Biggest Ever", National Geographic, http://news.nationalgeographic.com/2015/12/151209-spanish-shipwreck-billion-treasure-archaeology/

[2] "Northeast Bancorp, Inc. v. Board of Governors of the Federal Reserve System", 472 U.S. 159. 1985.

[3] "Discussion Paper, Payments Cards Center, The Evolution of EFT Networks from ATMs to New On Line Debit Payment Products, Sienkiewicz", Federal Reserve Bank of Philadelphia. https://www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2002/eftnetworks_042002.pdf.

[4] "15 U.S. Code Subchapter IV – Electronic Funds Transfers, Title 15, Chapter 41, §§1693 et seq." Legal Information Institute, https://www.law.cornell.edu/uscode/text/15/chapter-41/subchapter-VI

[5] "Electronic Data Interchange and Electronic Funds Transfer, Reference for Business", http://www.referenceforbusiness.com/management/De-Ele/Electronic-Data-Interchange-and-Electronic-Funds-Transfer.html

[6] "Fedwire Funds Services, Board of Governors of the Federal Reserve", https://www.federalreserve.gov/paymentsystems/fedfunds_about.htm

[7] "Fedwire Funds Services – Annual, Board of Governors of the Federal Reserve System", http://www.federalreserve.gov/paymentsystems/fedfunds_ann.htm