



Demystifying Electronic Money Transfers

George F. Thomas

Why is it so hard to pay someone else electronically out of your bank account? The answer is, it shouldn't be. All the pieces are available to banks to build a powerful account-to-account transfer service, if they would only use them.

Have you ever wondered why Internet banking is so limited in its ability to initiate native electronic payments and why so many of these payments are disbursed as paper checks? I have.

Let me share a personal experience to illustrate this point. My daughter borrowed money from me and has been reimbursing me monthly through the bill-payment module of Bank of America's Internet banking service. Every month, like clockwork, I receive a check from Bank of America. Why? Well, as part of the normal set-up procedure for a payee, there is no opportunity for my daughter to enter my bank-account and routing information. She can only enter a mailing address. That immediately limits any opportunity for initiating an electronic payment.

It's easy to see the inefficiency of such a process. Besides being a costly transaction, it is extremely inconvenient for the payee, who now has to deal with a paper check for deposit. In a country that put a man on the moon in 1969, the largest retail bank in the country in 2007 should be able to pro-

vide the capability for an electronic payment to be sent to any account.

Moving money electronically is clearly not rocket science, yet many financial institutions still only allow transfers among your own accounts in the same institution. Only recently have they permitted transferring money to your accounts at another institution.

Indeed, many banks are making progress in providing the ability to move money to accounts at other institutions. All three of the institutions where I hold accounts—JPMorgan Chase Bank, Washington Mutual, and USA Credit Union—allow me to perform transfers to and from my accounts at these institutions.

Better Than PayPal

However, only one is advanced enough to allow an electronic credit transfer to a third-party account (an account that does not belong to me). The institution that provides me with this capability is not the largest savings bank in the U.S. or the global banking giant. It is my credit union.

But let's not be too quick to cheer.

I am a naturally inquisitive person, so once I became aware of the service I had to try it. I decided to send \$10 to my daughter's account to test its effectiveness. After several days of waiting, my daughter informed me that she received a \$10 credit to her account but had no earthly idea who had sent the payment.

The company that provides the transfer service to my credit union did not properly format the electronic credit. First, they used the wrong automated clearing house format. Instead of using a consumer initiated entry, which in ACH argot is designated CIE, they used a preauthorized payment or deposit, or PPD. Then they used an obscure reference number, which meant nothing to my daughter, when they could have provided information that would have really told her something—like the name of the originator of the payment.

Consumers should be able to perform the following electronic transfers and payments through Internet banking, telephone banking, and mobile banking, using a credit transfer initiated by the financial institution:

- ▶ Transfer funds between accounts at the same institution;
- ▶ Transfer funds to your account at another institution;
- ▶ Transfer funds to stock and mutual fund accounts;

► Transfer funds to accounts of other family members within the same financial institution or at an external institution;

► Pay person to person;

► Pay any bill.

For the service to be ubiquitous, users must have the ability to exchange account information without security concerns. This requires the use of an anonymous bank-account identifier to be used by consumers and business customers.

PayPal uses the existing electronic networks and an e-mail address to mask the account information. But banks have at their disposal a more potent alternative. The Universal Payment Identification Code (UPIC), developed by The Clearing House Payments Co. LLC, is already in use at businesses in 32 diverse industries such as manufacturing, distribution, real estate, government agencies, universities, and charities, to mask the true bank-account information of the payee (box).

The UPIC is much more powerful than an e-mail address, which can change frequently. The UPIC never changes, even if the banking institution does. It can only be used for cred-

it transfers, that is, transactions initiated by the payor. It is not valid for debit transactions, electronic or paper. UPICs provide consumers protection while giving financial institutions a service that can compete with that of the other money-transfer providers.

A Moneymaker

There are no longer any valid excuses for the banking industry not to offer a third-party money-transfer service. Most institutions are using multifactor authentication procedures to provide account security. The Internet and telephone banking channels exist today. The mobile channel is just around the corner. The UPIC is available to maintain privacy. And, contrary to popular belief, banks' customers are smart enough to use the service.

Not only does the technology lie ready to hand, but banks could turn transfer services into lucrative moneymakers. All my financial institutions charge a fee for their transfer services, which I gladly pay for the efficiency of moving my money or making payments. My advice to all financial institutions is *do not* give away a valuable service for free. In

addition to external transfers, a third-party service could be used in lieu of Western Union and other money-transfer services to generate revenue.

The capability could also be used for last-minute payments to mortgage and credit card companies where the late fee would be more than the fee for the service. The third-party transfers can ultimately be used to pay bills that typically go out to the vendor as an individual check or a check and list from the bill-payment service of many financial institutions.

Third-party and external transfers are value-added services that banks should offer to their customers. The service will maintain customer loyalty, generate revenue, and reduce expenses. Isn't it time for the banking industry of the most advanced country in the world to begin offering account-to-account services from their banking platforms? **DT**

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What the UPIC Is All About

The Universal Payment Identification Code has its genesis in research conducted by The Clearing House Payments Co. LLC in 2001 and 2002. The findings strongly supported the notion that persons and companies didn't feel comfortable disclosing bank-account and routing numbers for electronic payments. At the same time, companies that wanted to pay electronically had to collect this banking information from each payee—a laborious task. Yet, you can't receive a credit electronically unless you're willing to give up your bank-account data.

Clearly, the only way to make progress was to mask this sensitive information with a simple code that never changes, a sort of electronic remittance address that individuals and companies could disclose without fear of compromising their accounts. Companies could even print it on their invoices and post it on their Web sites. Hence, the UPIC.

As designed by The Clearing House, the UPIC architecture can accommodate more than 100 million of these codes. The database includes pertinent information about each account holder, including phone numbers. This means a consumer could designate his phone number as his UPIC, rather than go with a randomly generated number, and the UPIC, like a phone number, is portable. This can pave the way for mobile payments, which are just now starting to stir interest in the U.S.

While The Clearing House aimed the UPIC at business-to-business transactions in the beginning, it is planning to meet with its owner banks (of which there are 22, including the largest banks by assets in the country) about issuing UPICs to consumers. Still, the UPIC alone is not sufficient. The third-party transfer capability, allowing payments to accounts belonging to other individuals and housed at other banks, must be in place. So must requisite changes to bill-payment modules be made.