NACHA Update
(Not Same Day ACH)

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Topics

- ACH Volume
- Third-Party Sender Registration
- FI-to-FI Messaging
- Standardized APIs
- NACHA Government Relations

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ACH Volume Update

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ACH Network volume growth is robust

Annual Percentage Increase of ACH Network Transaction Volume
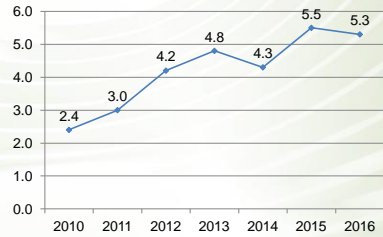
- 2010: 2.4
- 2011: 3.0
- 2012: 4.2
- 2013: 4.8
- 2014: 4.3
- 2015: 5.5
- 2016: 5.3

Source: The data source in this presentation is NACHA, compiled from ACH Operator reports, except as noted

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1 Billion New ACH Network Transactions in 2016 (second consecutive year)

Annual ACH Network Transaction Volume (billions)
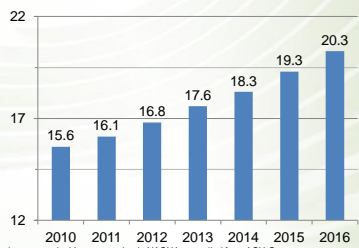
- 2010: 15.6
- 2011: 16.1
- 2012: 16.8
- 2013: 17.6
- 2014: 18.3
- 2015: 19.3
- 2016: 20.3

Source: The data source in this presentation is NACHA, compiled from ACH Operator reports, except as noted

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On-Us ACH volume adds another 20% to the total universe of ACH transactions

ACH On-Us Volume (billions)
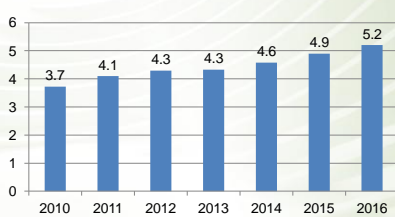
- 2010: 3.7
- 2011: 4.1
- 2012: 4.3
- 2013: 4.3
- 2014: 4.6
- 2015: 4.9
- 2016: 5.2

Source: NACHA annual ACH volume survey of financial institutions

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Reported ACH "direct sends" are a small fraction of total volume – under 0.5%
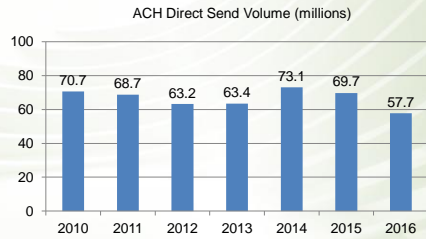
ACH Direct Send Volume (millions)

Year	Volume
2010	70.7
2011	68.7
2012	63.2
2013	63.4
2014	73.1
2015	69.7
2016	57.7

Source: NACHA annual ACH volume survey of financial institutions

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WEB debit growth accounted for 50% of ACH Network growth in 2016

SEC Code	Increase/Decrease	% of total
ARC	-121,289,993	-11.94%
BOC	-21,403,950	-2.11%
CCD Debits	50,375,570	4.96%
CCD Credits	94,992,963	9.35%
CIE	-516,689	-0.05%
CTX	6,294,501	0.62%
IAT	9,360,740	0.92%
POP	-44,787,491	-4.41%
POS	14,445,907	1.42%
PPD Debits	159,762,857	15.73%
PPD Credits	296,137,367	29.16%
RCK	-434,170	-0.04%
TEL	39,983,957	3.94%
WEB Debits	514,035,778	50.61%
WEB Credits	21,934,677	2.16%
Total Network	1,015,643,580	100.00%

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Check-initiated transaction volume is rapidly declining, and is now less than 9% of Network volume
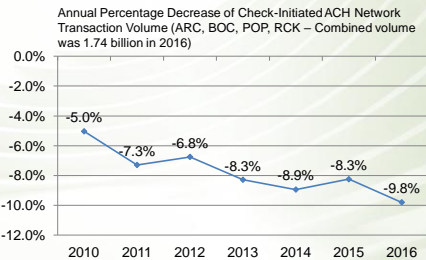
Annual Percentage Decrease of Check-Initiated ACH Network Transaction Volume (ARC, BOC, POP, RCK – Combined volume was 1.74 billion in 2016)

Year	Percentage
2010	-5.0%
2011	-7.3%
2012	-6.8%
2013	-8.3%
2014	-8.9%
2015	-8.3%
2016	-9.8%

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Native electronic transaction volume originated by financial institutions is increasing robustly

Annual percentage increase of native electronic ACH Network transaction volume originated by ODFIs (i.e., excludes Federal government volume)
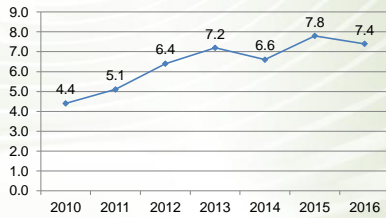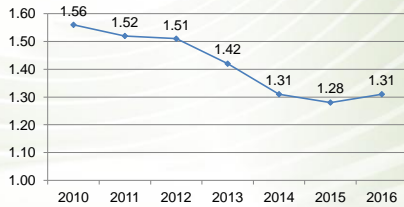

ACH Network transaction quality has improved over the last few years

Annual ACH Debit Overall Return Rate

ACH Network transaction quality has improved over the last few years

Annual ACH Debit Unauthorized Return Rate
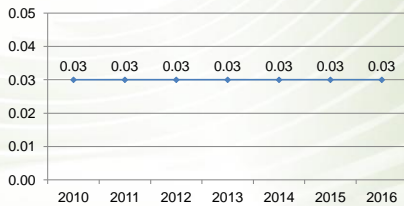
4Q 2016 unauthorized returns totaled approx. 920,000, for a total amount of unauthorized fees assessed of about $4.1 million

Third-Party Sender Registration

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ODFIs - Get Ready to Register

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- The Rule becomes effective on September 29, 2017
- Initial registrations must be completed by March 1, 2018
- All ODFIs should be preparing now

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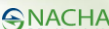
ODFIs – Implementation Checklist

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- Review current clients for TPSs
  - If none, submit statement indicating no TPS clients

- For ODFIs with Third-Party Sender clients
  - Collect or ensure all information for initial registration is available for all identified TPSs
  - Develop procedures for submitting initial registrations, both for current TPS customers and new TPS customers after Sept. 2017
  - Develop procedures for submitting updates to registered TPS
  - Develop procedures to be able to respond to requests for supplemental registration information
    - Be able to collect/have access to required information

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Registration

ODFI Management Screen

TPS Relationship Management Screen

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Bulk Upload TPS File

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| HOME | ODFI | TPS | USER MANAGEMENT |

Bulk Upload File

Browse...
UPLOAD FILE

Download sample Template Files for Bulk Upload
• Pipe Delimiter File Template
• Excel Template
• XML Template

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FI-to-FI Messaging – Concept and Initial Results of Request for Information

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Concept at a Glance

- Financial institutions would utilize non-monetary ACH Entries and supporting Addenda Records as messages and responses to request and provide various types of information related to ACH transactions:
  - Proof of Authorization
  - Converted check copies (Source Documents)
  - Written Statement of Unauthorized Debit
  - Additional information related to an Originator
  - ODFI-requested returns
  - Trace Request
  - Other
- Currently, these types of requests and responses occur outside the ACH Network, and are mostly manual with associated costs

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Concept at a Glance

- The ACH Network currently supports several types of non-monetary messages
  - Prenotification – used to validate account information
  - Notification of Change – corrects routing and/or account information
  - Death Notification – allows federal government agencies to notify FIs of the death of a beneficiary
  - Enrollment – allows federal government agencies to accept benefit enrollments
- New non-monetary messages are similar in concept to these existing messages and could lay the groundwork for other innovative uses of messaging in the ACH Network

Use Cases for DFI to DFI Messaging

- The *NACHA Operating Rules* require that Financial Institutions respond to inquires for copies of required records within ten banking days:
  - Proof of Authorization
  - Source Documents/Converted Check Copies
  - Written Statement of Unauthorized Debit (WSUD)

Use Cases for DFI to DFI Messaging

- In addition to sending and receiving copies of requests for documents required under the Rules, an ACH messaging framework could be used for other ACH-related functions:
  - ODFI-Requested Returns
  - Additional information related to an Originator
  - Trace Messages

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Concept Rationale

- Current processes for handling these types of requests between institutions are manual and result in the following consequences
  - Inability to make the request and ensure receipt
    - Appropriate staff to contact at counterpart DFI, how to contact, and timing of receipt
    - Jeopardizes the ability to expect timely response and affecting, in some instances, the ability to act upon customer inquiries
  - Increased cost of ACH exception processing
    - Duplicate/Non-response processes established in ACH operation areas

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Concept Rationale

- Anecdotal information indicates that requests for copies result in
  - Response times in excess of the Rule timeframes
  - Staffing necessitated for handling duplicate and triplicate requests
- NACHA is requesting information on use cases
  - Number of requests received within and outside of designated response times
  - Staffing and other costs related to processing requests

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DFI to DFI Messaging Anticipated Benefits

Automating the process for sending and responding to requests via the ACH Network would provide the following benefits
- Certainty on how to make a request
- Known timeframe of receipt and traceability
- Consistent process/ubiquity
- Potential ability to handle requests pertaining to multiple Entries efficiently
- Ability to pass request electronically downstream
- Acceptance by regulators/auditors
- Additional security
- Mandatory response – negative or positive

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DFI to DFI Messaging Technical Components

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- The Product Innovation Rules Work Group and a Project Technical Sub-group developed ACH format specifications
- The following new ACH format and data elements are being put forth for comment
  - New Standard Entry Class Code – MSG
    - Allows for segregation of messaging batches
  - New Entry Description – DFIMESSAGE
    - Allows for batching of messages of different types
  - New Transaction Codes
  - New Addenda Type Codes
  - New Message Type Codes
  - New Response Codes

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Concept – Preliminary Review of Respondent Comments

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- Could the use of DFI to DFI Messaging reduce or eliminate costs and manual processes associated with making and responding to these types of requests?
  - Yes – 68%
  - No – 13%
  - Don't Know/No Opinion – 16.7%
- Agreement that the use of DFI to DFI Messaging via the ACH Network should be mandatory for all financial institutions
  - Yes – 73%
  - No – 17%
  - Don't Know/No Opinion – 8%
- Do the benefits of DFI to DFI Messaging outweigh the potential impacts and costs?
  - Yes – 37%
  - No – 18%
  - Don't Know/No Opinion – 42%

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Concept – Ongoing Work and Next Steps

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- NACHA and rules groups will continue to analyze RFI responses
- Primary is to learn as much as possible about the opportunity size for the various use cases
  - How many, how much, etc.
- Initial review suggests enough industry interest to continue rulemaking and develop specific rules proposals

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Standardized APIs and Potential Roles for NACHA

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What are APIs?
Does this look familiar?

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Application programming interface (API)

Set of **programming instructions** Lets one software application ask another to perform a task or a series of tasks	**Always on** and communicating **real-time**
Enables **direct and real-time communication** between **back-office systems** e.g., corporate-to-bank or bank-to-cloud ERP	

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Financial Institution APIs

- U.S. Financial Institutions are leveraging different types of APIs
  - **Private APIs** are closed to a single organization that is leveraging software to enable internal systems to "talk" more efficiently
  - **Partner APIs** are opened to selected partners based on bilateral agreements
  - **Standardized APIs** – *not yet leveraged but a topic for definition and discussion*
    - *Goal: Gain efficiencies in areas where standardization and consistent use of APIs provides benefit to all performing similar functions*

- Standardized APIs would be documented, available interfaces developed and agreed to by all who participate
  - They could enable a consistent, predictable method of integration between banks, customers, payment processors, and others

  Standards are the rules of the road that everyone understands.

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accenture

NACHA's role as a rules & standards body makes it well-suited to develop Open API standards

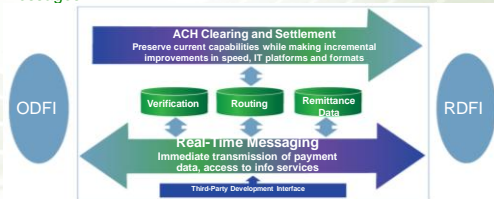*A few guiding principles will form the basis for this work.*

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The selected API must:

❶ Maintain or improve the safety and soundness of electronic payments

❷ Improve the efficiency of current electronic payments services

❸ Address gaps in the current ACH network

❹ Drive speed of change in the ACH network

❺ Have a positive economic effect on ACH network participants

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NACHA's ACH Blueprint of 2012 envisioned a real-time messaging system among financial institutions for ACH-related messages

ODFI

ACH Clearing and Settlement
Preserve current capabilities while making incremental improvements in speed, IT platforms and formats

Verification Routing Remittance Data

Real-Time Messaging
Immediate transmission of payment data, access to info services

Third-Party Development Interface

RDFI

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NACHA's Government Relations

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NACHA Government Relations - What We Do and Why We Do It

- Advocate for the ACH Network, the NACHA Operationg Rules, and private-sector rulemaking
- Industry Outreach
  - Financial Services
  - Consumer Groups
  - End Users
- Regulatory Outreach
  - Regulator meetings
  - *Rules* engagement and education
- Congressional Outreach
  - ACH/NACHA overview – targeted to financial services
    - Rule/Initiative policy specific as needed – e.g. Same Day ACH
    - Capitol Hill Day(s)
      - In-District Meeting Assistance

39
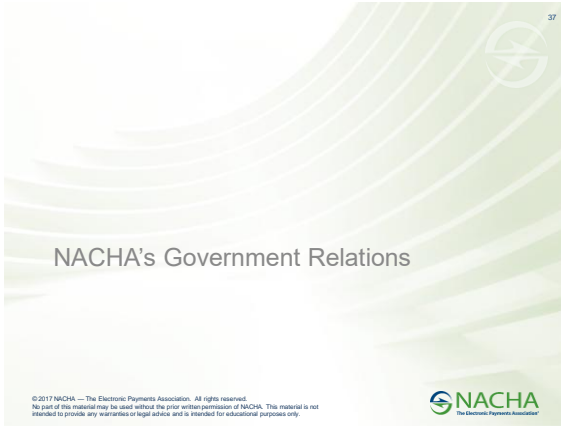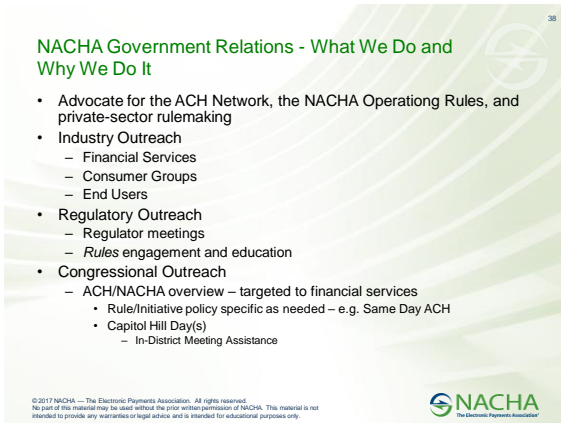
Collaboration and Dialogue with Industry Groups