

Payments Update 2008

Changes in the ACH and how you need to prepare

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Agenda

- Industry Trends
- The Shift to ePayments
- Payments Risk
- Know Your Customer
- Monitoring Tools
- IAT



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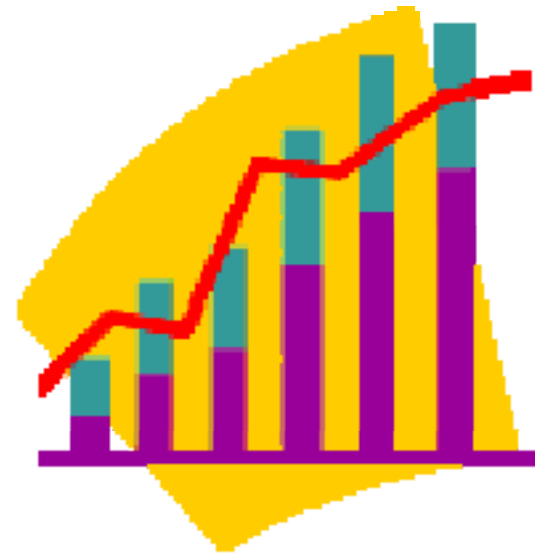


Industry Trends

- 2007 ACH Volume
 - Total ACH Volume Increase - 13.4%
 - 13.97 Billion Transactions = \$28.8 Trillion
 - CCD +9%
 - CTX +16%
 - TEL +13%
 - WEB +27%

- ACH Volume Decreases
 - CIE -3%
 - RCK -9%

- Check Conversion
 - ARC +24%
 - POP +71%
 - BOC Items > 4MM



Source: NACHA -The Electronic Payments Association



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Noncash Payments

	2003	2006	CAGR
Total (Billions)	81.4	93.3	4.6%
Checks Paid	37.3	30.6	-6.4%
Debit Card	15.6	25.3	17.5%
Signature	10.3	16	15.8%
PIN	5.3	9.4	20.6%
Credit Card	19	21.7	4.6%
ACH	8.8	14.6	18.6%
EBT	0.8	1.1	10.0%

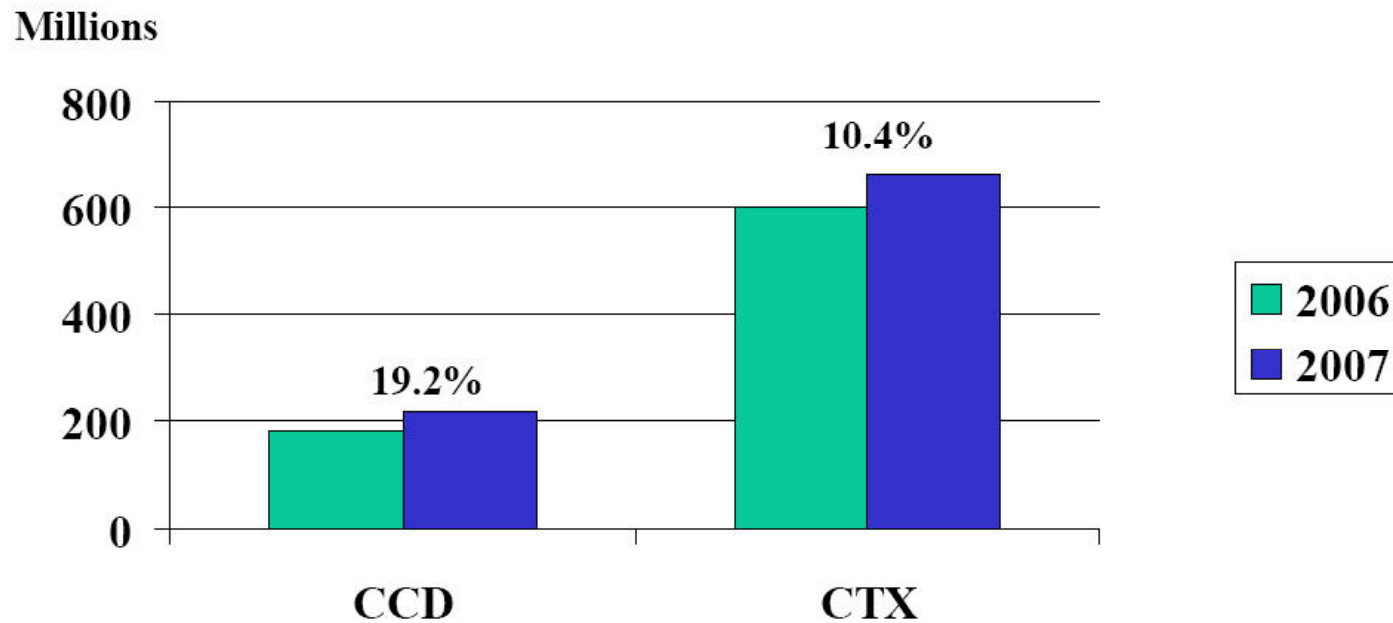
Source: 2007 Federal Reserve Payments Study



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Financial EDI – EDI-Formatted Addenda Records



Source: NACHA -The Electronic Payments Association



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- What does this represent?

A formula for Change . . .

Take Generations

+ Education

+ Technology

= Payments Landscape Shifting to ePayments

“The times they are a chang’n” - *Bob Dylan*



ROCKS, BONES, SHELLS



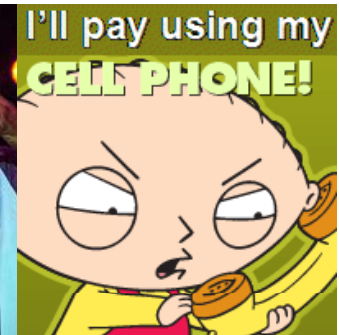
CASH



CHECK



ELECTRONIC



MOBILE



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It IS easy being **Green**

The PayItGreen™ Alliance

- Formed in 2007 to educate consumers about the positive environmental impact of choosing electronic bills, statements and payments over paper alternatives.
- April is PayItGreen™ month!

PayItGreen™ 
Good for the Environment. Good for You.



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PayItGreen™ Statistics

- If 20% of U.S. households switched to electronic bills, statements and payments, we would save enough gasoline annually to drive from New York to Los Angeles and back 918 times and preserve more than 12,000 acres of land from deforestation.
- Average household receives approximately 19 bills and statements, and makes roughly 7 paper payments each month.
- Production and transportation of the paper bills, statements and payment consumes 755 million pounds of paper, 9 million trees and 512 million gallons of gasoline.
- On average, paying bills online takes about 15 minutes.
- The same amount of bills paid via paper takes roughly 2 hours.

Source: The PayItGreen™ Alliance



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PayItGreen™ Statistics (continued)

- According to NACHA, the average household can save up to \$100 on postage and an additional \$50 per year on the cost of checks, late charges and fuel.
- Javelin Strategy research found the majority of identity theft starts with the compromise of consumer information seen on:
 - Checks
 - Bank Statements
 - Billing Statements
- Think about it! Every time you hand someone a check, you're giving them your; Name, Address, Account Number . . . and a perfect specimen of your Signature.
- Customer Education is Key!
- Your Financial Institution Benefits in savings on paper, postage and print costs.

Source: The PayItGreen™ Alliance



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- More Moves to ACH
 - BOC (Back Office Conversion)
 - New Remote Deposit Capture Applications
 - DCT (Deposited Check Truncation Pilot)
 - Decoupled Debit Cards
 - Secure Vault Payments



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- Back Office Conversion
 - Checks received over the counter
 - Converted to ACH in back office
 - Check amount \leq \$25,000
 - Does not contain auxiliary on-us field
 - Notice visible at cashier
 - Additional notice printed on receipt
 - Consumer must opt-out each time at register



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- RDC + ACH
 - Software Decision Engine
 - Least Cost / Expedited Availability Routing
 - Consider Trading Partners
 - Where are your deposited items clearing?



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- Deposited Check Truncation
 - Stemmed from Check ACH Coalition
 - Check Law vs. Reg. E
 - Select Pilot Banks
 - Consumer Checks Only
 - \leq \$25.00
 - Liability Shifted to Collecting Bank (ODFI)
 - Possible Lockbox Applications?



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- Decoupled Debit Cards
 - Initially offered by Capital One
 - Multiple Purchases = Single ACH Debit
 - Customer Education
 - NACHA Bulletin 11/09/07 – Effective 05/05/08





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- Secure Vault Payments
 - Project ACTION (ACH Transactions Initiated Online)
 - Internet Payment Application
 - Consumer selects ‘Secure Vault Payments’ option
 - Redirected to Consumer’s Financial Institution
 - Payment Data directed to FI
 - Customer logs onto Online Banking
 - FI performs a withdrawal from account and transmits payment to merchant

And you thought ACH was just for payroll & direct debit!



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- Risky Business
 - Financial
 - Reputation
 - Compliance





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Financial Risk

True or False

If a bank transmits a payroll file to the ACH Network, and the customer's account does not have sufficient funds, the bank is covered because it can reverse the file.



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- Under NACHA rules, a financial institution may NOT reverse a file due to lack of funding.
- Even if the customer reverses the file, the receiving financial institutions do NOT have to return the funds under NACHA rules.
- An originator may send a reversing file:
 - When a duplicate file was transmitted and they wish to reverse the duplicate file.
 - When an erroneous file is sent and they wish to reverse the erroneous file.
 - Within five days of the settlement date.
 - Originator must send a corrected file.



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Reputation Risk

- Industries / Business Types
 - Digital Content
 - Internet Tobacco Sales
 - Tax Shelters
 - Get Rich Quick Schemes
 - Credit Repair
 - Payday Lending
 - Third Party Senders
 - Any other 'Risky Business'

- Returns
 - Dishonored
 - Contested Dishonored
 - RDFI has final right of refusal

- Industry trends tracked by NACHA
- RDFIs unwillingness to assist



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Compliance Risk

- Unauthorized Returns
 - Administrative Returns
 - NACHA Rules
 - BSA/AML
-
- Old NACHA Fines
 - 1st Occurrence – up to \$250
 - 2nd Occurrence - up to \$500
 - 3rd Occurrence - up to \$750
 - Willful Disregard - up to \$10,000 per month

 - New NACHA Fines
 - 1st Occurrence – up to \$1,000
 - 2nd Occurrence - up to \$2,500
 - 3rd Occurrence - up to \$5,000
 - Class Two - up to \$100,000 per month
 - Class Three - up to \$500,000 per month





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- Know Your Customer
 - Due-diligence
 - ACH Credit Facility
 - BSA / AML Considerations

- Know Your Customer's Customer
 - Third Party Senders
 - A business who processes financial transactions, where its customers act as the originators, and have no relationship with the ODFI.
 - Has the merchant been checked against OFAC?
 - Is the merchant processing for other merchants?
 - (Merchant acting as a Third Party Sender)
 - Is the merchant solvent?
 - Have you performed due-diligence on the merchant?
 - Should you perform risk ratings on all merchants?



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- Risk Mitigation Tools
 - SEC Code Monitoring (Origination)
 - SEC Code Monitoring (Receipts)
 - Return Monitoring



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- SEC Code Monitor (Origination)
 - Define Transaction Types

- Identifying Customer Needs
 - Payroll / Preauthorized Debits - PPD
 - Cash Concentration / Vendor Payments - CCD
 - EDI - CTX
 - Internet Sales - WEB
 - Telephone Sales – TEL
 - Returned Checks - RCK

- Check Conversion
 - ARC
 - BOC
 - POP
 - RCK



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- SEC Code Monitor (Receipts)
 - ACH Debit Block
 - Should be on every business account
 - 24 Hour Return
 - Stops Unwanted Debits by Type
 - Add Filters
 - Company ID
 - Maximum Amount
 - Expiration Date
 - SEC Code



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- Return Monitoring
 - Automated Tracking
 - History Reporting
 - Track by Type
 - Unauthorized
 - R05 – CCD Debit to Consumer
 - R07 – Authorization Revoked
 - R10 - Unauthorized
 - R29 – Corporate Unauthorized
 - Administrative
 - R02 - Closed
 - R03 – No Account
 - R04 – Invalid Account
 - R24 – Duplicate Entry
 - Is your customer re-sending the same returned items?
 - Multiple Extended Holds
 - Provides Bank Protection
 - May Improve Customer Liquidity

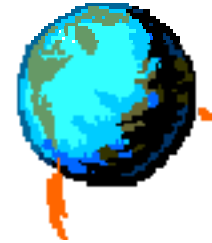


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What Else?

- International ACH Transaction (IAT)
 - Effective March 20th, 2009
 - Replaces current CBR & PBR SEC Codes
 - Complies with BSA Travel Rule
 - Multiple Addenda Records
 - WebDirect will be Upgraded to comply
 - Countries Currently Include:
 - Austria
 - Canada
 - Germany
 - Mexico
 - Netherlands
 - Switzerland
 - United Kingdom





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QUESTIONS





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- Sources
 - NACHA – The Electronic Payments Association
 - <http://www.nacha.org>
 - The PayItGreen™ Alliance
 - <http://www.payitgreen.org>
 - 2007 Federal Reserve Payments Study
 - <http://www.frbservices.org>
 - Secure Vault Payments
 - <http://www.securevaultpayments.org>