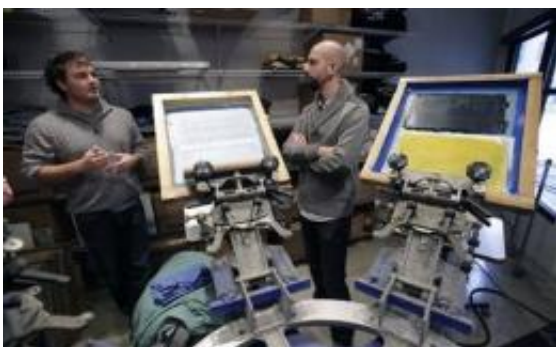


## Dwolla a new player in electronic money transfers

December 1 2010, By DAVID PITT , AP Personal Finance Writer

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Dwolla Corp. founder and CEO Ben Milne, right, talks with client Zach Anderson in his screen printing shop, Tuesday, Nov. 30, 2010, in Des Moines, Iowa. Dwolla is an online mobile cash transfer system that charges a flat fee of 25 cents per transaction instead of the percentage charged by the major credit card and online processors. (AP Photo/Charlie Neibergall)

(AP) -- Just as plastic rendered paper checks nearly obsolete, gadgets may soon do the same to credit and debit cards.

Smart phones and other mobile devices are staples for many holiday shoppers. That's because retailers are taking advantage of their low-cost ability to offer deals on websites like Facebook and Twitter (Think: no paper or mailing costs). Technology is also making mobile payments easier and helping to provide what can be a less expensive option for businesses.

It's an important development because companies like [PayPal](#) and the major credit card issuers charge 2 percent or more per transaction. But more informal money transfers are another key factor and their number is growing. This may include purchases from smaller businesses or just sending money to friends and family without writing a check.

Already such direct electronic money transfers between individuals are estimated to total some \$3 trillion a year, and that's only expected to increase.

That means there's a clear profit potential, making the business ripe for additional players with new ideas to emerge.

A Des Moines-based company called Dwolla Corp. (DWAL'-ah) is one of the new players.

On Wednesday, the company launched nationally its lower cost payment processing service for use by businesses and individuals. The company was already operating in Iowa and California.

Dwolla offers a payment service that charges a flat fee of 25 cents per transaction.

Banks have relied too long on debit and credit cards and their high fees, said Matt Harris, managing general partner of New York-based Village Ventures, a [venture capital firm](#).

"It has sparked a lot of entrepreneurship on the part of people thinking they can do it better than these sleepy giants," Harris said.

That certainly rung true for Dwolla creator Ben Milne. As the owner of an audio equipment business he disliked the high fees he paid credit card companies to process purchases. Two years ago he came up with the idea

of a low-cost payment system and began shopping around for investors.

Milne, 28, found investors willing to bankroll \$250,000 to help him get started in November 2009. He also obtained a \$55,000 grant from the Iowa Department of Economic Development.

Earlier this month he received \$1 million in venture capital from the Veridian Credit Union and The Members Group, which provides transaction processing and other financial services.

In addition to the cash infusion, the affiliation means deposits held in a Dwolla accounts are insured by the FDIC and the National Credit Union Administration. Its transactions are secured by the same technology that protects online banking systems.

Banks and credit unions are adopting mobile banking and integrating social networking as fast as they can, said Nick Evans, president of The Veridian Group, a subsidiary of Veridian Credit Union - noting it's important to stay on the cutting edge of technology and consumer demand.

Dwolla's technology is designed to easily integrate into the checkout page of an online business. The Dwolla logo appears as a payment option at checkout. The flat fee is expected to be particularly attractive to small and medium-sized businesses.

That's because the savings can be significant, said Nick Kremer, 32, president of Nine Dot Systems, a website design and hosting company. One of his customers orders computer servers regularly and can easily spend \$5,000 for each transaction. In turn, Kremer paid credit card fees of about \$150 per order. That dropped to just 25 cents with Dwolla.

"People can see the hard number value in it," he said. "If I can push the

cost savings on to customers it makes it worthwhile for both of us."

Milne said he can keep his costs low because he uses the latest transaction clearing technology and doesn't rely on middlemen that would require him to pay user fees.

Dwolla also can be easily integrated with programs like Facebook and Twitter, allowing friends to send each other money quickly, easily, and for the 25-cent transaction fee.

Brad Bacheir, 30, who works at insurance and financial services company Principal Financial Group Inc., said he started using Dwolla to pay rent because his landlord encouraged him to pay that way.

Once he had an account set up and liked using it, he began sending friends money on their birthday instead of sending a gift card.

He pays for his haircuts with Dwolla through a Facebook account. It saves his hair stylist processing fees that come with credit card swiping machines.

Bacheir thinks the ease of transferring money and the low cost will catch on fast for individuals.

Once you sign up at Dwolla.com, sending money is as easy as punching in the amount, the friend's user name on [Facebook](#) or Twitter and sending. The friend will get a message that you've sent money.

The user can either deposit funds in the Dwolla account and send money from there or link Dwolla to a bank account and send money directly from one bank account to another. There is no credit application process.

Dwolla also works with Apple's iPhone or iPad and Android mobile devices.

Dwolla's launch on Wednesday was accompanied by the announcement that the Mars Cafe, a Des Moines restaurant, was testing an in-store payment system. Customers can pay by logging into their Dwolla account on their phone, calling up the restaurant from a list of participating businesses and sending the money from the smart phone.

Next to the cash register is another smart phone that tells the clerk the bill has been paid electronically. The clerk provides a receipt and the customer's on his way. No cash, checks, or credit cards needed.

It seems the virtual payment future has arrived.

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Citation: Dwolla a new player in electronic money transfers (2010, December 1) retrieved 4 May 2024 from <https://phys.org/news/2010-12-dwolla-player-electronic-money.html>

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