Dodd Frank's Remittance Transfer Rules Could Mean a New Look at Payment Workflow for Banks

Many banks and financial institutions are concerned about the potential effects of Section 1073 of the Dodd Frank Act, which covers international funds transfers on behalf of consumers located in the United States. In April of this year, the Consumer Financial Protection Bureau (CFPB) issued its final ruling on new protections for remittance transfers, including disclosures and error resolution and cancellation rights, to consumers who send remittance transfers to other consumers or businesses in a foreign country.

It is easy to see why these new rules are a cause for concern. The remittance transfer rules have a number of disclosure requirements that will add complexity and cost for most financial institutions, including a prepayment disclosure at the time the customer initiates a transfer transaction detailing fees, taxes and costs as well as a written receipt within a twenty-four hour period after the transaction is processed. In addition to disclosing fees or to providing the disclaimer, a bank will also be on the hook if the payment has to be refunded or resent. Even if the customer makes an error in providing the incorrect account number or recipient institution identifier (bank code), the institution has to either refund the payment or correct it and resend it—at its own cost.

As a result, the new rules place much greater pressure upon the front offices of banks, money service business and payment agents to ensure the customer has supplied valid and active bank routing details for each and every transaction. For instead of simply accepting an incorrect instruction, fixing it later and passing on the costs to the customer, banks and financial service providers now have a vested interest in ensuring the highest levels of payment straight through processing and the lowest levels of payment repair costs.

Even for banks that have historically accepted the burden of payment repair fees as a cost of doing business or simply good customer service for valued clients, a new layer of regulation such as Section 1073 can represent a significant impact on an institution's bottom line. All of this ultimately makes one thing perfectly clear: for banks that wish to minimize the risk and costs associated with regulation such as Section 1073, getting payment instruction right the first time—and at the point of contact with the customer, and not later—is going to be paramount.

Beyond the possibilities of reducing costs or simply meeting a regulatory burden, however, lies a potentially strategic advantage for banks that can accept the challenge. Finding better, more efficient processes to validate payment instructions as early as possible in the payment processing supply chain can mean adding value on a number of levels for a customer, such as smoother transactions, more transparent disclosures and more rapid processing. But it can also present the customer with a more unified, efficient face borne of better processes and data than the bank down the street—turning regulation into advantage, and disclosure into just plain good old customer service.

GETTING STARTED

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