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SAME DAY ACH

A STRATEGIC ADVANTAGE
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Executive Summary

Same Day ACH ushers in an era of faster payments and with it, both challenges and opportunities. The metamorphosis credit unions face and the choices they make as these changes unfold will shape their future and determine their viability for years to come.

Despite the challenges ahead, the future is bright for credit unions with many opportunities for growth, increased efficiencies, and enhanced revenue. Thoughtful, strategic discussions and decisions now will help credit unions to maximize these opportunities and differentiate themselves in a world of faster payments and increasing competition.

Same Day ACH is more than just a challenge to be met or a change made to the payments system. It’s a strategic and competitive advantage, the impact of which will be felt for years to come.
Credit Union Landscape

Credit unions have long held a place of prominence in local communities. Known for their superior customer service, credit unions have traditionally passed on the saving of their non-profit status to their members through their product line and lower rates on loans and credit cards, resulting in higher than average member satisfaction.

Despite their high rate of member satisfaction and history of providing members with affordable services, credit unions today face significant challenges — increasing regulatory compliance, market consolidation, and consumer demand for faster payments. The recent passage of Same Day ACH, which many believe will be the beginning of a torrent of faster payments, brings these challenges front and center at a time when small institutions are already functioning at capacity to comply with existing regulatory requirements.

While these challenges may feel overwhelming, they are also an opportunity for credit unions to position themselves for the future. The same ingenuity that placed credit unions at the forefront of consumer choice and satisfaction for years can also strategically position them for success as the global financial ecosystem reshapes the industry.

According to new research from the Filene Research Institute, “Trending: Credit Unions in 2025,” the metamorphosis credit unions will face and the choices they make as these changes unfold, could potentially make or break them. The report paints a picture of a financial landscape that is barely recognizable in 10 years.

“Technological disruption increased regulation, changing consumer behaviors, and asset growth will all contribute to the reshaping of the global financial ecosystem,” the Filene Research Institute says. According to Ben Rogers, research director for the Filene Research, “Assets will grow and the number of institutions will shrink,” says Rogers, “but credit unions should focus first on the incremental changes that can be made today to ensure sustainability and growth in 10 years and beyond.”
Keeping in mind the results of the study conducted by the Filene Research Institute, along with its implications, consider the following questions as you plan and strategize for the future:

1. What incremental changes can you make today that will move you in the direction of your long-term goals?

2. What new products or services could you offer to attract and retain new members?

3. What strategic decisions does your credit union need to make today to ensure you are well positioned to compete in the future?

4. Where do you want to be in 10 years? What will it take to get there?

The Filene Research Institute predicts dramatic changes, including:

- **CONSOLIDATION:** An estimated 150–250 US credit unions close each year. Institutions of all sizes will be challenged to make the necessary investments to satisfy younger members.

- **PAYMENTS:** By 2020 card and cash usage will decline rapidly as digital payment methods become more practical and mainstream.

- **REGULATION:** Small financial institutions are increasingly challenged by new mandates, while compliance costs drain away profits. The next 10 years will be crucial in developing sustainable internal and collaborative ways to deal with it.

- **TECHNOLOGY:** Physical branches will still play an important role, but there will be an increased emphasis on delivering service excellence via digital interactions.

At a time when credit unions are functioning at capacity to meet existing demands, they run the risk of becoming mired in the details and missing the bigger picture and greater goal—long-term growth and sustainability.

Clearly, credit unions face significant hurdles in the months and years ahead. Yet, an overall optimistic picture of the future exists for those that take a thoughtful, strategic approach to the world of faster payments.
Same Day ACH

Same Day ACH, which will enable ACH Originators that desire same-day processing the option to send same-day ACH transactions to accounts, goes into effect September 23, 2016 amid strong support.

In fact, a survey conducted by NACHA—The Electronic Payments Association and the American Payroll Association (APA) during the 2014 National Payroll Week indicates overwhelming support for Same Day ACH. In a press release dated November 24, 2014, NACHA—The Electronic Payments, NACHA stated:

More than 90 percent of respondents indicated that same-day ACH would help them meet their payroll needs. Specifically, respondents indicated that enhancing existing ACH next-day capabilities with the option of same-day ACH would better support direct deposit functions (for hourly workers, temporary staff, and termination pay needs), contingency plans for missed deadlines, payroll error corrections, tax withholdings remittances, and remittances of garnishments.

According to the survey, 97 percent of respondents identified Same Day ACH as a service that would add value to their organizations, and more than 86 percent indicated Same Day ACH capabilities would benefit their organizations beyond payroll functions.

SAME DAY ACH DETAILS AND DEADLINES

Effective September 23, 2016, Originating Financial Institutions (ODFIs) will be able to submit files of Same Day ACH payments through two new clearing windows, provided and determined by the ACH Operators:

- A morning submission deadline at 10:30 AM ET, with settlement occurring at 1:00 PM
- An afternoon submission deadline at 2:45 PM ET, with settlement occurring at 5 PM.
Virtually all types of ACH payments, including both credits and debits, will be eligible for same-day processing. Only international transactions (IATs) and high-value transactions exceeding $25,000 will not be eligible. Practically speaking, this means 99 percent of current ACH Network volume is eligible for same-day processing.

According to the Rule, all Receiving Depository Financial Institutions (RDFIs) must be able to receive Same Day ACH payments, guaranteeing ODFIs and Originators the certainty of being able to send Same Day ACH payments to all banks and credit unions. The Rule also requires RDFIs to make funds available from Same Day ACH credits (such as payroll Direct Deposits) to their depositors by 5:00 PM at the RDFI’s local time.

**SAME DAY ACH IMPLEMENTATION**

To ease the implementation burden to credit unions and other financial institutions, NACHA has opted for a phased approach:

- **Phase 1: Effective September 23, 2016** — Same Day ACH credits are eligible for same-day processing, supporting use cases such as hourly payroll, person-to-person (P2P) payments and same-be ready to receive same-day ACH credits.

- **Phase 2: Effective September 15, 2017** — Same Day ACH debits may be used in addition to Same-day ACH credits, which will allow for a variety of consumer biller-direct bill payments, such as utility, mortgage, loan, and credit card payments. RDFIs should be ready to receive Same Day ACH debits.

- **Phase 3: Effective March 16, 2018** — Funds from Same Day ACH credits must be made available by 5:00 p.m. in the RDFI’s local time.

Under the new Rule, ODFIs must pay RDFIs 5.2 cents per transaction, allowing RDFIs to partially recover their costs for enabling and supporting Same Day ACH.
As credit unions begin the implementation process, both ODFIs and RDFIs should consider the following potential impacts:

- **Staffing changes** to accommodate the new clearing windows and increases in volume
- **Employee training** for employees impacted by the changes
- **Technology updates** to support triple-posting, verifying, originating, and return files processed daily, as well as core updates and third-party updates for integration
- **Internal processing** schedules and procedures
- **Using same day processing windows to send returns and NOCs**

You might find it helpful to consider these questions as you begin the implementation process:

1. If you are currently an RDFI only, would it be beneficial to consider becoming an ODFI as well? Why or why not?
2. When will you discuss new file delivery schedules with your ACH Operator?
3. What is your plan and timeline to review and implement procedures and resources for processing files in the new delivery window?
4. Will you use the same-day processing windows to send returns and NOCs?
5. What training do you need to develop and conduct to prepare staff for these changes?
6. How might Same Day Entries impact downstream applications? What changes might you need to make?
7. What changes do you need to make to risk assessment and management tools?

For more on how Same Day ACH could impact you, consider these free, online NACHA checklists for implementation.
69% of consumer payers and 75% of business payees prefer faster payment speed, specifically instant or on-hour payment processing.

— The Federal Reserve, Strategies for Improving the U.S. Payments System

Same Day ACH: One Piece of the Faster Payments Puzzle

Same Day ACH is the first of what will be many faster payment options, reflecting overwhelming consumer and business demand and borne out through a number of high-profile surveys and objectives.

In its 2015 white paper, “Strategies for Improving the U.S. Payments Systems,” the Federal Reserve emphasizes the need for a ubiquitous, faster payments capability that could improve the efficiency of the U.S. payment system, citing the following strategic factors to support this desired outcome:

- Several countries around the world have already or are in the process of developing a faster payments capability, and the United States is at risk of falling behind.

- Faster payments have the potential to draw more of the unbanked/underbanked population into the financial mainstream.

- There is clear stakeholder momentum in the United States to pursue faster payments.

One of the key takeaways of the Fed survey was the overall preference for faster payment features over slower payment features. According to their research, 69 percent of consumer payers and 75 percent of business payees prefer faster payment speed, specifically, instant or one-hour payment processing.
We believe these developments illustrate a rare confluence of factors that create favorable conditions for change...The Federal Reserve is calling on all stakeholders to see this opportunity and join together to improve the payment system.”

—The Federal Reserve

The Federal Reserve makes it clear that the U.S. payment system is at a critical juncture in its evolution. In its white paper, they state:

Technology is rapidly changing many elements that support the payment process. High-speed data networks are becoming ubiquitous, computing devices are becoming more sophisticated and mobile, and information is increasingly processed in real time. These capabilities are changing the nature of commerce and the end-user expectations for payment services.

“We believe these developments illustrate a rare confluence of factors that create favorable conditions for change,” the Fed further states in its white paper. “The Federal Reserve is calling on all stakeholders to seize this opportunity and join together to improve the payment system.”

In addition, many payment stakeholders are independently initiating actions to discuss payment system improvements with one another—especially the prospect of increasing payment speed and security.

In a press release dated December 10, 2015, The Clearing House (TCH) announced its partnership with VocalLink, the UK-based international payments service provider, to develop a national, real-time payment service in the United States. According to the press release, the system will be “the most comprehensive real-time payments system ever developed.”

The growing consumer groundswell, the Federal Reserve’s goals and objectives, and independent stakeholder actions make it clear—faster payments of all types are imminent.

What isn’t clear, however, is how credit unions will respond to the challenges—and opportunities—that lie ahead.

The implementation of Same Day ACH will serve as a proving ground, providing credit unions a preview of what’s to come and enabling strategic discussions and decisions that will have significant repercussions well into the future.
Credit unions would be wise to take a proactive rather than a reactive stance toward faster payments—for faster payments are here to stay.

Opportunities for Credit Unions

As evidenced by existing data, the advent of faster payments is forthcoming. While they undoubtedly present many challenges for credit unions, they also offer opportunities for growth, as well as increased efficiencies and revenue.

Although Same Day ACH volume remains unknown and specific strategies for long-term sustainability are difficult to shape until full implementation, credit unions should enter into strategic discussions now that will enable them to enjoy a stronger future. Still, certain generalities apply when it comes to assessing new opportunities in the world of faster payments, which credit unions might consider as they begin the implementation process and look toward the future.

For example, the ability to offer Same Day ACH will enable credit unions to develop services, by both cutting costs and generating income. In addition, there are business solutions such as check conversion, which would enable credit unions to choose the settlement occurrence thereby lowering the return rate and possibly the cost.

Same Day ACH also gives credit unions the ability to offer products and services, which are currently only available through third-party vendors. This will allow them to remain competitive amid mobile alternatives and other emerging technologies.

In addition, credit unions could also use Same Day ACH to enhance their Commercial Service area and provide competitive benefits, giving their members the ability to make and receive due date and late payments to alleviate fees. Of interest to many credit unions is the ability to move money the same day, which opens the door to new potential target markets—the unbanked and under banked.
Same Day ACH also enables credit unions to offer new services and offerings to new and current members:

- Same day funding of new accounts
- Same day payrolls
- Account to account transfers
- Business-to-business and business-to-consumer payments
- Person-to-person same day funding
- Business payments
- Commercial service loan payments
- Expedited bill payments
- Collection services for late payments
- Merchant debit
- Car loan payments
- Residential mortgage
- And more

**ADDITONAL OPPORTUNITIES AND CONSIDERATIONS FOR CREDIT UNIONS**

**Explore Ways in Which Same Day ACH Could Increase Internal Efficiencies**

Same Day ACH could provide opportunities for credit unions to offer services that streamline processes, making them more efficient and enhancing member satisfaction.

For credit unions, Same Day ACH is a new tool in their toolbox, creating new opportunities for both the organization and its members.
Examine Opportunities to Target New Markets

Same Day ACH gives credit unions a competitive advantage, enabling them to target markets they have yet to effectively reach—young millennials (18-24 year olds), the unbanked, and under banked, to name a few.

For example, tech-savvy millennials want faster payments, increased accessibility, and innovative financial tools. Same Day ACH offers all this and more, including the potential for person-to-person payments, which is extremely attractive this this demographic.

Moreover, Same Day ACH not only allows credit unions to target new markets, it is provides a value-added service that can be used as a revenue opportunity, especially for credit unions that are currently or considering becoming an ODFI.

Assess Collaborative Opportunities

According to Anthem, the Northwest Credit Union’s newsletter, collaboration is crucial, especially if smaller credit unions hope to avoid extinction. Citing the CUNA CFO Council’s white paper, Sharing the Burden and Success by Bryan Ochalla, it contends: “Credit unions must join forces to generate income, reduce expenses, and expand the menu of products and services they offer if they hope to compete with larger financial institutions and keep their doors open.”

Partnerships among credit unions enable them to offer members an array of discounted services and competitively priced products.

The CUNA Council website says it well: “If the credit union movement was founded on the principle of ‘people helping people,’ it will survive on a similar-sounding principle of “credit unions helping credit unions.”

And what better time to pull together than with the dawn of faster payments and the launch of Same Day ACH.

If not now, when?
Conclusion

The pending advent of faster payments and the implementation of Same Day ACH has changed the way the world thinks of moving money. What worked in the past will no longer generate the same results.

Can credit unions think and work creatively, collaboratively, and strategically to identify opportunities in this new age that will grow their business? Will they find ways to address the challenges that lie ahead?

Only time will tell.

But for those that do, the future is bright. Their best days may be yet to come.