

# Person-to-person payments catch on with banks

August 4 2010, By Claudia Buck

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You're out for dinner with a friend and the bill arrives. But, oops, you're short on cash and can't pay up.

Instead of hitting the ATM or writing a paper check to repay that friend's loan, there's now another option: log online to your bank and send a virtual check. All that's required is the recipient's e-mail address or cell phone number, where they receive a text notification.

It's known as a person-to-person -- or P2P -- payment, and a growing number of banks and credit unions are rolling out the service.

Sort of like [PayPal](#) for personal [banking](#), it lets you send and receive cash electronically without having to disclose or swap financial information with the recipient, whether it's the baby sitter or your best buddy.

"Anybody who's savvy online can do this, from retirees to college kids," said Teresa Halleck, president and CEO of Sacramento-based Golden 1 Credit Union, which launched the service last month.

"Just like online banking, it pulls the money from your checking account and transfers it to theirs. But you don't have to know their bank account information, and they don't know yours," she said.

In a competitive banking world where consumers can already check account balances or make deposits on their cell phones, the P2P service

is another slice of the electronic banking world.

"It's catching on. It's still relatively new but definitely growing," said Greg McBride, senior financial analyst with Bankrate.com, who said Bank of the West, Bank of America and ING Direct are among [financial institutions](#) offering personal-payment plans to consumers.

"This is the way people want to transact," said McBride. "They don't want to have to hit the ATM or write a check so they can pay the baby sitter."

At this point, most P2P payments still have to be made and retrieved from a computer, using online banking access. But Golden 1 and other banks are working on P2P for the iPhone and other smart phones.

Person-to-person payments will only become more pervasive, experts say, as will on-the-go banking in general.

"Mobile payments, particularly P2P, are hot now, with banks by the hundreds" adopting the technology, said Bob Meara, senior analyst with global financial research firm Celent.

"Beyond check-writing trends, we're seeing rapid adoption of all things mobile. Hundreds of financial institutions have launched mobile banking solutions in the past year," Meara said in an e-mail.

Here are some of the other online and mobile money tools now available to consumers:

- Deposits by phone: JPMorgan Chase & Co. recently offered its [iPhone](#) mobile banking users the ability to deposit checks by phone, using the built-in camera to photograph a check before transmittal. A similar option is available from USAA banks, which primarily serve military

members and their families. As Meara noted, "Using one's phone sure beats driving to the branch just to make a deposit."

- **Account alerts:** Many banks and credit card companies let you sign up for text or e-mail alerts when your debit card is running low or you're close to exceeding your credit card limit.
- **ATM/branch locators:** Smart phones let you find the nearest cash machine or walk-in branch.
- **Personal financial management:** Often offered free as part of online banking, it's a Quicken-type budgeting tool that lets consumers monitor their spending among various bank accounts.

The online banking options will likely hasten the continuing decline of paper checks for noncash payments. According to a 2007 Federal Reserve study, the number of paper checks issued dropped more than 6 percent from 2003-2006, while the use of credit cards, debit cards and other electronic payments increased substantially.

Given the acceleration of mobile banking, Meara said, "I wouldn't be surprised to learn of check volume declines on the order of 10 percent to 20 percent (annually) over the next few years."

For banks that have already launched P2P payments, it's another tool aimed at attracting more consumers by offering online niche products.

"Our target audience is a broad one, from parents sending money to their kids at college to the more micro-payments (i.e. paying someone back for lunch)," Matt Macomber, head of Internet banking for Bank of the West, said in an e-mail. "Reaction has been very positive, with results exceeding our expectations for usage."

What's the next evolution? Person-to-person mobile banking that will let you make an instant payment from your cell phone, say experts.

"You'll be able to pay back your friend for lunch before you even stand up from the table," said Bankrate.com's McBride. "That's what everyone is working toward."

## **HOW IT WORKS:**

Let's say you want to pay back \$25 to your buddy Bob. With Golden 1's system, you log onto your online banking account and its "EZPay" link, click on "Send Money," enter Bob's name and his e-mail address or mobile phone number, enter the \$25 amount, preview the payment details, then re-click "Send Money."

On Bob's end, he'll get either a text alert or e-mail, letting him know there's a payment waiting. From his computer, Bob selects the link, enters your e-mail address or mobile number, followed by a secure transaction code, then hits "Get Money." Once he designates the bank account where the money is to be deposited, the cash is transferred.

The "PopMoney" system used by Bank of the West operates similarly. Unlike Golden 1's system, it generally takes three business days to transfer a payment, through a traditional automated clearing house transaction.

## **FEES OR FREE?**

If P2P is offered by your bank, check to see if there are any fees. Golden 1, for instance, is currently offering its P2P service free to its online banking customers.

Bank of the West's PopMoney service is free until Sept. 1, when the bank begins charging a \$1 fee for a regular transaction or \$3 for one-day service.

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