COLLEEN: With the September 23rd launch of Same Day ACH Phase One nearing, financial institutions are buckling down and getting their operations in order. While all banks and credit unions are required by the NACHA Operating Rules to receive Same Day ACH files, originating is an option, and financial institutions can choose whether or not they want to send Same Day ACH file.

Today we're exploring that option, its upsides and its downsides with Sean Carter, Senior Vice President of Payment Strategies at NEACH. Sean, thanks for joining us.

SEAN: Hey, thank you for having me. Very exciting topic.

COLLEEN: Yeah, it's good to have you here. You know, if we take step back and look at some of the data that NACHA has published, I think back in April, they conducted this survey that showed that 95 percent of the nation's largest FIIs are expecting to offer Same
Day ACH to their customers in 2016. And why do you think that is? Why do you think the largest banks in the country are on board with Same Day ACH and with originating?

SEAN: I'm gonna take a historical approach to this answer. I don't think this is specific to say day. I think the larger FIs traditionally, whenever there's a change in regulation or a, a new NACHA rule or a new NACHA standard entry class code, they've always taken that as, okay, yes, it's something we need to comply with, but let's also take a look and see where we can gain an advantage.

And I think they've done the same thing with Same Day. They've looked at that and said hey, the -- there's another opportunity for us to add value to our clients within the framework of the NACHA Operating Rules, so they're going to take advantage of that. And they, and they can do that obviously
because they have plenty of staff, plenty of capital, the resources are there.

So I just think they're, they're inherently at an advantage when any regulation or change happens that they can spin into action, so to speak, a little bit quicker than everybody else.

COLLEEN: So I think you're raising a very good point. I think that they are in a situation of advantage. What do you think that means for the smaller banks and credit unions who are looking at Same Day ACH?

SEAN: So yeah, I think, I think for the smaller banks and credit unions, the, the silver lining there is when you look at Same Day ACH, again, everybody is starting at the same point from a providing value to the client or to the member, right? So they're, they're not ahead of the game in any sense because anybody is allowed to start as of September 23rd.
So what the banks and credit unions have to do is just decide probably a little bit faster than they normally do, on what they want to do specific to Same Day. And the -- and I don't think when you break it down, if we get down to the nuts and bolts, if their vendor can allow it, there's really not a lot beyond, hey, systemically, can we do it?

Right, so this is not one of those things that in theory would take a lot of staff to develop or take a lot of resources. It would just really most likely depend upon the need of their clients if they, if they had a business case to, to use, and, and can that smaller institution, using a s-, you know, a third party, can they deli-, can they deliver?

But this is, you know, one of the things that's important for the smaller institutions to understand with Same Day. Yes, the, the big banks are ready to go, and -- but when you look at it, they're ready to go because they probably worked with their vendor.
They probably have customers that they know and have already identified that may get value from this.

That is not a unique advantage to any institution over another. There may be people at smaller banks that know companies that would get value from this. So then it's just about working with the vendor to make it happen. So I wouldn't panic as smaller banks and credit unions say, oh, look, all the large banks are doing it, because I think with, with Same Day, it's really just changing the timeframe within the windows that the operators give you for settlement.

So it's not a major, major operational change if your vendor can support it. If the vendor can't support it, then, then you're at a big ad-, bigger disadvantage.

COLLEEN: And you touched on earlier, you know, assessing the business case, right, of, of
originating Same Day payments. So what do you think are the benefits to doing so?

SEAN: I think the benefits are going to vary by institution, right? So if you're a, a current ODFI, whether you're doing consumer or corporate transactions -- let's, let's pick on the retail side. If you believe that there's an opportunity to enhance your retail services, whether it be a Same Day bill pay, Same Day A-to-A or P-to-P product, then that's something that if your, if your customers and members have already been using your retail products, this is a great way to say hey, we can enhance that experience for you.

If you're not already doing that, then it's, you know, it's, it's gonna be a little bit harder obviously to, to find the value. If you're dealing with corporates already, if you're ODFI with corporate origination today, this is gonna benefit you in a way because again, it's a new product to
sell or it's new value, and again, that's what selling's about, right, is proving value to the person looking for service so they can go out to existing clients and say hey, you know, we now have the opportunity to move this money this way for you. You know, do you see a need for that?

So I do think the benefits vary by institution, and if you're already an ODFI, this is just a way to enhance what you currently offer. If you're not currently originating all, this may be a reason to start, right? You may have been approached by a client and really, the only good business case for them would be a Same Day transaction, but you haven't been able to offer that to them till now.

So benefits are gonna vary by institution, but I think the larger point that this should have shown everybody is whenever there's a change like this, we have to stop immediately looking at oh, what do I need to do to minimally comply? You do have to look
at what are the opportunities around the proposal or whatever's happening with the NACHA or any other regulation. You always have to look for the benefit that's in there as well along with, you know, what do I need to do? But I don't think enough institutions started quick enough looking at here's the value we can get from this proposed change.

COLLEEN: And that's a good point. You know, we really need to explore opportunities when you're looking at what you're being required to do as well, but I guess the flipside of that is that there are always hurdles, when you have to do something new. What, what issues do you think might arise as you begin originating Same Day payments?

SEAN: I think there's a couple of big hurdles, and I don't think they're -- you know, when you say hurdle, if it's me doing the hurdles, it's got to be a lower all, but a trained athlete can get over most hurdles, so I look at these as normal hurdles that any average
person can get over. When you look at the operational hurdles, it's really just about getting the files in to the operations within the right schedule. So that maybe having to update your cutoff times with customers and members, right?

If you're working with a bill pay provider and you want to do Same Day bill pay, you're gonna have to work with them so that their process ensures the file gets delivered by that -- the latest 2:45 PM. So operationally, there are hurdles, and then there's also gonna be, you know, the, the hurdles around credit risk, right? Because the money is going out, so looking at things like balanced files, that's, that's a hurdle because you do not want to send out the credit and have the credit settled today, and you collect the money after the settlement of the credit, right?

So the credit risk models get thrown all out of whack if that's the case. So I think when you look at
credit monitoring, the hurdles are gonna be those folks that are required to do balanced files from a systemic -- you know, from a systemic standpoint. It's not required from a rule standpoint, but their system requires balanced files.

They're gonna have to find a way, you know, maybe not to clear the hurdle by jumping it, but maybe go around it, right, using different offsets or things of that nature. There's ways to do it, that you have to get a little bit creative.

And also, anytime you're, you're rolling out a product, a hurdle is the people selling it can't oversell it, right? So when we look at Same Day phase one, all the way to phase three, it's really till phase three when you can guarantee that the receiver will have availability same day. The first two phases, the RDFI's only required -- the minimum requirement is to pick up the file and process it by the end of their day.
So I think the -- one of the hurdles is going to be selling this and not overselling, right? Make sure that consumers known that hey, what we mean by Same Day is that the other bank or credit union is gonna receive it today. Whether they give availability to who you're doing business with or sending money to is, is up to them. So I think overselling is a hurdle because then you get into UDAP and deceptive marketing practices, so I think that's another hurdle that people are going to have to maybe not jump over but kind of get around the hurdle.

COLLEEN: And that's a good point that I hadn't even thought of, that, that, you know, as you're looking at opportunity, you want to jump on board and be able to, to start, you know, positioning it as a new resource, a new product, but at the same time, you're gonna have to think operationally, what does that mean. So, so what do you think -- do you have advice for financial institutions as they're looking at
addressing that and the other problem areas that you outlined?

SEAN: Yeah, I do. I think one of the important things for everybody to consider is, is updating their ACH risk assessment, right? So some people do risk assessment for ACH every other year, right? So this is, this is not the year to skip basically is what I would say. And, and, and the reason I say that is when you look at a risk assessment, what it's really doing is taking a look at the activity you're either doing or you wish to do, and it's aligning, do your policies meet that, right? So does your credit policy -- is it strong enough to handle offering Same Day?

And what I mean by that is the people out in the field that are gonna be selling and then approving these customers or members to do Same Day origination, is the policy clear on what, what they actually need to be doing, right? Do they have to
risk rate differently? Is there different questions to ask?

And then from a procedure standpoint, which is also what a risk assessment does, right, is it validates your procedures are in line with your policies, looking at your procedures and ensuring that hey, we, we have done enough on the procedure side to make sure that we can get the files out in the proper windows because one of the big risks to any originating institution is obviously the -- under 4A, you have a responsibility to get things out in a timely fashion.

So procedures should already be in line today with whatever existing schedules you have. Well, if you change the schedule, you need to make sure that you have changed the procedures in order to meet those schedules. So I think having a risk assessment done, and I don't think you need to do it, right, you know, September 23, right? It's -- you know, people are
saying oh, do I have to get it done before phase one goes in?

I think this is something you can evaluate, you know, right around that time, you know, up into maybe October. After that, then you've probably already processed transactions and you would've seen any hiccups that you would've had. So if people are thinking about this is the year we don't have an ACH risk assessment, and they're gonna get into this space, I would strongly con-, if I was them I would strongly reconsider that position and re-, update or do the risk assessment again in, in 2016.

COLLEEN: And I think that's good advice. It's good to have that step back when you're implementing something new and make sure that it fits within the right parameters, that you have the right infrastructure, really, in place for, for the new product and service of Same Day ACH. What about FIs who are receiving banks today? You know, this is a
whole new world, right? And so what is the benefit of becoming an ODFI and, and originating payments? You touched on it before, but could you explain that a little bit more?

SEAN: Yeah, I -- this is a great question. I really feel that this is a great question because when the -- I'd like to break this out into two groups, right? So you have two F-, two types of FIs, right. There are some FIs that are RDFIs only because that is what their client base -- client base or member base is going to dictate.

They don't have, they don't have people or companies that are, are looking for that type of service from them, right? So there's -- they, they would have to find a business case for Same Day. And that could turn into them doing their own payments, right?

So what we, we like to talk to FIs about is everybody at a minimum should be doing their own bill payments
as financial institutions through ACH. You don't want to be cutting checks to all your vendors, because again, you know, the, the risk management around a check and the protection of your GL account numbers and all of that.

So looking at an opportunity like Same Day, maybe you don't have clients or members that are clamoring for it, but you may have vendors that offer you better discounts if you pay with a Same Day ACH. You may be able to, you know, clear your payables in a more efficient manner with Same Day ACH, so I think that's an organ-, any organization in that space, you know, this is the time to look at it, right?

And if you wanted to, say, go another step further, you know, what about those institutions today? Maybe there's not a clamoring by their account holders, but what if they're paying interest payments out and that's being done by check today? Well, why not send
your interest payments via Same Day for your account holders, right?

Isn't that a nice thing to, to tell someone? Hey, you earned this interest, and you know what? By the way, we're gonna, we're gonna give you your money right away. Just a nice touch. So that's one in-, that's one type of institution.

There's other type of institution that has people within their own account holder-ship that, that wants the services, and these FIs can tell that by looking at their own incoming ACH. You're gonna see a bunch of things from PayPal, or you're gonna see offsetting ADP debits and things of that nature in the corporate accounts. These are FIs that have decided for whatever reason, and a lot of times it's misguided, thinking about the real risks of ACH origination, so they just don't take that step.
Well, looking at Same Day in the environment we're in today, those FIs should reevaluate the thought process because with interest rates the way they are, with, you know, other institutions being able to upgrade services for all clients if they're taking advantage of Same Day, you know, maybe there's more pressure now on this institutions that don't originate today when there is a need for those institutions to look at this again.

Take a step back, board whatever management team, and it just say, you know, hey, what, what are the real risks of ACH, right? Are we worried about counterparty risk? Great, Same Day eliminates some of the counterparty risk of originate.

So maybe they - maybe they'll take a step back or should take a step back and say, you know, Same Day might be the thing that makes us say now we're really worried about someone coming after our account holders because now everybody's upgrading their
services. We didn't even offer the service they were upgrading in the beginning, but now people -- so maybe start simple. You know?

Start with a Same Day bill pay. Start with Same Day P to P, right? Start with, you know, a couple of small companies doing payroll, right? There's an easy way to start this. And, and even within that realm, you can start by just doing Same Day prenotes.

If you really wanted to go slow and take on a new customer and say, okay, we're now just an ODFI for the first time. Same Day kind of makes us nervous. Well, use it for prenotes, right? Just see how the, the operational impact is of trying to get a file of prenotes out within the schedule.

So I think there are two types of FIs, but I do think Same Day can, can crack open benefits for both types. I think this is a perfect opportunity every -- for everybody to review this. So Same Day again in the
The grand scheme of things is just one part of what people talk about when they say faster payments.

So there are gonna be pressures from account holders and, and other stakeholders to move money faster. So at some point, you're going to have to be in the game. This is a good ti-, ma-, maybe this is like a little league compared to high school baseball.

COLLEEN: That's a good analogy. I would wonder now, so I'm an RDFI, and I'm gonna become an ODFI. You just convinced me. What is different for me in getting ready for September 23rd? What do I have to do that, that changes?

SEAN: So if you're, if you're gonna be an FI of Same Day, the things you're gonna have to think about again, it's just the schedules, right? So in RDFI, you know, they're worried about how their receiving points gonna deliver a file. Right? But that's mostly being done for them.
When you're an ODFI, you, you're in control of the schedule, right? You, you're either controlling your originators, getting files to the sending point, or you're actually uploading them yourself. So you do have two worry about the schedules and meeting the 2:45. You know, I don't want to ignore the first morning window, but if you do want something same day, the actual cutoff is 2:45.

So you'd have to, A, worry about schedules. You have to look at exceptions, right, and, and I think exceptions anyway for Same Day are gonna be different because ODFIs that originate -- any transaction starting in September, you may be getting returns the same day in which the forward item settled because the -- there is a new return window.

So I think you have to look at exceptions, and then balancing becomes a little bit different, right? So as an RDFI in phase one, you're getting money into
the settlement account. So can you leave for the night and not really worry about balancing a couple of credits? Maybe, but you probably can't leave if you are trying to balance off-setting debits because when you originate a credit out, what happens to you is you get a debit.

So I think you know, balancing is another area that's gonna be a little bit different for ODFIs in some cases, not all cases. Some RDFIs can't leave until their balanced. So it may not be different at all at some institutions, but balancing's another area for folks to consider.

And then there's, you know, other little things like, you know, make sure your contracts have been updated. RDFIs don't really have to worry about that. And then make sure your vendors are ready in a different way as an ODFI than they need to be as an RDFI.
COLLEEN: That's some sound input and advice. Are there other tips that you would have for members as they consider origination and get ready for that September 23rd, date?

SEAN: Yeah, you know, what I, what I've been telling folks is, is to think about this in the larger realm of things, right? You, you look at interest rate. You know, your income there is -- you look at potential of the CFPB doing something down the line with overdraft fees, right? So those are some of your big revenue areas as an institution.

I think everybody needs to consider origination and payments as a business. And when you do that, and you look at Same Day as the first soiree into that, you know, really getting your policies and procedures in place before that first button gets hit is imperative because I think what -- when you have strong policies -- we've seen this onsite. If you
have strong policies and the procedures align with the policies, you really don't have problems in ACH.

The -- you have problems with ACH origination when the -- when it's unclear who the target audience is, when it's unclear how people are going to be approved, or when they are approved, it's unclear on how things get onto the system or how you're going to do your monitoring of limits that have been approved. So anybody considering origination of any type, including Same Day, before you do it, I would just ensure that everybody knows what you're doing.

And, and the policy -- starting at the policy level of, are we going to be aggressive? Or is this more defensive? That's going to tell you how you're -- you know, what customers you're gonna go after, right? If we're gonna originate only for lending customers, well, then you only target lending customers.
If you're gonna originate for all customers, then you start to look at who are the prime targets for ACH, you know, people with recurring payments, payroll, recurring collections, and then the procedures around how do we meet the established windows by the operators or by our own third parties? So I just think people needed to align the policies, and the procedures, and you'll be fine.

Those that are concerned about origination, you know, if you can just get to talk to them and to tell them what it's really about, once they understand that they drive everything as the ODFI, nobody tells you what you do as an ODFI. It is strictly your business. So once you set the parameters of your business and everybody understands that, ACH origination is not overly risky or overly complicated.
COLLEEN: Are there additional tools and resources or concrete things that FIs can use to help navigate all of this?

SEAN: Yeah, I think that's a, a -- I'm glad you asked that because there's a lot of stuff with Same Day, and I just want to highlight a few of the things. Obviously, there's stuff out on NEACH.org, our pacing payments off of that website. You go out -- you can go out to NACHA's site. They have a Same Day checklist for ODFIs. The federal reserve, the FRBServices.org has a Same Day FAQ.

There's a lot of different things out there. You can even Google, right? There -- some, some folks have the -- things updated online banking materials that you can read to see how things are worded. There's a, there's a lot of places to go to get same day tools and resources. You know, and, and we don't want to push this in a sales direction, but when you
look at NEACH's role for existence is to, to support people.

So the phone number that people have for us is also a resource. We can, we can answer any question that people may have and then direct them to where they need to go. We have recorded webinars that we've done throughout the year about opportunities in the Same Day. We have webinars on the risk of Same Day coming up. We have recordings on the, you know, the basics of Same Day. So there's a lot of tools and resources that people can get directly through us. There may be things your vendors have as well, so there's a lot out there for folks. You've just got to kind of know what you want, and then narrow it down from there.

COLLEEN: Yeah, and to your point, if you aren't sure what you need, I think picking up the phone and calling NEACH is always a good place to start. I think that's a --
SEAN: Yeah, it's pretty easy to do it that way.

COLLEEN: So is there anything else that we didn't touch on that you want to add to today about origination?

SEAN: No, I'd just like to reiterate one thing, though, that again, everybody is starting at the same spot. So the, the large banks, although, you know, staffing and resources, they have an advantage, they're not allowed to do Same Day until you are as well. So I think that's very important for people to understand, that, you know, for both retail and corporate origination, if you roll this out on September 23rd or shortly thereafter, you're on the same timeline as the largest banks in the world because they can't do it before that date.

So I ju-, I just think everybody needs to understand that. Sometimes there's a perception that people have that oh, th-, you know, were already behind the
eight-ball, and, and that's not the case here. So I do think people should take that, take that to heart and understand that.

And then, you know, lastly, to reiterate, the importance of strong policies for understanding where you're going, and then the procedure stop you get there. And no better way to do that that have been a CH risk assessment of this year.

COLLEEN: And I think that's a good point, and I know as folks are navigating all of this, origination is definitely top of mind for many of your members, and they obviously appreciate you taking the time to share more about this opportunity, and, and what they should be doing as the next steps for September 23rd. So thank you again for, for being here and for sharing these insights today.

SEAN: Thank you.

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