Are wire transfers safe?

veem®

If you're doing business internationally, you'll probably send a wire transfer at one point or another. While the vast majority of wire transfers are quite safe, every method of money transfer comes with its fair share of trade offs, so if the options seem overwhelming, don't worry.

For thousands of years, societies have exchanged money, or some variation of money, for goods and services. While banks have always existed in some shape or form, official banks are a relatively young institution that trace their official genesis to Florence, with the Medici banking family in the 17th century. But, the banks we know today didn't pop up until the middle of the 19th century, at the tail end of the Industrial Revolution.

Banks gained in popularity because they offered security; they not only kept their client's money safe physically from raiders, thieves, and the elements, but they also allowed people to travel without needing to carry their gold or silver on their person at all times.

As banking became more commonplace and centralized, a network of banks across the world began to form, and easy access to a line of credit increased as a result. This phenomenon was amplified due to industrialization and globalization.

Title 3 of the Patriot Act requires that financial institutions comply with certain requirements when it comes to identifying who their customer is.

During these periods, new methods of money transfer developed that not only made money move faster, but also dramatically improved security.

In 1872, the very first wire transfer took place across the Western Union's telegraph network. Due to the convenience and speed, wires became immensely popular. Since then, wire transfers have become the standard way of transferring money across the globe, with most every bank giving its customers access to a wire transfer service. For years this was a fine solution, but in the post-internet age, dozens of private companies have also stepped in to offer the same services, without the need for financial institutions and all the baggage that comes with them.

If you didn't grow up in our current technological age, moving your money with the click of the button may seem a bit scary. You may find yourself asking, "Could the money just disappear? What's to prevent hackers or someone with ill intent from somehow intercepting it?" or, "I have so many options, which is the safest? Are wire transfers even secure, especially internationally?"

Below we will discuss the best ways to transfer money internationally and the security, or lack thereof, behind them.

Before you choose a wire transfer method

There are three main methods of international wire transfers: (1) transfer in person, (2) transfer online, or (3) transfer through a third-party service. If you decide to send money via option (1) or (2), it's important that you're aware of SWIFT, the Society for Worldwide Interbank Financial Transactions, and the issues it causes in the transfer process.

Originally, banks would use Telex as their message system for wire transfers. It was sluggish and insecure, which led to some obvious issues. It was made even worse because there was no standardized code system. This was especially problematic for international transfers, where sender and receiver errors often occurred because of misinterpretations of financial requests. By simply entering one wrong number in your account information, your money could end up on the other side of the world.

SWIFT was created as a formalized messaging system that could securely and easily send financial messages to banks within the SWIFT network. While this was revolutionary when it was first created in the 1970s, SWIFT is now outdated due to increased regulations, and the need for correspondent accounts.

With SWIFT regulations, if a bank does not have a correspondent account, it has to find a third-party bank to connect the two, known as an intermediary. This third-party bank is also required to go through a series of checks and verifications and in order to prevent fraud or money laundering. As you might imagine, these checks take time, because hundreds of thousands of wire transfers are sent and received on a daily basis. This issue is only worsened considering the sheer scale of global economics; not all banks are even connected by a third-party. In many cases, a SWIFT message may have to pass through several banks in order to find one that has a corresponding relationship with the intended destination.

As the order is transferred from bank to bank, there is a distinct lack of ownership or ability to track the progress of the order. This process takes

longer and grows more expensive with each additional bank that gets involved, since each bank has to go through the security process and also take its fee. These fees add up quickly, especially if the wire is international and requires a currency exchange.

Know Your Customer or KYC regulations have helped banks know who their customers are, what their financial activity has been, and where their money is going; and while it helps prevent crime and secure wire transfers, it also increased the time and cost for each transfer.

SWIFT was even further worsened when Know Your Customer (KYC) Regulations were instituted and made common practice by financial institutions. KYC was put in place for two reasons: firstly, to help prevent money laundering and other forms of corruption by criminals, and secondly, to protect the reputation of financial institutions and to a lesser extent, their clients. While KYC helped prevent crime and secure wire transfers, it also increased the time and cost for each transfer. The increase in regulation coupled with more and more third-party wire transfer alternatives caused correspondent relationships to become less important to financial institutions.

According to the Economist, “Banks are driven by fear: fines for aiding financial crime have shot up, in both amount and number. A decade ago banks were paying fines in America, the most punitive country, of tens of millions of dollars a year between them; now they are paying billions. In 2014 France’s BNP Paribas stumped up $8.9bn for violating sanctions on Sudan, Iran and Cuba. Deutsche has been fined several times, including $630m in connection with Russian money-laundering. In some countries a complete shut-out from correspondent banking looms.”

Business vs. personal wire transfers and KYC

Even though banks have established a wide network and formal processes to move money between people, it’s not always easy to send someone a payment.

In order to send a wire transfer, funds need to be moved between banks and then into the recipient’s account. Therefore, in the United States, both parties require separate bank accounts. Under federal regulations, banks require you to verify your identity and disclose your physical address prior to opening an account. Further pushes for regulation, such as KYC, have lengthened these processes and requirements. While it may seem like more hoops to jump through, this lack of anonymity is intended to limit potential thieving, crime, or money laundering.

Title 3 of the Patriot Act requires that financial institutions comply with certain requirements when it comes to identifying who their customer is. For individuals, these requirements are much more lax and less invasive. Generally, it is required that an individual simply show a government-issued identification card or passport. Businesses, however, might be required to show any of the following: a partnership agreement, a government-issued business license, certified articles of incorporation,

a financial statement, information from a consumer reporting agency or any information from public databases.

Title 3 of the Patriot Act requires that financial institutions comply with certain requirements when it comes to identifying who their customer is.

In order to find out even more about their users, banks also might ask customers for information such as the source of the funds, the purpose of the account, occupation, a description of the business, and a whole host of other questions that vary from bank to bank. These types of regulations increase the security of banks and help maintain their reputations by detecting potentially fraudulent customers before they can actually commit any crimes.

It makes sense that these regulations are much more stringent for businesses; the vast majority of business accounts hold more money and perform more transactions. KYC regulations make it harder for potential thieves to pull off scams or somehow reroute payments, ensuring that the money is secure.

Wire transfer methods

Now that we've covered the basics of the SWIFT network, let's discuss your options for international wire transfers, the steps required, and security level of each.

Option #1: Using traditional banking methods

Making an international wire transfer in person

If you prefer to do things face-to-face, you can go to your bank to send out an international wire transfer. In order to do so, you'll need to provide the teller with the following:

- Your name and the bank account you want the transfer to come from
- Your recipient's name, address and the account type with their bank
- The name of your recipient's bank and its address
- Your recipient's account number IBAN (International Bank Account Number) and their BIC/SWIFT code
- How much money you want to transfer and what the final currency should be

Once you've provided this information, you'll likely have to pay a processing fee that typically costs around $50, although in some cases it can be more or less. On top of that, there will be an exchange rate fee, plus a percentage of the transfer amount that ranges between .1% to 1% of the total transfer, and the possibility of a fee from the receiving bank and any intermediary banks the money stops at along the way. Fees are different for certain banks, so be sure to shop around for the best price.

Making an international wire transfer online

If you would rather not leave your house, the vast majority of banks allow you to make wire transfers online. Before you begin, however, be sure to double-check what your online transfer limit is. In most cases the standard daily limit is $5,000. If you want to send more, you will most likely have to speak with someone on the phone and request an increase to the limit, which may require additional security verifications.

After this, the process is fairly identical to the in-person method. You will have to fill in the following information:

- Your name and the bank account you wish the transfer to come from
- Your recipient's name, address and the account type with their bank
- The name of your recipient's bank and its address
- Your recipient's account number IBAN (International Bank Account Number) and their BIC/SWIFT code
- How much money you want to transfer and what the final currency should be

Remember, there will be fees involved throughout the process. Once this is done, you should receive an estimate for how long the transfer should take. Generally, it’s 1-3 business days, but it can vary.

While uncommon, wire transfer scams have occurred with thieves controlling a bank account and siphoning money, but these scams generally involve the user being propositioned to give up their information and being deceived by an email or other message. Most of the time, these are user errors, not hackers breaking into your account.

If a person asks you to send money, carefully consider who it is you’re transferring this money to. Be wise and do not act rashly or impulsively if something seems fishy or too good to be true.

If a person asks you to send money, carefully consider whom it is you are transferring this money to. Be wise and do not act rashly or impulsively if something seems fishy or too good to be true. Be safe with your information, do not send your bank account numbers, social etc. over email or on an unsecure website.

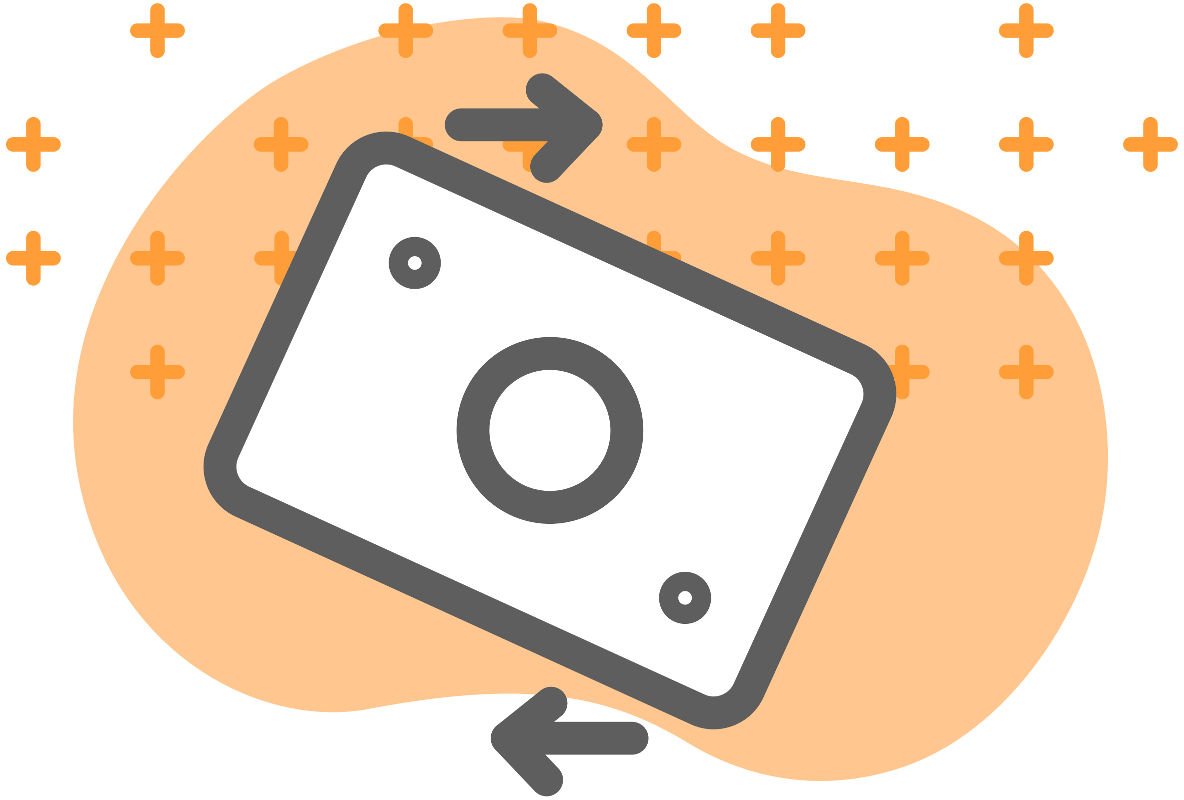
Security:

the vast majority of risk incurred with wire transfers is sending money. Once the money is in the recipient’s account, it’s there. No loss is incurred on your side and there is no way for anyone to steal your payment at this point. While using banks is considered to be relatively secure, the SWIFT network has been known to lose transfers before.

If a person asks you to send money, carefully consider who it is you're transferring this money to. Be wise and do not act rashly or impulsively if something seems fishy or too good to be true.

Option #2: alternative methods

If you want to avoid some of the hidden fees or slow transfer times of the SWIFT network, there are alternatives to traditional banks. Every one of these services will likely offer different exchange rates. If you don't already know, exchange rates are fluid and change on a daily basis. Google has a currency converter that allows you to convert currency and see the true exchange rate. Be sure to compare your service's exchange rates with the standard exchange rate in order to get the best deal. A little bit of research can save you money.



ACH transfers:

Automated Clearing House (ACH) transfers can be used domestically, but are not ideal for international transfers. The money moves from bank to bank, but can take multiple days, and is not very secure.

Money transfer services:

MoneyGram or Western Union money transfers are a form of wire, but are not the most reliable. Their fees may vary, and are sometimes hidden. On top of that, transfers can be very slow, ranging from 5-8 business days. They offer same-day transfers, but it will cost you extra.

Option #3: tech-based payment solutions

Payment platforms and apps:

There are a variety of payment methods that you can download to your phone that work directly with your bank. Services like Venmo, Square Cash, and PayPal are not technically wires, but can transfer money electronically. Apps are easy and inexpensive, but note that each one has different fees, rates, times and international transfer policies. Many of these also have a limit due to KYC regulations.

Veem:

Veem, a simple online transfer service, helps protect their customer by providing updates through every step of the process and end-to-end accountability. Veem verifies both the sender and receiver on their network, which enhances security and reduces fraud. Their multi-rail technology merges the best of traditional systems with the flexibility and speed of modern blockchain.

Security:

These alternatives are said to be the most secure type of wire transfer. Companies like Veem offer full accountability and ownership, while also providing an intuitive service with higher traceability. The backbone of multi-rail transfer services is a technology that was developed for security and privacy alone.

Conclusion

If you’re considering an international wire transfer, you generally do not need to worry about your money disappearing as long as you’re smart. That said, each service has different levels of accountability end-to-end. So if being able to monitor your transactions is important to you as a business owner or customer, seek out services that do not deal with SWIFT and its various regulations. When considering different methods of wire transfer or alternative solutions, keep in mind fees, transfer rates and time. There is a service that will work perfectly for you and help you get your money from A to B safely.

50 Osgood Place,
Suite 220 San Francisco, CA 94133

business@veem.com
www.veem.com