



NEACH 2016 PAYMENTS MANAGEMENT CONFERENCE

# Same Day ACH: Innovation, Origination, and Risk

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NEACH's 2016 Payments Management Conference included some of the top minds in the payments industry. Experts representing financial institutions, community banks, credit unions, and other payments-related organizations focused heavily on Same Day ACH. Of specific concern was Phase 1 of the implementation process, which goes into effect on September 23, 2016.

While subject-matter experts were well versed in the opportunities and challenges inherent in Same Day ACH, attendees were filled with questions and uncertainty as how to best prepare for Same Day ACH. One attendee asked, "Do our members really want it?" Answering her own question, she said, "I'm not sure that they do."

The woman sitting across from her held a different perspective, "You better jump on the boat now, or you're going to get left behind."

It was a sentiment echoed throughout the conference as speakers and attendees put on their business binoculars to gaze into the not-too-distant future. What they saw revolved around three key topics: innovation, origination, and risk.

Here are some of the highlights from this year's conference sessions.

## ■ A Call for Innovation

Opening General Session panelists launched the conference with a clarion call for innovation. "We need to embrace the fact that we need a change," Jane Larimer, executive vice president of ACH Network services and general counsel for NACHA—The Electronic Payments Association, said. Others on the panel agreed, pointing out that the financial services industry as a whole has a low risk tolerance, which limits innovation.

According to Larimer, "There's a demand for faster payments. It's a matter of degree." Carey Whaley, vice president of payments and technology policy for the Independent Community Bankers of America® (ICBA), echoed the point, comparing the ACH Network to a tool in a Swiss army knife, "There are different blades for different purposes," he explained. "We need to sharpen all of the knives."

The two ACH Operators, the Federal Reserve and The Clearing House, also weighed in on the topic of innovation, pointing to competition as one of the key drivers of change.

Speakers Alex Romeo, vice president and EPN product manager at The Clearing House, and Brian Egan, SVP, RPO operations and customer service of the Federal Reserve Bank of Atlanta, spoke to their unique collaborative relationship on Same Day ACH from a vantage point of strength. "Iron sharpens iron," Romeo simply stated. "Competition breeds innovation, which is good for the industry and its members and customers."

## ■ To Originate or Not?

In fact, competition may be the very thing that drives financial institutions to origination. NEACH polled attendees to assess their readiness for Phase 1 of the Same Day ACH implementation process. A full 77 percent of attendees confessed they had yet to talk to Originators about Same Day ACH, implying that many community banks and credit unions have invested little time to date in preparing for origination. In contrast, a recent survey conducted by NACHA found that 86 percent of the nation's largest originating financial institutions plan to originate for all customers—as early as September 23. Taken in this context, origination quickly becomes a key competitive factor, creating a divide between smaller financial institutions and the nation's largest.

Exploring origination in one of the first breakout sessions, "Same Day Origination: Decisions, Decisions, Decisions as the Network Prepares for Phase 1," panelists expressed overwhelming support for Same Day ACH, while admitting to wrestling with such difficult issues as fraud prevention and monitoring.

In outlining the decisioning process about whether or not to offer origination services, panelists stressed the point that origination is optional. Several factors went into making a decision whether or not to originate, most of which centered on resources and compliance, as well as balancing efficiencies and means. Other concerns, such as security and agreements, surfaced as well. The collective refrain from the panel? Financial institutions should consider origination based on their unique needs and business goals.

## Same Day ACH Origination: Three Key Questions for Your Institution

1. Do you want to originate? Understand it's not required. However, if you send files to the Operator that meet eligibility, it will happen, so you have to be prepared.
2. Do you need to increase security procedures if you originate? Same Day ACH origination will require callbacks or set transaction limits.
3. Do you need to update agreements or terms and conditions for retail services? In examining this question, organizations will need to consider updates to cut-off times and restrictions if they decide not to offer Same Day.

*Excerpted from NEACH 2016 Payments Management Conference, "Same Day Origination: Decisions, Decisions, Decisions as the Network Prepares for Phase 1"*

Hennessy observed that while transaction monitoring is helpful, it's most effective after fraud occurs, and the goal of every financial institution should be to stop fraud before it's realized. Sharing counsel from a chief risk officer of a mid-sized bank in the Southeast, she reminded the audience, "All things being equal, preventative controls are always better than protective controls."

According to Hennessy, when prevention fails to catch fraud, business customer intelligence is a powerful tool, especially when combined with transaction monitoring. She proposed the following synergies with transaction monitoring:

- triage new business customers for monitoring
- recategorize businesses during periodic reviews
- use alerts to trigger business customer investigation.

In closing, Hennessy offered practical solutions for mitigating potential risk.

## ■ Solutions to Mitigate Potential Risk

Delving into the risk topic from the credit perspective, Jennifer Wasmund, vice president of education for the Upper Midwest

## ■ Efficiency or Risk?

Many financial institutions will decide whether or not to originate based on their risk tolerance. In the session, "Managing KYC with the Shift to Same Day ACH," Jane Hennessy, head of external alliances, G2 Web Services declared, "Speed brings risk or efficiency, depending on how it's managed."

*"Speed brings risk or efficiency, depending on how it's managed."*

*~Jane Hennessy, G2 Web Services*

She pointed out a number of potential risks that FIs must consider, including:

- the potential for more fraudulent payments overall
- fraudsters using a stale date on a file that is unintentionally processed as Same Day
- demands placed on staff with limited bandwidth
- the inability for banks to scale.

MITIGATING POTENTIAL RISK	
CHALLENGES	SOLUTIONS
Potential for more fraudulent payments	Strengthen your KYC Program before Same Day ACH starts
TPPPs/TPSs could be targets for fraudsters	Introduce TPPP oversight program
Inability for bank systems to scale; demands placed on personnel with limited bandwidth	Leverage third-party vendor expertise to bolster your BSA/AML program
Potential lending risks for any debits processed in Phase 1 when debits are ineligible	Review your lending procedures
Data inaccuracies	Refine your processes and systems to reduce data integrity issues



She closed with high-level takeaways, encouraging attendees to:

- know where and what their credit risk is
- ensure it is reflected in the “tone at the top”
- measure, manage, and mitigate risk where appropriate
- know how Same Day ACH, starting with Phase 1, has the potential to affect an organization’s risk profile.

Wasmund rallied the audience to action, “Find ways to improve how to talk about credit risk in your organization.”

## ■ The Same Day ACH Boat: Get on Board Now

From risk to reward, Same Day ACH embarks financial institutions on a new journey to faster. And, it’s time to get real about implementation as September 23 rapidly approaches. Financial institutions can no longer wait and see how others will prepare and respond; the clock is ticking, and banks and credit unions must be ready.

NEACH’s key advice? As the industry navigates the waters that lead to Same Day ACH, looking for the next wave of faster payments, take the advice of that sage conference attendee: Jump on the boat now. Don’t wait until it sails, or you will find yourself left behind.

As an industry partner, NEACH continues to develop tools and resources to help prepare financial institutions for the path ahead. NEACH will keep sharing them via *Pacing Payments*, so watch for new additions in the weeks and months ahead.

Automated Clearing House Association (UMACHA), defined credit risk in a Same Day ACH scenario, making these key points:

- Credit risk arises when a party to a transaction is not able to settle an obligation for full value.
- ODFIs may incur risk if they supply funds on behalf of a credit entry.
- Risk is created if origination and settlement do not occur on the same day.
- Originators transmitting debit entries pose risk, as returns will be received after credit was already made available in the Originator’s account.

Wasmund offered several ways in which organizations can measure, manage, and mitigate credit risk.

For example, organizations should:

- pay close attention to exposure limits
- develop a specific ACH risk-rating scale based on risk factors that are similar to what they used to establish limits
- determine if automated tracking is available or if a manual tracking method is best for their particular financial institution.

