

ACH Transfer Vs Wire Transfer: What's The Difference?



In today's world, there's no shortage of payment options available to both businesses and consumers.

One of the most common questions we're asked is about the differences between ACH and Wire Transfer.

What are ACH Transfers?

ACH stands for automated clearing house. An ACH transfer refers to moving money electronically from one bank to another, through the use of an automated clearing house network, or ACH network.

ACH transfers (sometimes called bank transfers) can be any of the following:

- External fund transfers
- Person-to-person payments
- Bill Payments, whether one-time or recurring payments
- Direct deposits from employers or government benefit programs
- Money transfers using apps such as PayPal, Facebook Pay, Venmo, and Cashapp.

ACH transfers can be processed as an ACH debit transaction or an ACH credit transaction. Debits are charges - where the money is pulled from an account. This is what happens when you pay your bills every month. Credits are deposits. This is what happens when your paycheck comes directly into your bank account, or you receive money from a friend.

ACH transfers may occur in as little as one business day. However, sometimes, they can take several business days. That means, if the banks are closed because it's a holiday or the weekend, the deposit or withdrawal will take longer to hit your account.

Financial institutions have the option to have credits processed and delivered within the same day. Debit transactions have to be processed by the next business day.

These timelines are based on rules put forth by the National Automated Clearing House Association (NACHA.) This is the trade group that oversees the network. When a bank receives the money, it may hold the funds for a certain amount of time, which affects the total delivery time.

Generally speaking, debit transfers, payroll direct deposits, and the majority of bill payments are free. If you need payments delivered faster, you may pay a fee for this service.

Credit transfers, on the other hand, may regularly incur fees of around \$3. This is usually for sending money between accounts you hold at different banks. Several others have these "external funds transfers" without charging a fee. You typically aren't charged a fee to receive these payments.

That said, person-to-person electronic payments that you start either through your bank or using a third party may cost money. PayPal for instance doesn't charge funds to send money (if you use your bank account or PayPal account funds) but the receiver may be charged funds - if the money is used to pay for a product or service. PayPal users can use a credit card to make a payment but will be charged a fee.

For most ACH payments, you'll need the receiver's bank account and routing numbers. Third-party payment services allow you to keep this information private and transfer the money into your bank account after you receive it. Facebook Pay

links to your debit card, instead of your bank account number, to allow for instant transfers.

Using ACH for the transfer of funds is often the best option, but there are some limitations:

- Depending on your bank's rules, you may have daily and monthly caps on how much money you can move.
- There is a cutoff time. After a certain hour (usually, when the banks close for the day - maybe a couple of hours before then), any ACH processing will be held until the next business day. That means if you send it on a Friday evening, it won't go out until Monday.
- Generally not available for international transfers. Most U.S. banks won't allow you to use ACH to make international payments.
- Fees for insufficient funds. If you don't have enough money in your checking account, you may incur a fee to stop the transfer. Or, they may proceed with the transfer and charge you an overdraft fee.
- Transfer limits on savings accounts. In the past, banks were required to limit the number of transactions (both deposits and withdrawals combined) to savings accounts to six every month. This isn't required anymore, but some banks may charge a small fee if you have more than six transfers or withdrawals within a statement period.

What are Wire Transfers?

Wire transfers are an electronic payment that transfers funds by "wire." There are no actual money transfers - the term comes from how information used to be transferred across wires in the early days of communication.

There are three different networks for wire transfers, including SWIFT, the Federal Reserve Wire Network, and the Clearing House Interbank Payments System. If you've ever sent money to someone via Western Union or Moneygram, you've used a wire transfer service.

Not all wire transfers will require bank account information like the routing number and the account number. Transfers through wire services can go from one bank account to another - or they can go from one store location to another.

For instance, you can send or receive money at many gas stations and big-box retailers. As long as the sender designates the state where the recipient will pick up the funds, the transfer can occur within hours. The sender will also be required to designate the receiver's name.

To receive the funds, the person must present a unique code given to the sender, along with an ID to confirm identity. Some companies even allow the sender to provide a password so that if the receiver doesn't provide it, the money cannot be released.

Both ACH transfer and wire transfer are effective ways to transfer funds from one financial institution to another.

Differences Between ACH and Wire Transfers

Though ACH and wire transfers are both electronic payment methods, there are a few key differences worth noting.

Transfer Speed

Wire transfers happen within a matter of hours - sometimes minutes. International transfers take longer than domestic and may take a day or two because of needing to go through a U.S. clearinghouse along with at least one foreign country's clearinghouse.

The money transfer occurs in real-time. Typically, there isn't a hold on funds received by wire transfer so recipients can start spending money right away. ACH transactions are only processed 7 times a day, which is why it can take longer to receive funds.

Costs of Transfer

When it comes to the costs of electronic transfers, wires are generally more expensive. Since they occur in real-time, you can expect to pay up to \$30 per transfer.

The cost of the transfer depends on a variety of factors, such as the amount of money sent, the sender's location, the recipient's location, and whether any currency must be converted. International wire transfers will always be more expensive than domestic.

Payment Security

Wire transfers are highly secure and cannot be canceled once they've been sent. Many scam artists use this to their advantage, so always be sure you know the person you're sending funds to.

There is one exception to this rule, and it applies to international transfers. Those can be canceled within 30 minutes, but you can only get the funds back if the wire hasn't been deposited or picked up.

That said, ACH transfers are also secure. The only issue you have is when someone gains access to your bank account number and routing information without your knowledge or consent - such as when your checkbook is left unattended.

Which One of These Should You Use?

When comparing the two, the only real benefit of a wire transfer or over an ACH transfer or echeck is the speed of the transaction. If you need money fast, the wire may be the best option.

But remember, depending on the service provider, you may incur more fees for that convenience.

If it can wait about three days, go with the ACH system. Your small business will save money, especially if there's a lot of transactions to account for. It's definitely the better bet when it comes to recurring payments like payroll. It's a lot less hassle than dealing with paper checks.

If you're sending a one-time payment or a large sum of money, a wire transfer may be the better option.

If you're the one sending money, you should always check your bank's policies first. This helps you avoid fees or at least any surprises. You'll be aware of

processing times and limits, so you can avoid running into unexpected issues that could disrupt cash flow or supplier relationships.

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