

## **Electronic Fund Transfer**

Electronic Funds Transfer (EFT) is a system of transferring money from one bank account directly to another without any paper money changing hands. One of the most widely-used EFT programs is direct deposit, through which payroll is deposited straight into an employee's bank account. However, EFT refers to any transfer of funds initiated through an electronic terminal, including credit card, ATM, Fedwire and point-of-sale (POS) transactions. It is used for both credit transfers, such as payroll payments, and for debit transfers, such as mortgage payments.

### **How EFT works**

Transactions are handled by the bank through the Automated Clearinghouse Network (ACH), the secure transfer system that connects all US financial institutions. For payments, the money is transferred electronically from one bank account to the billing company, usually less than 1 day after the scheduled payment date.

ACH operates as a batch processing system. Financial institutions accumulate ACH transactions throughout the day, which are dealt with by combined processing at a later time. According to NACHA, which creates rules and standards for payment and financial messages, the ACH network handles 24 billion electronic transfers each year, accounting for over \$ 41 trillion transferred. The ACH is one of the largest and most reliable payment systems in the world, according to the association.

To complete the electronic transfer, the receiving party must provide the following information:

- The name of the bank receiving the funds
- The type of account that receives the funds (such as checks or savings)
- ABA routing number for the bank
- Recipient's account number

The growing popularity of electronic money transfer for online billing paves the way for paperless transactions where checks, stamps, envelopes, and paper bills are out of date. EFT benefits include lower administrative costs, increased efficiency, simplified bookkeeping, and

increased security. However, the number of companies that send and receive bills online is still relatively small.

## Types of EFTs

- 1. Direct Deposit:** enables companies to pay employee salaries. During the employee qualification process, new employees usually specify the financial institution to receive direct deposit payments.
- 2. Bank transfers:** used for irregular payments, such as a down payment on a home.
- 3. Automated teller machines (ATMs):** allow withdrawals, cash deposits, money transfers and checking account balances in multiple locations, such as branch locations, retail stores, shopping malls and airports.
- 4. Debit Cards:** Allows users to pay for transactions and deduct those funds from the account linked to the card.
- 5. Phone payment systems:** Allows users to pay bills or transfer money over the phone.
- 6. Internet Banking Services:** Available via PC, tablet or smart phone. With online banking services, users can access accounts to make payments, transfer funds, and check balances.

## Why EFTs Matter

The increasing use of electronic transfers to pay bills, purchases and payments online leads to a paperless banking system, where a large number of invoices and payments are made over digital networks. Electronic money transfer systems play a big role in this future, through fast and secure transactions that ensure the smooth transfer of funds within institutions or through banking networks.

Wire transfer transactions, also known as online or PIN discount transactions, offer an alternative to direct debit transactions, which are made through a major credit card processing system, such as Visa, MasterCard, or Discover, and can cost much 3% of the total purchase price . On the other hand, wire transfer processing only charges an average of 1% for debit card transactions.

## **EFT Examples**

For example, when using a debit card to make a purchase in a store or online, the transaction is processed using an electronic money transfer system. The transaction is very similar to withdrawing an ATM, with almost immediate payment to the merchant and deduction from your current account.

Direct deposit is another form of electronic funds transfer. In this case, the funds are transferred from your employer's bank account electronically to your bank account, without the need for paper-based payment systems.

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