Priority Payments

An overview

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Priority Payments (Wired Transfers)

What are Priority Payments?

Priority Payments or Wired transfers allow people in different geographic locations to easily transfer money to locales and financial institutions around the globe. For providing the service, banks collect a fee, sometimes based upon the size of the transfer being made.

When you do a wire transfer, your bank sends money electronically to another bank. The transfer is virtually instant, and these transfers are among the safest and most reliable transfers available.

Wire transfers originated in the 19th century, sent over telegraph lines. This process gave them their name *wire* as telegraphs were transmitted over wires.

Priority Payments in Daily Life

- Western Union Money Transfers - A wire transfer can be made from one bank account to another bank account or through a transfer of cash at a cash office, such as Western Union.
- Any payment that needs to be transferred instantly i.e. with the minimum time delay can be done via a Priority Payment mode (RTGS is the term that is generally used in India).

Participants in a Priority Payment

1) **Sender**: a person or institution wishing to send money to a person or an institution
2) **Receiver**: a person or institution receiving the money
3) **Sending Bank**: the bank approached by the entity wishing to do a transfer (sender)
4) **Intermediate Banks**: in order to transfer money from one entity to another, generally few intermediate banks are associated with a transaction
5) **Receiving Bank**: the body (bank) that finally receives the amount from the sender's bank

Workflow

The following figure shows a generic workflow for a priority payment:
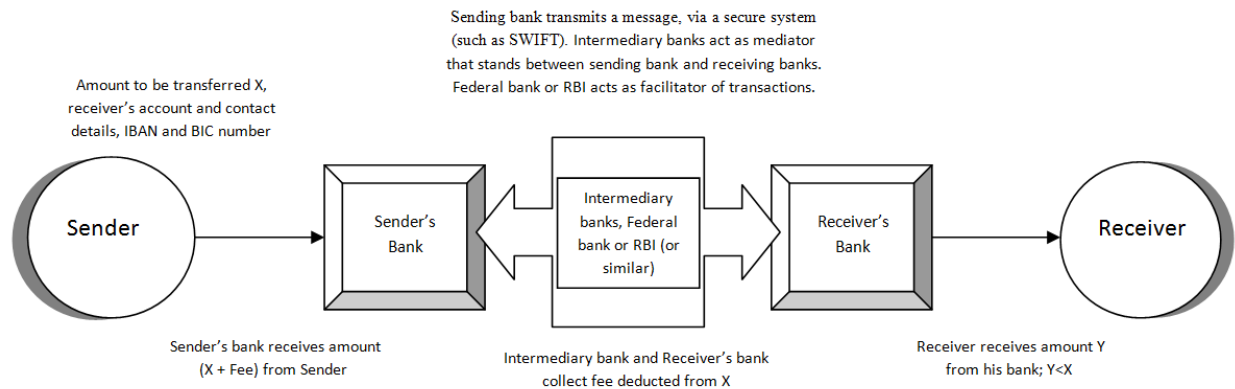
Sending bank transmits a message, via a secure system
(such as SWIFT). Intermediary banks act as mediator
that stands between sending bank and receiving banks.
Federal bank or RBI acts as facilitator of transactions.

Amount to be transferred X,
receiver's account and contact
details, IBAN and BIC number

| Sender | Sender's Bank | Intermediary banks, Federal bank or RBI (or similar) | Receiver's Bank | Receiver |

Sender's bank receives amount
(X + Fee) from Sender

Intermediary bank and Receiver's bank
collect fee deducted from X

Receiver receives amount Y
from his bank; Y<X

Figure 1: Workflow of Priority Payments

Process

Bank wire transfers are often the cheapest method for transferring funds between bank accounts. A bank wire transfer is affected as follows:

- The entity wishing to do a transfer approaches a bank and gives the bank the order to transfer a certain amount of money. IBAN and BIC codes are given as well so the bank knows where the money needs to be sent.

- The sending bank transmits a message, via a secure system (such as SWIFT or FedWire), to the receiving bank, requesting that it effect payment according to the instructions given.

- The message also includes settlement instructions. The actual transfer is not instantaneous: funds may take several hours or even days to move from the sender's account to the receiver's account.

- Either the banks involved must hold a reciprocal account with each other, or the payment must be sent to a bank with such an account, a correspondent bank, for further benefit to the ultimate recipient.

Banks collect payment for the service from the sender as well as from the recipient.

The sending bank typically collects a fee separate from the funds being transferred, while the receiving bank and intermediate banks through which the transfer travels deduct fees from the money being transferred so that the recipient receives less than what the sender sent.

Methods

Retail money transfers

One of the largest companies that offer wire transfer is Western Union, which allows individuals to transfer or receive money without an account with Western Union or any financial institution.

Although Western Union keeps information about senders and receivers, some transactions can be done essentially anonymously, for the receiver is not always required to show identification.

There are other companies in Market like RIA Financial Services, Money Gram and LCC Money Transfer (based in Europe).

International

Most international transfers are executed through SWIFT, a co-operative society founded in 1974 by seven international banks, which operate a global network to facilitate the transfer of financial messages. Using these messages, banks can exchange data for the transfer of funds between financial institutions.

International Prepaid Cards

International prepaid cards are an alternative way for transferring funds. Companies can provide a debit card for worldwide employee's payments. The recipients don't need to have a bank account and can use the card in places that a debit card is accepted at Point-of-Sale or online and may withdraw funds in local currency at an ATM.

Security

With bank-to-bank wire transfer, each account holder must have a proven identity. Information contained in wires is transmitted securely through encrypted communications methods.

Wire transfers done through cash offices are essentially anonymous and are designed for transfer between persons who trust each other. It is unsafe to send money by wire to an unknown person to collect at a cash office: the receiver of the money may, after collecting it, simply disappear.

SWIFT or IBAN wire transfers are not completely free of vulnerabilities. Every intermediate bank that handles a wire transaction can take a fee directly out of the wire payload (the assets being transferred) without the account holder's knowledge or consent.

In many places, there is no legislation or technical means to protect customers from this practice. If bank S is the sending bank and bank R is the receiving bank and banks I1, I2 and I3 are intermediary banks, the client may only have a contract with bank S and/or R, but banks I1, I2 and I3 can take money from the wire without any direct arrangement with the client. Clients are sometimes taken by surprise when less money arrives at bank R.

Contrast this with cheques, where the amount transferred is guaranteed in full and fees can be charged only at endpoint banks.

SWIFT and IBAN

Each financial institution is assigned an ISO 9362 code, also called a Bank Identifier Code (BIC) or SWIFT Code. These codes are generally eight characters long. For example: Deutsche Bank is an international bank with its head office in Frankfurt, Germany, the SWIFT Code for which is *DEUTDEFF*:

    ✓ *DEUT* identifies Deutsche Bank.
    ✓ *DE* is the country code for Germany.
    ✓ *FF* is the code for Frankfurt.

Using an extended code of 11 digits (if the receiving bank has assigned extended codes to branches or to processing areas) allows the payment to be directed to a specific office. For example: DEUTDEFF500 would direct the payment to an office of Deutsche Bank in Bad Homburg. SWIFT deviate slightly from the standard though by using position nine for a Logical Terminal ID, making their extended codes 12 digits long.

European banks making transfers within the European Union also use the International Bank Account Number, or IBAN.

Differences between ACH and Wired Payments

- In ACH, people get a direct deposit into their checking/savings account and there is no fee involved to receive the direct deposit.

- Wired transfer is a bank to bank transfer where both the sending bank and receiving bank will charge a fee in order to make the transfer possible.

- ACH are electronic transfers which go through the Automated Clearance House which takes several business days to complete.

- Wired transfers are done in a situation where money has to be sent quickly and can't wait for a 2-4 business days' process that ACH undergoes.

Priority Payments in HSBCnet

HSBC provides banking solutions across the globe and priority payments are done when the customer wants:

- the fastest and most secure method of making international payments to any country in the world in any tradable currency

- to send higher value payments or the speed of delivery is the most important factor

- to send payments to lesser developed countries

A priority payment can be created using the HSBCnet in the following manner:
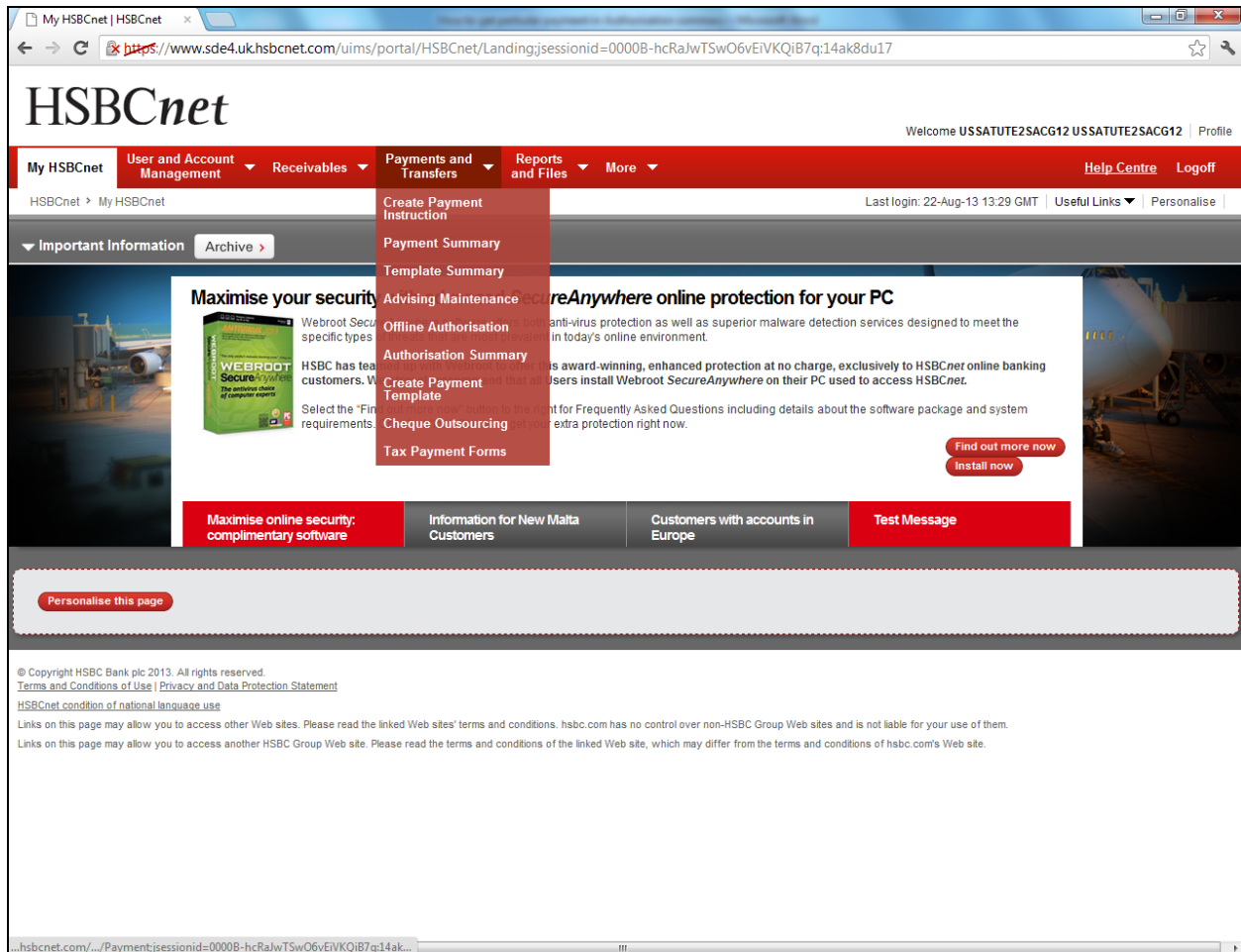
Figure 2: User log in and Priority Payment tab

User logs in with a valid HSBCnet user ID and click on Payments and Transfers tab.

Figure 3: Create Payment Instruction tool

User selects Payment type as 'Priority Payment', Beneficiary bank location as required and the Account from which amount has to be deducted.

Figure 4: Creating a payment instruction

User clicks on 'Create payment instruction' button

Figure 5: Filling details in the create payment form

User fills the necessary details like the Beneficiary bank details and recipient's address

Figure 6: Submitting the details

User clicks on 'Create Payment' button on filling all the necessary details.

Figure 7: Acknowledgement

An acknowledgement is generated prompting the user upon successful creation of the payment instruction.

Glossary

RTGS – Real Time Gross Settlement

ACH – Automated Clearing House

IBAN – International Bank Account Number

BIC – Bank Identifier Code

SWIFT – Society of Worldwide Interbank Financial Telecommunication

ATM – Automated Teller Machine

Glossary