What is a reverse wire?

A reverse wire is a B2B transaction in which the bank account holder authorizes another party, such as a vendor, to withdraw funds from their account via a wire transfer. It is called a reverse wire because it is initiated by the recipient of the funds, rather than the sender. This is in real time, like a wire, so it will not bounce, whereas an ACH debit or check can bounce.

Reverse wires are also known as draw-down requests, reverse draw-down wires, or reverse-wire requests. The benefit to the funds recipient is that the transfer is secure; the benefit to the payer is that once they have authorized their bank in writing to respond to future draw-down requests, no work is required on the payer’s part to execute a transfer.

Benefits of a Reverse Wire

Reverse wires are of particular use where the payment is 1) high-risk, 2) on a recurring basis, and 3) for a variable amount. (If the payment is not high risk, ACH is a viable alternative. If the payment is not recurring, a traditional wire is simpler to execute. If the payment is not variable, a repeating traditional wire is most efficient.) Typical reverse-wire scenarios include 1) high-volume, variable-dollar purchases of perishable inventory, and 2) payroll services.

Not all banks, especially local banks and credit unions, are currently able to process draw-down requests. Even fewer banks are able to provide an initiator (funds recipient) with simple functionality in a treasury management software or website. Check with your bank regarding availability.

Setting up a Reverse Wire

Setting up a reverse wire between you and one of your customers is a two-step process. The first step is of course checking with your bank to see if they are able to handle these draw-down (reverse-wire) requests. Not all financial institutions are able, or will perform this service because they are generally very labor intensive, and banks consider them to be high risk.

If your bank is able and willing to execute a reverse-wire, draw-down request, then the next step is to have each of your customers you wish to draw down enter into an agreement with their particular bank.
Your customer will need to execute some form of a “Draw-Down Wire Service Enrollment Form” with their bank. An example of one of these agreements is included at the end of this document. This is what you can expect your customer to experience as they establish this agreement, as well as what information they will need to provide.

**Draw-Down Wire Service**

When executing a Draw-Down Wire Service Enrollment Form, your customer is requesting that their bank to execute draw-down requests received from the FED Wire, SWIFT, or other funds transfer systems acceptable to their bank against the account identified in the Draw-down Wire Service Enrollment Form.

**Authorization**

This is where your customer authorizes their bank to debit their bank account for the amount of the draw-down request if the information contained in the request is consistent with the information provided to their bank on the Draw-Down Wire Service Enrollment Form mentioned above. The authority they are granting to their bank generally continues until 30 days after your customer specifically and formally sends in writing a notice revoking the reverse-wire authority.

**Executing the Draw-Down Request**

The information your customer must generally provide to their bank in order to authorize a reverse wire is:

The name and ABA routing number of each financial institution you will use to send the reverse-wire request. Each financial institution must be specifically included and approved on the “Draw-Down Wire Service Enrollment Form.”

The title and account numbers of your accounts which will be receiving the funds from the reverse wire usually must match EXACTLY or your customer’s bank will not honor the draw-down request.
Using this funding method with NatPay

Because of the potential for fraud with reverse wires, NatPay has decided that this form of funding is best kept between you and your customer because of the closer relationship you share.

If you have a customer that is having their payroll funded with a reverse wire, the reverse-wire funds should be deposited directly into your own impound account. How those funds are moved to NatPay in order to process the relevant payroll is entirely up to you. You can use one of the following methods:

1. Send NatPay the customer payroll with your impound account information as the funding offset.

2. Send your customers’ payroll with a wire customer funding option, and you wire the funds to NatPay.

Summary

While reverse wires are an excellent method to reduce risk and/or liability when processing a direct deposit payroll file, there is real-world issues that make these transactions difficult and open to fraud.

The first real problem is finding out if both you and your customers’ banks support this feature.

The process can be very time and labor intensive. Most banks do not have an automated process for handling these requests.

The process can be somewhat costly, and you will be charged a wire transfer fee. Also, in most cases, you will be charged another fee associated with the reverse-wire function.

Your customer is going to be charged a wire transfer charge for each of the authorizations, and in most cases, this is somewhat higher than an ordinary outgoing wire fee.
More Information

To further discuss the material in this white paper, and get more information, please contact your sales representative.
Copyright and Disclaimer Notice

All information in this document is subject to copyrights owned by National Payment Corporation (NatPay). Any reproduction, retransmission, republication, or other use of all or part of this document is expressly prohibited, unless prior written permission has been granted by NatPay or the appropriate copyright owner. All other rights reserved.

The names, logos, trademarks, and service marks of NatPay that appear in this document may not be used in any advertising, publicity, promotion, or in any other manner implying NatPay's endorsement, sponsorship of, or affiliation with any product or service, without NatPay's prior express written permission.

In the preparation of the information contained in this document, NatPay has endeavored to make that information as accurate and current as possible. However, inadvertent errors can occur. Therefore, the information in this document is provided "as is," without any guarantee or warranty of any kind, expressed or implied.

Copyright National Payment Corporation (NatPay).
All rights reserved.