

Same Day ACH Phase Two – Considerations and Implementation

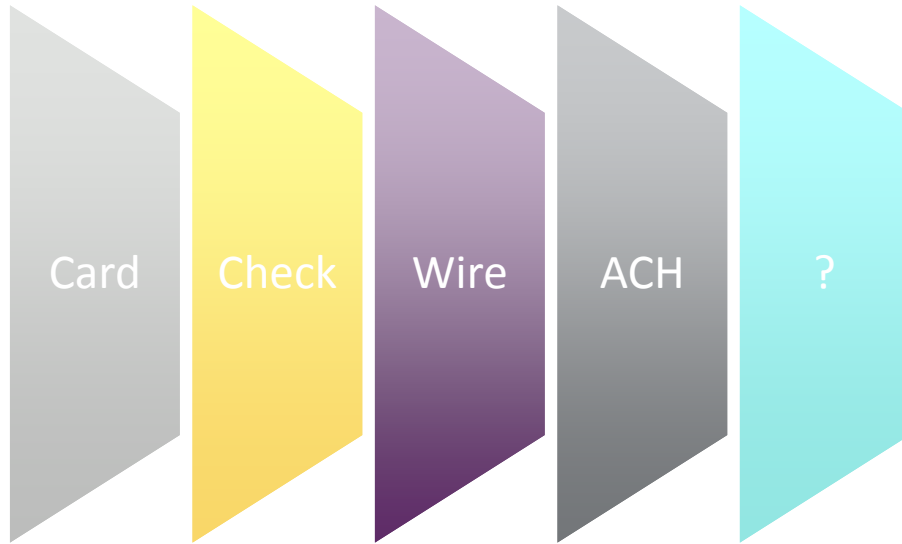


May 4, 2017
2017 Treasury Initiatives
Conference – “Treasury
Financial Fitness”
Adrian Brown, AAP
Member Engagement
and Education Manager

DISCLAIMER

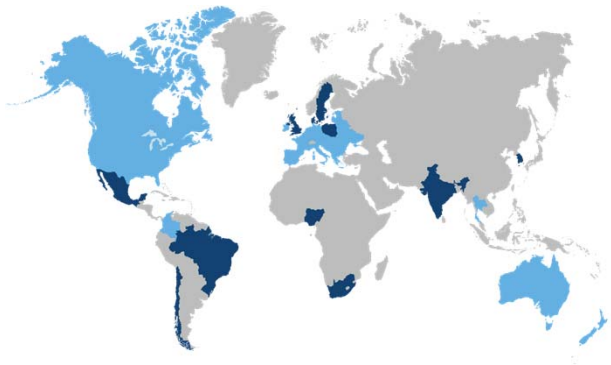
The information contained herein has been prepared for general informational purposes only and is not offered as and does not constitute legal advice or legal opinions. You should not act or rely on any information contained herein without first seeking the advice of your legal counsel.

Existing Settlement Rails



The whole world is moving to faster payments. . .

The advent of mobile technology and the growth of digital commerce are driving real-time payments innovation around the world



"Faster payments are the talk of the payments world, and treasury professionals can't afford to ignore them" – AFP

2001	South Korea	HOFINET
2002	Brazil	SITRAF
2004	Mexico	SPEI
2006	South Africa	RTC
2008	U.K.	Faster Payments
	Chile	TEF
2010	India	IMPS
2011	Nigeria	NIP
2012	Sweden	BIR
	Poland	Express ELIXIR
2014	Denmark	NETS
	Singapore	FAST
2017	Australia	NPP
	EU	SEPA Instant
	US	RTP
TBD	Columbia	
	Thailand	
	Canada	

... Including the U.S.

The Federal Reserve recognizes the benefits of a safe, faster payment system



"A safer, more efficient and faster payment system contributes to public confidence and economic growth..."

— FRB Gov. Jerome H. Powell

The CFPB is urging adoption of faster payments capabilities



"Faster payment systems hold great promise for consumers," which "may provide them with greater utility and more effective account management, enabling [them] to take greater control of their financial lives."

— July 2015 CFPB "Consumer Protection in New Faster Payment Systems" at 1, 3



CFPB and Federal Reserve published core principles and requirements for U.S. faster payment systems



Several initiatives are underway to move payments faster in the U.S.*

Federal Reserve Faster Payments Task Force

Industry task force to identify and assess approaches for implementing faster payments

- Established criteria for faster payments in the U.S.
- Independently reviewed 22 proposals
- Developing a series of reports to help guide the industry

NACHA Same-Day ACH

Enhancement to the existing ACH network and rules

- Enable 2 same-day settlements for credits and debits
- Faster availability for same-day transactions

Visa/MC Network Enhancements

Enhancements to the existing rules and networks

- Allows for credit payments to be sent in near real time
- Mandates availability in < 30 minutes
- No changes in final settlement

EWS clearXchange Zelle

Financial Institution network that enables P2P payments

- Alias directory services
- Bank to Bank messaging in near real time
- Leverages ACH & V/MC rails for settlement

The Clearing House RTP

New payment rail being built for the U.S.

*Not exhaustive

A Phased Approach to Implementing New ACH Network Functionality

To allow the industry to acclimate to a faster processing environment, as well as to ease the industry's implementation effort, these new capabilities are becoming effective over three phases beginning in September 2016.

Functionality	Phase 1 Sept. 2016	Phase 2 Sept. 2017	Phase 3 March 2018
Transaction Eligibility (\$25,000 limit; IAT not eligible)	Credits only	Credits and debits	Credits and debits
New Same Day ACH Processing Windows	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET
New Settlement Time(s)	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET
ACH Credit Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 pm RDFI local time

Source: NACHA



© 2017 The Clearing House Payments Company L.L.C.

Same-Day ACH Statistics – Phase 1

Month	Volume	\$ Value
September	1.51 million	\$1.54 billion
October	3.8 million	\$4.98 billion
November	3.9 million	\$5.00 billion
December	3.9 million	\$5.2 billion



© 2017 The Clearing House Payments Company L.L.C.

Same Day ACH

- More than 13 Million SD Transactions through 4Q 2016
- Valued at Nearly \$17 Billion
- Approximately 194,000 Same Day ACH Transactions Daily
- Direct deposit via ACH = Greatest Volume of Same Day Transactions
- Average of \$1,283 Per Transaction

Type	Volume	Value
B2B	32% or 4.1M	53% or \$8.8B
B2C (direct deposit)	52% or 6.8M	35% or \$5.9B
C2B (bill payment)	2% or 233K	4% or \$733M
P2P	13.5% or 1.8M	7% or \$1.2B

Learn more at the Same Day ACH Resource Center: www.nacha.org/same-day-ach



© 2017 The Clearing House Payments Company L.L.C.

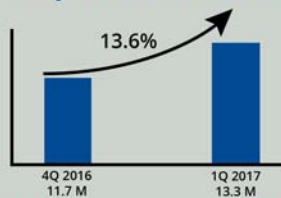
10

SAME DAY ACH

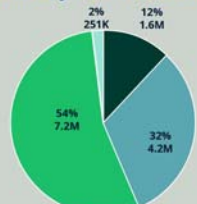
CREDIT PAYMENTS

1st Quarter 2017

Quarterly Volume Growth is Strong



MORE THAN 13 MILLION
Same Day ACH Transactions



Volume

NEARLY \$18 BILLION
Transferred By Same Day ACH



Value

- Direct Deposit via ACH
- Business-to-Business Payments
- Person-to-Person Payments
- Consumer Bill Payments

Learn more at the Same Day ACH Resource Center: www.nacha.org/same-day-ach



© 2017 The Clearing House Payments Company L.L.C.

12

Lessons Learn – Same Day ACH Phase 1

More participation with ACH Operator testing

End to End testing that includes downstream applications at the FI. (DDA, Reconciliation, Settlement)

Education, education, education for Same Day ACH Phase II Debit origination.



© 2017 The Clearing House Payments Company L.L.C.

A Phased Approach to Implementing New ACH Network Functionality

To allow the industry to acclimate to a faster processing environment, as well as to ease the industry's implementation effort, these new capabilities are becoming effective over three phases beginning in September 2016.

Functionality	Phase 1 Sept. 2016	Phase 2 Sept. 2017	Phase 3 March 2018
Transaction Eligibility (\$25,000 limit; IAT not eligible)	Credits only	Credits and debits	Credits and debits
New Same Day ACH Processing Windows	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET	10:30 am ET and 2:45 pm ET
New Settlement Time(s)	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET	1:00 pm ET and 5:00 pm ET
ACH Credit Funds Availability	End of RDFI's processing day	End of RDFI's processing day	5:00 pm RDFI local time

Source: NACHA



© 2017 The Clearing House Payments Company L.L.C.

Same Day ACH Debit Considerations

Corporate Receivers should be in communication with their trading partners to avoid unexpected late day debits

Consider sending returns faster

Sending Prenotes and NOCs



© 2017 The Clearing House Payments Company L.L.C.

Faster Reversals and Corrections of Erroneous Entries

An ODFI could potentially catch a problem and send reversal and correcting entry in the same or next window and have everything settle same day

Any debit entry within a reversing file or a debit that reverses a credit entry must not contain an Effective Entry Date earlier than the Effective Entry Date of the credit it relates to



© 2017 The Clearing House Payments Company L.L.C.

Same Day ACH Debit Considerations

Downstream Applications

Account reconciliation

How will Same Day ACH affect exception processing?

How is processing in-house versus processor (outsourced) affected?



© 2017 The Clearing House Payments Company L.L.C.

Same-Day ACH Considerations

Policies and procedures should be reviewed to allow for:

- Multiple transmission windows for faster returns
- Same day reversal file and/or entry processing



© 2017 The Clearing House Payments Company L.L.C.

Same-Day ACH ODFI Considerations

Develop an overall strategy for offering Same Day ACH Debits

- Determine how to identify those Originators or transaction types permitted to use Same Day ACH
- Should Same Day ACH be offered to all or select Originators?
- Consider client's profile (i.e., business model) when offering Same Day ACH
 - Current exposure limits and risk rating

Ensure processes are in place to determine compliance with Same Day eligibility rules

- Ensure proper use of Effective Entry Date



© 2017 The Clearing House Payments Company L.L.C.

ODFI Impact with Originators and Third-Party Senders

Areas that may be impacted and should be reviewed:

- Service offerings
- File submission and delivery timelines and procedures
- Review agreements with Originators and Third Party Senders



© 2017 The Clearing House Payments Company L.L.C.

ODFI Impact with Originators and Third-Party Senders

Areas that may be impacted and should be reviewed:

- Update contact information
- Collection/Reporting/Identification of the Same Day ACH Entry Fee
- Educate Third Party Senders on their responsibilities within the Same Day ACH environment
- Ensure customers understand the debit could take place same day



© 2017 The Clearing House Payments Company L.L.C.

ACH Origination Agreement Considerations

Address acceptance of Same Day ACH files

Disclose fees associated with Same Day ACH and unintended Same Day ACH Entries

Emphasize the Effective Entry Date and indicator code (if used)

Processing of reversals



© 2017 The Clearing House Payments Company L.L.C.

Same-Day ACH Vendor and Processor Considerations

Confirm vendor readiness that software will be available for implementation

- Assign someone to review release notes related to Same Day ACH programming

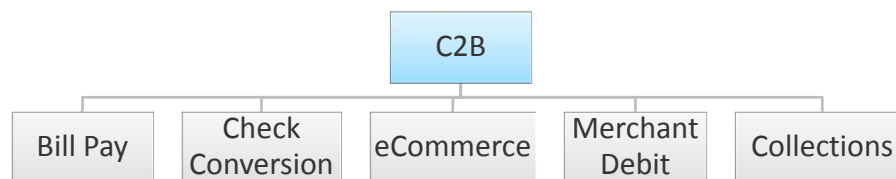
Updated software may affect other pieces of downstream processing

- Software must be available early enough for testing



© 2017 The Clearing House Payments Company L.L.C.

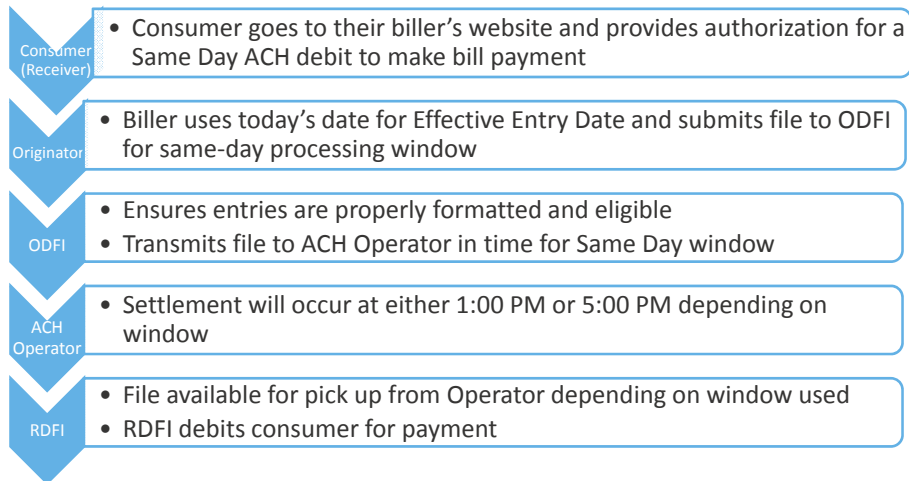
Use Cases for Same Day ACH Debits



© 2017 The Clearing House Payments Company L.L.C.

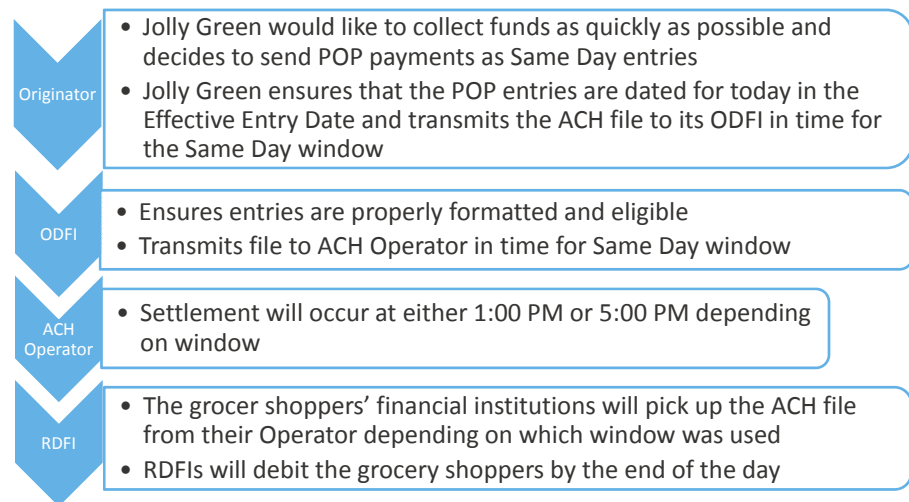
Use Case: Expedited Bill Payment

Billers direct model, consumer authorizes biller to debit for payment



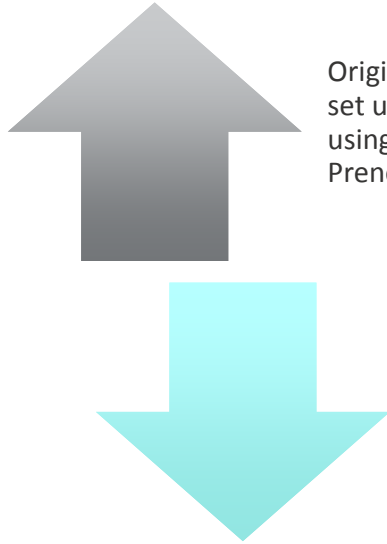
© 2017 The Clearing House Payments Company L.L.C.

Use Case: Check Conversion



© 2017 The Clearing House Payments Company L.L.C.

Faster Time from Prenotification to Live Entry



Originators may decide to speed the set up process for new customers by using Same Day ACH for the Prenotification process

A Prenotification could be sent using the morning Same Day cycle, if the RDFI were to return the prenote or send an NOC using the afternoon Same Day cycle, the ODFI could have return or NOC information to provide to the Originator to remedy the reason within the same or next day of the Prenotification



© 2017 The Clearing House Payments Company L.L.C.

Same Day ACH – Risk Mitigation

Transaction Risk is reduced for Same Day debits

ODFIs and Originators of Same Day debits could receive returns faster

- A return could be received faster if the RDFI uses a Same Day window for the return

Faster returns could help billers, card issuers and other better manage credit risk

Fraud Risk can be mitigated by receiving returns faster (alerting ODFIs and Originators to potential fraud earlier)



© 2017 The Clearing House Payments Company L.L.C.

30

Vendor and Processor Risk Management Considerations

To Mitigate Risk:

- Updated software may affect other downstream applications;
- Online account opening
- Online/Mobile banking platform
- Person-to-Person (P2P)
- Account-to-Account (A2A)
- All departments, including IT, should work together
- Contingency planning
- Determine timeframe for testing software with vendor(s)



© 2017 The Clearing House Payments Company L.L.C.

The Way Forward for Financial Institutions and Corporate End Users

- With speed and safety as our highest priority, expect to see and hear about more solutions from the payments industry.
- Talk to your customers to understand their pain points and priorities:
 - Speed
 - Payment Finality
 - Information
 - Ease of Use
- Create a faster payments task force to:
 - Evaluate the various options
 - Talk to the processors and providers that power your organization. Are they establishing a connection? Are you eligible to leverage that connection?
 - Chart out the use cases tied to customer segments. Tie solutions to needs.
 - Establish a timeline for implementation.



© 2017 The Clearing House Payments Company L.L.C.

33

Same Day ACH – *Moving Payments Faster*

RESOURCES

NACHA Same Day ACH page:
<https://www.nacha.org/content/same-day-ach>



© 2017 The Clearing House Payments Company L.L.C.

RDFI Implementation Checklist

- Educate staff on Same Day ACH
 - Management on operational and customer/member service issues
 - Call Center/ Front-Line to respond to account holder questions
 - Compliance staff on monitoring:
 - Suspicious and unusual activity review
- Educate Receivers (consumer/corporate) regarding product impact

*Not exhaustive



© 2017 The Clearing House Payments Company L.L.C.

ODFI/Originator/Third-Party Sender Checklist

- Remind Originator proper use of the Effective Entry Date field
- What services/products will ODFI offer to Originators
- New ODFI file cutoff schedule
- Originator should ensure that Receiver is aware that entry may clear faster, potentially same day
- Originator should review authorization methods for potential impacts
- Faster returns are possible
- Faster reversals are possible

*Not exhaustive



© 2017 The Clearing House Payments Company L.L.C.

Corporate Receiver Implementation Checklist

- Corporate Receivers should work with their FIs to understand:
 - New file delivery schedules (monetary and remittance-only)
 - Funds availability schedules
 - Posting schedule impact to EOD positioning and forecasting
 - Changes to pay/return decision deadlines

*Not exhaustive



© 2017 The Clearing House Payments Company L.L.C.

Upcoming Events

UPCOMING EVENTS

PAST EVENTS

Upcoming Events

Concepts 2017: East
May 17-19, 2017; Hershey, PA
Every payments professional needs to keep up with payment trends. Originally developed in 1998, the Concepts conference has nearly two decades of experience bringing relevant industry information to its members and is now coming to two locations in 2017! Mark your calendar to travel to The Hotel Hershey for this informative program. Check back soon for additional details!
[Event Detail](#) | [Conference web site](#)
HOSTED BY THE CLEARING HOUSE

Concepts 2017: West
October 4-6, 2017; Acme, MI
Every payments professional needs to keep up with payment trends. Originally developed in 1998, the Concepts conference has nearly two decades of experience bringing relevant industry information to its members and is now coming to two locations in 2017! Mark your calendar to travel to the Grand Traverse Resort and Spa for this informative program. Check back soon for additional details!
[Event Detail](#) | [Conference web site](#)
HOSTED BY THE CLEARING HOUSE

© 2017 THE CLEARING HOUSE PAYMENTS COMPANY L.L.C. | [PRIVACY POLICY](#) | [TERMS AND CONDITIONS](#) | [SITEMAP](#) | [CONTACT US](#)

<https://www.theclearinghouse.org/education-and-events/events/upcoming-events>

© 2017 The Clearing House Payments Company L.L.C.

Training:

For a complete listing of education events, visit
<https://www.theclearinghouse.org/education-and-events/courses/course-calendar>

© 2017 The Clearing House Payments Company L.L.C.

ACH Audit Services For RDFIs and ODFIs Conducted by Experienced AAPs from TCH

- The NACHA Rules require all participating Financial Institutions, Third-Party Senders and Third-Party Service Providers to conduct an annual audit of compliance with Appendix Eight by December 31st. Don't wait until the deadline!
- As one of 11 regional payment associations providing expert payment education, an experienced Accredited ACH Professional (AAP) from The Clearing House can come to your site to successfully fulfill this annual requirement in a timely and efficient manner
- Your staff receives on-site training as we explain in detail the Rule requirements during the audit
- We review your procedures and controls and share industry best practices
- We go above and beyond the scope of the NACHA audit to review compliance for processing Federal Government Reclamations and Death Notification Entries, as we understand that non-compliance can be costly

LET OUR PROFESSIONALS ENSURE YOUR ORGANIZATION IS IN COMPLIANCE!

Contact Lisa Iselli at lisa.iselli@theclearinghouse.org,

Rona Mehl at rona.mehl@theclearinghouse.org OR

Education.services@theclearinghouse.org 1-800-875-2242 for more information



© 2017 The Clearing House Payments Company L.L.C.



Thanks for your participation today!

The Clearing House Payments Authority, as a Direct Member of NACHA, is a specially recognized and licensed provider of ACH education, publications and support. Regional Payments Associations are directly engaged in the NACHA rulemaking process and the Accredited ACH Professional (AAP) program. The information provided in this webinar is for educational purposes only and is not legal advice.

Adrian Brown, AAP
Member Engagement and Education
Manager

Adrian.Brown@theclearinghouse.org
800.875.2242 Option #3



© 2017 The Clearing House Payments Company L.L.C.