

EPC Newsletter

INNOVATION

Realising the value of Same Day ACH

Same Day ACH is a key part of the faster payments movement in the U.S.

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As one of the most significant changes for the ACH Network in its 40-plus-year history, Same Day ACH is a key part of the faster payments movement in the U.S. In this article, Scott Lang, from NACHA—The Electronic Payments Association[®] in the U.S., discusses the new Same Day ACH Rule and how it provides a ubiquitous same-day clearing and settlement capability for virtually all ACH payments.

The views expressed in this article are solely those of the author and should not be attributed to the European Payments Council.



Each year the Automated Clearing* House (ACH) Network — the payment network that universally connects all 12,000 financial institutions in the U.S. — transmits billions of transactions, mostly overnight from one financial institution to another. Yet in today's environment, everyone wants everything faster—and that includes payments.

This is why NACHA—The Electronic Payments Association[®], together with the U.S. financial industry, is moving payments faster with Same Day ACH. The new Same Day ACH Rule provides a ubiquitous same-day clearing and settlement capability for virtually all ACH payments. NACHA and the ACH community in the U.S. have long recognised the need for enabling businesses, government agencies and consumers to make payments and get paid faster via ACH. Armed with comprehensive research, and extensive and inclusive industry dialogue and feedback, we were able to facilitate a capability that takes advantage of the ACH Network's ubiquitous reach, efficiencies and proven reliability.

With Same Day ACH, two new settlement windows will be added to the ACH Network, increasing the movement of funds between financial institutions from once each day to three times daily. Because it is mandatory that all receiving financial institutions on the Network receive same-day transactions and provide faster funds availability to customers, those originating Same Day ACH transactions will have the certainty that they disburse funds to, or collect payments from, all bank accounts. Customers at both ends of the transaction, whether they are consumers, businesses or government agencies, will benefit from the capability of making payments or being paid on the same day.

Phased implementation

To help ease the industry's implementation efforts, Same Day ACH will be implemented in three phases. As of 23 September 2016, Phase 1 of implementation will expand the traditional functionality of the ACH Network by supporting ACH credits moving more rapidly with three official settlement windows every 24 hours. In Phase 2, which becomes effective on 15 September 2017, both credit and debit transactions will be supported. In Phase 3, by 16 March 2018, all receiving financial institutions will be required to make available funds from Same Day ACH credits no later than 5 p.m. the receiving institution's local time.

Spreading the implementation across three phases allows participants to acclimate to a faster processing environment with Same Day ACH credits prior to introducing Same Day ACH debits, which bring differentiated business and risk aspects. Nonetheless, the ubiquitous nature of Same Day ACH mandates that every receiving bank and credit union in the U.S. support receipt of payments in the three ACH settlement cycles.

Innovation and new opportunities

The advent of Same Day ACH opens the door for new business opportunities and customer solutions for financial institutions. In a 24/7, Internet-based environment, customers — both corporate and consumer — demand faster payments, and financial institutions are looking for innovative ways to meet those expectations.

Research identified a total of 63 potential use cases for Same Day ACH — with 10 primary ones. For example, users may want to leverage Same Day ACH to take advantage of new, cost-effective options like urgent claims payments and refunds for the quick payout of items such as disaster assistance payments; person-to-person payments for quicker delivery of funds for transfers among family members and friends; urgent bill payments; and account-to-account payments for the movement of funds between accounts at different financial institutions.

Managing risk better

While Same Day ACH offers new options and capabilities for financial institutions and their customers, it also provides opportunities for those looking to better manage credit risk or credit limits of their customers. Same Day ACH reduces outstanding credit between parties and exposure to losses by settling transactions more frequently during the day. Another area of value for all financial institutions is the handling of exception items. Even if an original forward item was sent as a next-day ACH item, the receiving institution can return it on a same-day basis. From a risk and customer service perspective, this is particularly attractive for ACH debits.

A \$25,000 limit per individual payment for Same Day ACH transactions will also help to mitigate risk and loss. Faster velocity of payments means increased transaction scrutiny and monitoring, and a dollar limit helps to decrease the potential for loss. In addition, the dollar limit will help minimise the impact on daily business operations to simplify changes to end-of-day balance processes. Currently, more than 99 percent of ACH transactions are under \$25,000, so the overall impact of the same-day limit is expected to be modest.

Additionally, although not all ACH payments will be same day, there is still a need for next day ACH. For example, recurring transactions such as direct debits originated for monthly bill payments and the majority of uses of Direct Deposit for payroll work well today with existing capability. In addition, international ACH transactions (IAT) are specifically excluded from Same Day ACH to help minimise operational impacts given that the receipt of an IAT triggers compliance requirements with the U.S. Office of Foreign Assets Control (OFAC). Receiving IAT items late in the day could impose a significant burden on many financial institutions to complete the OFAC screening in a timely manner, so they remain next-day ACH payments only.

Building block for the future

As an immediate solution to meet the demands of today, Same Day ACH will also serve as a building block to meet some of the demands of tomorrow, including real-time payments. Yet Same Day ACH is separate and distinct from real-time payments, which are being embraced across Europe. For example, Same Day ACH supports both credit and debit payments, while real-time payments entail only credit payments. Real-time requires immediate notification to the receiver, whereas Same Day ACH does not. Real-time has payments finality, whereas reversals and returns are allowed for Same Day ACH, as they exist for next-day ACH today. And finally, Same Day ACH provides for same-day funds availability to the receiver, distinctive from immediate availability with real-time payments.

Although Same Day ACH and real-time payments constitute distinct approaches to faster payments, they are indeed complementary. Any move to speed up payments must start with more frequent settlements. Same Day ACH enables more frequent settlement with the addition of two settlement windows to the ACH Network, serving as a foundation on which to build faster payments capabilities, as well as other financial products and services. Collectively, Same Day ACH and real-time payments will enable financial institutions of any type or size to support a range of current, emerging and future payment needs.

These are exciting times for the payments system, financial institutions and their customers. NACHA and the U.S. payments industry are committed to ensuring that the ACH Network continues to evolve, and, as one of the most significant changes for the Network in its 40-plus-year history, Same Day ACH is a key part of the faster payments movement in the U.S.

To put it simply, Same Day ACH is a game changer for all ACH Network users, providing them with value, opportunities and choice.

*According to the European Central Bank, clearing is the process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement.

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Related link:

NACHA maintains a Same Day ACH [resource center](https://www.nacha.org/) at <https://www.nacha.org/> with various tools and assets that can be downloaded and used by all. The resource center is updated regularly.