Is Same Day ACH Origination Right for Your Financial Institution?
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Executive Summary

Faster payments is a movement that is accelerating in the United States and already available in many countries around the world. As the only ubiquitous, faster-payments option currently available to all financial institutions in the U.S., Same Day ACH is an on-ramp to the world of faster payments, presenting financial institutions with new opportunities and challenges.

Key among these opportunities is Same Day ACH (SDA) Origination, which not only positions financial institutions at the forefront of the faster payments movement but also prepares them for faster payments solutions yet to come.

For some financial institutions, two of the biggest hurdles to overcome in considering SDA Origination are cost and risk. However, in allowing these issues to hinder adoption, financial institutions may miss the bigger picture. Financial institutions that lag behind in adopting faster payments could potentially lose customers/members to other readily available services that move money faster.

When considering SDA Origination, financial institutions must do more than look at the bottom line. They must look strategically to the future, asking several important questions: What is the cost of not moving ahead? How will today’s decisions shape the future of our institution? What do our customers/members want? How can we stay relevant in a world of faster payments? The answers to these questions may surprise everyone.

This white paper examines SDA Origination from multiple angles—today’s shifting payments landscape, the cost of implementation, added risk and risk mitigation, as well as new opportunities and challenges inherent in origination. It also attempts to help financial institutions answer the most important question: Is SDA Origination right for our organization?

This information contained in this white paper will help answer that question and support the development of a forward-looking strategy for SDA and faster payments.

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The Faster Payments Landscape

Growing consumer demand and international adoption make faster payments an imperative for all financial institutions. Key industry players, such as NACHA—The Electronic Payments Association, The Federal Reserve, The Clearing House and a host of others, are rising to take their place in the faster payments movement. Now it’s time for financial institutions to take their place as well.

Consider today’s shifting payments landscape.

**NACHA**

On September 23, 2016, NACHA implemented Phase 1 of Same Day ACH (SDA), ACH Credit origination only, a ubiquitous method to move funds faster through the ACH Network. In its first full month, SDA generated almost 4 million Same Day ACH transactions, totaling nearly $5 billion, which speaks to the high demand for faster payment capabilities.

Phase 1 of Same Day ACH added two additional posting and settlement windows daily, creating opportunities for financial institutions to offer new services to their customers/members—same-day and emergency payrolls, business-to-business payments, expedited bill payments, account-to-account transfers, P2P payments, along with many others. And because the change was basically speeding up the trains on already existing rails, receipt by financial institutions was ubiquitous on day one.

**The Clearing House**

While NACHA opted to use the existing rails of the ACH Network to move payments faster, other organizations, such as The Clearing House (TCH), chose a different route, creating instead a new payments platform to support Real-Time Payments (RTP). The new platform is due to launch in major banks in April 2017.

According to The Clearing House, it expects to process 8 billion real-time transactions by 2020, with approximately 75 percent of those representing business payments, a potential revenue opportunity for participants.

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The Federal Reserve

The Federal Reserve is also a major force in faster payments. It launched its Federal Payments Task Force in May 2015, engaging more than 300 diverse stakeholders in advancing the work outlined in *Strategies for Improving the U.S. Payments System*³.

As part of its work, The Federal Payments Task Force published its *Faster Payments Effectiveness Criteria*⁴ in January 2016. The criteria can serve as a guide in assessing faster payments solutions and for innovation in the payments industry. Currently, the Task Force is reviewing 19 proposals submitted by various solution providers across the industry that align with these principles.

Other Players Shaping the Industry

Other organizations as well are finding their place in the faster payments landscape. Take, for example, The Independent Community Bankers of America (ICBA), which recently submitted a proposal along with North American Banking Company, to The Federal Reserve’s Faster Payments Task Force to enhance faster payments with a white-label payments app and payments directory. This solution leverages the ACH Network and Same Day ACH to provide secure faster payments.

Other consumer-facing platforms are emerging as well, most notably, Zelle, the infrastructure Early Warning Services operates. The new payment network runs on the switch formerly known as clearXchange, which means it leverages connections between some of the nation’s largest financial institutions.

Presently, Zelle network members include such heavy-hitters as Wells Fargo, Bank of America, Chase, as well as credit unions, such as BECU. Additionally, Jack Henry, Fiserv, and FIS have agreements with Zelle to act as connection points for its network. At this time, many industry experts see Zelle as the system of choice for person-to-person (P2P) payments.

Each of these platforms has both positive and negative attributes. For some, the biggest challenge to widespread adoption is ubiquity. In a closed system, adoption may be a multi-year process; ubiquity may not be achieved for years. On a positive note, competition sparks innovation, which is healthy for the industry. And with the vast array of options available to consumers today, widespread industry innovation will likely continue for the foreseeable future.

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Financial Institutions and Faster Payments

In light of these developments, how should financial institutions respond?

Some industry experts suggest that the sooner financial institutions enter the world of faster payments, the better, especially since most of their customers/members are already using nontraditional services to move money faster. If financial institutions fail to act and find their place in the broader payments landscape, they risk becoming irrelevant.

Same Day ACH Origination serves as an entry point for financial institutions wading into the world of faster payments. SDA offers many opportunities for new, revenue-generating services that build customer/member loyalty and retention, and origination stands out as a win for financial institutions and their customers/members.

This white paper examines the opportunities inherent in Same Day ACH Origination as well as risk controls and mitigation, determining if origination is right for your financial institution, creating a business case for ACH Origination, and more.

ACH Origination

First, let’s answer two simple questions: What is an Originator? What is ACH Origination?

According to NACHA—The Electronic Payments Association, an Originator is an individual, corporation or other entity that initiates either a Direct Deposit or Direct Payment transactions using the ACH Network. “ACH transactions can be either debit or credit payments and commonly include Direct Deposit of payroll, government and Social Security benefits, mortgage and bill payments, online banking payments, person-to-person (P2P) and business-to-business (B2B) payments, to name a few.” Similarly, ACH Origination is the process whereby an Originating Depository Financial Institution (ODFI) enters an ACH entry at the request of the Originator.

Many financial institutions in the U.S. have yet to take advantage of the opportunities that come with becoming an ODFI, although it is not a complicated process. Barriers to entry are minimal, as FIs are universally connected to the ACH Network as Receiving Depository Financial Institutions (RDFI). With the knowledge of the Rules firmly in place as RDFIs, ACH operations staff can explore NEACH publications and training offerings to expand their knowledge to include origination.

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In addition, financial institutions can partner with service providers to institute origination packages that include monitoring and risk mitigation modules, so operationally, they can be up and running in a short time.

The Opportunities

Same Day ACH is currently the only ubiquitous, faster-payments solution available to all financial institutions in the U.S. With ACH Origination, financial institutions can enter the world of faster payments at a predictable pace through each phase of the implementation process.

Some industry experts view Same Day ACH as an on-ramp into the world of faster payments. Because all U.S. financial institutions already receive ACH transactions, they are familiar with the ins-and-outs of the ACH Network, making Same Day ACH Origination a natural next step toward faster payments.

Financial institutions engaging in Same Day ACH Origination also may find it easier to adopt other forms of faster payments in the future, having already put in place processes, procedures, and risk controls that will transfer to other faster payments platforms. To this point, Same Day ACH and Real-Time Payments may complement each other depending on use case.

On a more granular level, ACH Origination also provides revenue-generating opportunities. For example, Same Day ACH services can be a lifeline for individuals experiencing unexpected life circumstances that delay payment to the last minute. Similarly, businesses regularly face a need to send eleventh-hour payments, payrolls, and reimbursements.

In today’s world, consumers and businesses expect services like these. If they are unable to find them at their financial institutions, they will go elsewhere. An industry maxim, coined by consultant Richard Crone of Crone Consulting, LLC, summarizes an important truth that seems particularly relevant to the world of faster payments: “The one who enrolls is the one who controls.” The time to attract customers/members and generate brand loyalty is at the outset of the faster payments movement, not once it is established and customers/members are working with other institutions.
A Competitive Advantage

The bottom line is simply this: Same Day ACH and faster payments are gaining momentum and, if it continues on this same trajectory, will continue to grow at an accelerated pace.

In today’s competitive landscape, Same Day ACH offers many advantages.

Here’s why:

1. It positions your financial institution at the forefront of the faster payments movement and your organization as an industry leader.

2. It elevates your financial institution above the competition, sending a clear message that you are responsive to your customers’/members’ needs and preferences.

3. It fosters customer/member loyalty and word-of-mouth advertising.

4. It positions your financial institution for the future.

The time to act is now. Financial institutions that choose to watch and wait to see how things play out may find themselves struggling to catch up.

The Challenges

Undoubtedly, Same Day ACH Origination offers many advantages for financial institutions and their customers/members. But it also brings new challenges, most of which revolve around the potential for increased risk and the need for enhanced risk mitigation.

Decreased settlement times, increased volume, and growing interest from fraudsters all lead to the potential for increased risk. Many financial institutions will have to evolve to deal with the risks posed by SDA Origination. For example, with reduced settlement times and increased volume, it is virtually impossible to accurately monitor all transactions. Most financial institutions will require some form of automated services to enhance back-office monitoring and mitigate fraud.

In addition, many financial institutions, especially smaller FIs, lack the tools and resources they need to quickly respond to alerts and potential threats. Further complicating matters is the inability of most banks to block identified suspicious transactions in real time. Financial institutions would benefit from automated services in this area as well.

Consequently, financial institutions considering Same Day ACH Origination must be willing and able to integrate new technology and security into their existing infrastructure that enable them to protect themselves and their customers/members, ensuring payments are both fast and secure.
Risk Mitigation

Even with advanced risk technology, the reality is that ACH Origination, and SDA Origination in particular, can increase an FI’s risk exposure.

However, SDA Origination can also reduce counter-party risk. Because of more frequent settlements, financial institutions will have less exposure to potential settlement failure by another financial institution.

An ability to get returns faster can also benefit financial institutions. Because of the added return windows, financial institutions have more options available to them. Returns are eligible for Same Day ACH processing, but the decision to do same day returns is optional. This creates the ability to return fraudulent items faster.

Any exploration of determining whether Origination is right for your financial institution must include a clear understanding of the risks involved and an assessment of the availability of risk mitigation tools to your organization and at what cost.

Of course, basic risk mitigation tools are built into Same Day ACH. For example, the phased implementation of SDA is a risk tactic designed to give FIs time to adapt to the faster movement of funds before the introduction of same-day debits. The $25,000 limit is a risk mitigation tool as well, controlling the number of dollars that can move faster and the impact of large-dollar debits late in the day. That being said, financial institutions will need to assess internal processes as they look at how to manage origination risk in a faster payments environment.

Risk Considerations

While some risk tactics are integral to the Same Day ACH implementation process, others are not. Because Same Day ACH holds the potential for increased risk, financial institutions should know what to watch for and how to mitigate those risks.

Here is a brief overview of potential risks in a Same Day ACH environment:

- More fraudulent transactions overall
- Fraudsters using stale dates on a file that unintentionally processes as Same Day ACH
- Demands placed on personnel with limited capacity
- Originators may attempt to split entries over $25,000 into separate transactions
- Potential lending risks for debits processed in Phase 1 before they are eligible
• Increased exposure to risk. Although exposure limits for the Originator won’t change, the amount of exposure to risk throughout the day could change due to multiple settlement windows.

• Account openings, P2P payments, A2A transfers, and various other types of transactions could potentially increase a financial institution’s exposure to risk in a faster payments environment.

The good news is that a robust risk mitigation strategy can help minimize these risks.

Risk Management

Industry experts in the area of risk management recommend specific tactics to mitigate risk. While these recommendations may serve as helpful guidelines, each financial institution is responsible for assessing its organization’s risk and implementing tactics to mitigate that risk.

Any risk mitigation strategy should begin with creating an SDA Origination policy. A financial institution’s policy should include determining whether it will offer SDA Origination services to all consumer and corporate customers/members or only to select customers/members. If it decides to offer ACH Origination services to select consumers and customers/members only, what screening criteria will the FI use? What processes will it put in place to ensure only those approved for Same Day ACH Origination are the ones using the service?

Answers to questions like these will vary among financial institutions.

Transaction monitoring is also important to remain compliant. But keep in mind that transaction monitoring is most effective once fraud has already struck. Given this is the case, what preventive measures can financial institutions take to stop fraud before it happens?

It boils down to Know Your Customer (KYC). KYC is a critical component of risk mitigation in a Same Day ACH environment. Financial institutions should diligently gather business intelligence at key points in the business life cycle—onboarding, periodic reviews, pre-audits, one-time sweeps and alerts. Also essential to mitigating risk is monitoring an organization’s business classification and reputation periodically.

For businesses that fall into an individual institution’s prohibited or high-risk categories, establishing risk profiles for these companies is critical. Organizations that fit this description require more frequent monitoring.
Is Same Day ACH Origination Right for Your Financial Institution?

Strategies for Success as Payments Speed Up

Because manual processes like these are both time-consuming and prone to human error, many financial institutions choose to automate the monitoring of accounts using a third-party. Automation of these processes will enable FIs to manage risk proactively, reduce human error and improve documentation for examiners.

These general guidelines, recommended by industry experts in payments security, are helpful but not prescriptive. It is in a financial institution’s best interest to remain diligent and proactive in creating an overall payments and risk management strategy that meets its individual needs.

The Business Case for ACH Origination

When an FI implements a targeted risk management strategy, it opens the doors for the development of new products and solutions, leveraging ACH Origination. Payments are a unique product offering, available optimally through financial institutions. In fact, it is the key differentiator that sets FIs apart from the competition. To not capitalize on the opportunities inherent in Same Day ACH, including origination, is to position yourself behind the curve and to risk losing your competitive advantage.

With that in mind, let’s consider cost. Costs, including an investment appraisal, are crucial to the decisioning process. However, investment costs are hard to quantify and vary according to financial institution.

Generally speaking, cost considerations associated with Same Day ACH Origination, include:

- Staffing
- Technology and infrastructure
- Risk monitoring and controls
- Education and training
- Robust security checks
- Changes to documentation
- Operational impact
- A fee of 5.2 cents per transaction
- Cost of maintenance and updates
- And more
Another important consideration is the behavior and habits of Millennials, which, according to the Pew Research Center, number 75.4 million, surpassing the 74.9 million Baby Boomers (ages 51-69)\(^6\). Given these statistics, Millennials will soon become the largest population segment using financial institution services. Consequently, financial institutions must consider what it will take to attract and retain this demographic. The speed, security, and ease of moving money will make or break the relationship between Millennials and their financial institutions. The cost of losing this demographics’ business is high.

Given the cost of Same Day ACH Origination, the question remains: How can financial institutions recoup their investment plus generate additional revenue? One way is to charge its customers/members for accelerated payments, making it a premium service. Because it is a necessity in today’s world, most business customers/members would be willing to pay for Same Day ACH processing.

However, Millennials may not be as willing to pay for same day services as other market segments. One way to navigate this challenge is to consider bundling services. For example, financial institutions could bundle Same Day ACH services with mobile deposit and online bill payment, making it more attractive to Millennials.

No matter how you look at it, financial institutions will incur costs if they choose to offer Same Day ACH Origination services. But the cost of not offering these services is also high. Financial institutions will need to decide whether this is a price they can afford to pay.

Same Day ACH Origination may not be right for every financial institution. But this should be an intentional choice, not a choice made by default.

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Is Origination Right for Your Financial Institution?

Same Day ACH Origination offers many benefits to financial institutions and their customers/members. Here are some questions that will help FIs determine if Same Day ACH Origination is right for their organizations:

1. Does Same Day ACH Origination fit into our overall payments strategy?
2. Do we have sufficient staff and resources to support Same Day ACH Origination?
3. Are we able to fulfill the roles and responsibilities of Originating Depository Financial Institutions (ODFIs) outlined in the NACHA Operating Rules?
4. Do we have or will we create a detailed SDA Origination strategy before implementation?
5. Can we put in place the necessary technology and security infrastructure to ensure payments are not only fast but also secure?
6. What is our process for establishing risk profiles for Originators?
7. What processes will we put in place to monitor an organization’s business classification and reputation periodically?
8. Is now a good time for us to consider SDA Origination? Why or why not?
9. What will it cost to introduce SDA Origination?
10. What will it cost to NOT introduce SDA Origination?
11. What else do we need to consider before introducing SDA Origination?
Next Steps

In light of the information provided in this white paper and considering Same Day ACH Origination within the broader context of faster payments, what next steps should your financial institution take?

While each financial institution is unique, here are some potential next steps to help in assessing whether SDA Origination might be right for your organization.

- Bring together organizational decision-makers across key departments to discuss the information contained in this white paper.
- Decide whether to conduct further research to help determine if SDA Origination is a good business decision for your institution.
- Create a business case, weighing the cost and risk of implementing SDA Origination against the cost of choosing not to originate.
- Identify how SDA Origination fits into your financial institution’s overall payments strategy.
- Answer the question, “Is Origination right for our financial institution?”
- Use industry forums and professional membership to network with and poll colleagues on what they see as the pros and cons.
- Share your discoveries with your board of directors.
- Revisit the entire process in six months if you choose not to originate right now.

While these suggestions serve as a helpful starting point to launch a thoughtful discussion and analysis of the issue, they are just that—a starting point. Financial institutions should draw on the cumulative knowledge and experience of their subject-matter experts to arrive at a decision that aligns with their payments strategy and serves their organization and customers/members well.
Conclusion

Faster payments in the U.S. marks the beginning of a new era for financial institutions and their members. Driven by consumer demand and adopted worldwide, faster payments is no longer an option; it is an imperative, especially if financial institutions want to attract and retain customers/members and grow the bottom line.

Today’s consumers have numerous options and choices when it comes to moving money. However, one area in which financial institutions retain control is payments. Financial institutions must leverage this distinction to maintain and grow market share.

Currently, Same Day ACH is the only live faster payments system available to all financial institutions in the United States, and some industry experts suggest it could be an on-ramp to other forms of faster payments. For this reason and others, financial institutions should maximize the opportunities inherent in SDA, giving careful thought to as to whether SDA Origination is right for them.
About NEACH:

NEACH is a non-profit trade association with over forty years of experience helping members originate and receive ACH transactions. NEACH provides products, services, education, and marketing to its member institutions and other New England entities to increase the acceptance, use, and quality of electronic transactions. www.neach.org