



Faster Settlement and Funds Availability: Same-day ACH

March 14, 2018

Same-day ACH is a popular topic in payments circles. To further the conversation, the Atlanta Fed's Retail Payments Risk forum recently convened some payments experts to discuss some aspects of this important innovation.

Meredith Elmore: Good afternoon, and welcome to the Federal Reserve Bank of Atlanta's Talk About Payments webinar, Faster Settlement and Funds Availability: Same-Day ACH. My name is Meredith Elmore, and I am with the Center for Learning and Innovation, and I will be your moderator for today's call. Today we are joined by Jessica Washington, Jodi Moore, and Wendy Radford from the Federal Reserve Bank of Atlanta.

Before we get started, I do want to cover a few brief call logistics found there on slide two. If you have not had a chance to join us in the webinar, please use the link that was provided to you in your webinar invitation. Please note that this call is being recorded, and everyone's phone lines have been muted.

We will be taking questions at the end of today's session, but please feel free to submit those at any time. You can submit your questions by clicking the "Ask Question" button located in the bottom left-hand corner of your webinar player, or you can email rapid@stfs.frb.org.

And at this time, I do want to turn the call over to Jessica to get us started.

Jessica Washington: Thank you, Meredith, and good afternoon and welcome, everyone, to the quarterly Talk About Payments webinar, presented by the Retail Payments Risk Forum of the Federal Reserve Bank of Atlanta. My name is Jessica Washington. I will be your moderator for today's discussion on Faster Settlement and Funds Availability: A Look at Same-Day ACH.

Our disclaimer: the views expressed in this presentation over the next 60 minutes or so are those of the presenters. They do not reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

So this is a historical week in payments, as most of you probably realize by participating on the webinar today. This upcoming Friday, March 16, is the implementation deadline for phase 3 of same-day ACH. The Retail Payments Risk Forum, like you, has been tracking same-day ACH for some time, and we're very excited to discuss it today with some very special guests.

Before we begin, a few words about the Retail Payments Risk Forum: we are a research and outreach division at the Federal Reserve Bank of Atlanta. We conduct original research. We also publish a weekly blog called *Take On Payments*, and we engage with the payments industry through speaking engagements and also hosting events here at the Bank. Our mission is to identify and detect and encourage the mitigation of risk in retail payments, but also—and importantly—to contribute to the stability and the efficiency, and the resiliency of payments. And we work with all financial institutions, regulators, law enforcement, and other industry participants to accomplish these objectives.

And with that in mind, our audience today may be a mixture of payments expertise. So we have designed this webinar, this discussion, to be inclusive of the diverse audience that we typically engage with. So I'd like to take the opportunity to introduce our guest presenters today. First, let's welcome Jodi Moore, from the Customer Relations and Support Team. Jodi?

Jodi Moore: Good afternoon. As Jessica mentioned, my name is Jodi Moore, and I'm a senior account executive with the Federal Reserve Bank. My job is to build a partnership between the Federal Reserve and various community banks and credit unions, large and small, as it relates to financial services such as ACH, checks, cash, wire, etc. The financial institutions that I call on are generally in Tennessee, Georgia, Alabama, and Louisiana.

Washington: Thanks, Jodi. And now let's introduce Wendy Radford, from the Retail Payments Office.

Wendy Radford: Thanks, Jessica. My name is Wendy Radford, and I work as a product liaison in the Retail Payments Office of the Federal Reserve Bank here in Atlanta, Georgia. I work closely with NACHA and the Fed's internal departments, such as product and software development, to implement those NACHA initiatives that impact the Federal Reserve Bank as an ACH operator, and to provide corresponding products and services that meet the needs of our ACH and check customers. In an effort to educate, inform, and raise awareness, our group also conducts a lot of outreach through external conferences and forums.

Washington: Thanks, Wendy. I know I feel very fortunate to have the company of Wendy and Jodi. I call upon them often to discuss changes in payments. And even though we do have some overlapping expertise, we all have combined day-to-day work that covers a lot of ground, and some different perspectives. So it's a great opportunity to have us all here to discuss the same thing in different ways.

So, on the next slide, we're going to look at where we kind of begin with all of this same-day ACH talk. And we will talk about some of the technical details, but we are really hoping to provide a useful "state of the industry" checkup so that the providers of financial services—our audience today or payments services. more specifically—can better address the needs and expectations of their end users in this changing global economy.

So I will note that the Federal Reserve did organize a Faster Payments Task Force in June of 2015, with the goal by 2020 to realize a U.S. payments system that's faster, ubiquitous, broadly inclusive, safe, and highly secure and efficient. And now, that task force has concluded as a task force and is now the FedPayments Improvement Community. During the task force's work they did publish a final report, a call to action, that recommends measures necessary for achieving a faster payment system. One part of that report, and their overall work of the task force, that I'd like to point out for our purposes today is that the term "faster payment system" refers to a payment system in which competing solutions can interoperate efficiently. And that kind of brings in our narrow discussion of same-day ACH today—it's one of the solutions. Jodi, did you have anything to add?

Moore: Well, I just wanted to mention a couple of things that are happening this year that you may want to pay attention to. As the industry moves to faster payments, the Faster Payments Task Force felt it was critical to establish some rules surrounding these types of transactions. So a special team called the Governance Framework Formation Team is working on this project, and there should be a paper published sometime this year—I believe it'll be in the summer, but don't quote me on that.

Additionally, the Federal Reserve is evaluating how we might enhance our settlement process to be closer to a 24/7-type process, and also how the Federal Reserve might be involved with faster payments operationally. So more information will be coming throughout the year, and I would encourage you to stay tuned in to what is happening with the faster payments initiative. Check the website that's noted here, keep your management apprised, and also think about faster payments in your strategic discussions.

Washington: Excellent, thanks so much for that insight. So on the next slide, let's discuss some of the key takeaways when considering faster payments solutions. This slide is not a comprehensive list—it's an illustration of some of the solutions that you may have heard commonly used associated with faster payments. So it's not an endorsement or a comprehensive list, but just to point out that some faster payments initiatives are legacy systems, or networks or platforms that are introducing new faster functionalities. Some faster payments solutions you might hear about or analyze are actually user interfaces, or products built on top of pre-existing rails, and then some are just brand-new networks and platforms altogether.

And so, to dive into same-day ACH, our topic today: the banking industry developed the concept for an efficient payment system to be an alternative to checks starting in the late 1960s, early '70s. I like to argue that ACH was the first blockchain in payments. And so we should point out that ACH wasn't necessarily spun from the Faster Payments Task Force. It was in fact underway via the NACHA rule-making process, and that's a process that includes the feedback of participants. Wendy, I know that you worked very closely with NACHA and the NACHA community—could you tell us a little bit more about that process, and what it means from the Fed perspective?

Radford: Sure, thanks, Jessica. So same-day ACH is not really a new idea—it's been a concept in the making for some time. I won't go into all the historical events that led up to our same-day ACH and what it is today, but I will tell you: the two ACH operators, the Federal Reserve and the Electronic Payments Network, we both worked very closely with NACHA during the entire rule-making process, as operator impacts must be considered.

If you don't have a good feel for the rule-making process, I have to direct you to the nacha.org website. They've got a great explanation, and some really good visuals, on how that whole process works. So check that out if you don't completely understand the rule-making process.

So again, we work with NACHA through that process, and then when they release the request for comment—the RFC—we respond to them, just like any other entity. However—and this is something you may not know—neither of the operators get a vote on a rule change. The Electronic Payments Network, the Federal Reserve Bank, as well as the Federal Reserve Board of Governors and the fiscal services unit of the U.S. Treasury all serve as liaisons to NACHA during this rulemaking process. So again: we don't get a vote, but the NACHA membership—those financial institutions and entities that are members of NACHA—do get the vote. So as you know, NACHA released that RFC in 2014, and the ballot was passed in 2015, and here we are.

Washington: Here we are.

Moore: So I would also just encourage financial institutions to send comments to NACHA—and to their regional payment association—in particular, when these comment periods are open. Because it's important that every institution's voice be heard, whether you're large, small, a bank, a credit union—all voices are very important through this process. I would also say, pay attention to the potential changes in the payments system. As you hear information from your processors and from other entities, just pay attention, remain informed, and provide strategy options for your institution.

Washington: We might have some more to come at the end of the presentation on that. To echo how important it is to cast your vote, and to put your comments in: some of you might remember back in August of 2012, when the first attempt at same-day ACH did not pass. With this second attempt they were able to clean up the proposal, and here we are again. So do vote and comment.

On the next slide, we will look at the distribution of noncash payments—and we didn't want to dive too deep into statistics today, but this is an important slide. The triangle on the left—and this comes from the Federal Reserve Payments Study, the most recent reports were out at the end of last year—the triangle on the left is the number of payments by type. On the right is the value of payments by type. They are inverse to one another, so while the number of card payments is enormous, the value of card payments is minuscule compared to the value of ACH payments. So ACH payments really is our workhorse of the payment rail.

This chart says it better than any other, when it comes to the importance of ACH to our economy, the heavy lifting that goes on. We think ACH will likely continue to be so, for at least how far we can see. Many new fintech innovations and products and services continue to utilize the ACH network when introducing their innovations, and especially now with same-day capabilities, which we'll discuss some of the use cases, are based on ACH due to the resiliency of the network.

And I thought I would point out that the United Kingdom's domestic ACH network, called BACS—they actually experienced record volumes last year, continued growth in their domestic ACH, even though they've had the adoption of a brand-new faster payments rail, called Faster Payments, and that was implemented as far back as 2008. So they're continuing to see the need for multiple options for their payments system. And our geographies may have their own unique roadmaps to faster payments, but it could be an indicator as to maybe seeing ACH still around for a while, no matter what solutions are out there.

So on the next slide, we kind of slow down for a minute to a fundamental ACH transaction flow, but we want to point out some important things to note, to really go back to—as you're pulling ahead in faster payments, when things seem hectic—things to remember when it comes to same-day ACH. Of course, it's a batch-processing, store-and-forward system, and the five participants are all necessary. The originator, in green, is the company/business/government agency, or it could be an individual, and they have been authorized by the receiver to either credit or debit that receiver's account. So the receiver truly is the beginning of all transactions. They're expecting something, they're the initiating entity. But the originator has the power to start the ACH network, and they technically begin the process.

So for a same-day ACH transaction to start, the originator has to choose to put that same-day into the Effective Entry Date field. Wendy, do you want to help me just kind of explain the Fed's role in this process?

Radford: Sure, Jessica. So as an ACH operator, we—simply put—receive input files from originating DFIs, originating banks. We process those transactions, and then we figure out where they need to go: who is the receiving bank? So we create outgoing files with those transactions that are distributed to the receiving financial institution. Settlement then takes place, and our process is pretty much done.

As a payment service provider, we also provide value-added services, such as FedPayments Reporter reports, and also some risk reporting functions. So it was a process that we were kind of already doing. We just had to replicate that a couple more times during the day—and I'm putting it very simply, but basically that's what we did: we just created two new processing windows with two new settlements.

Washington: Excellent. So let's go forward to the next slide, and we'll start getting into a little bit of the technical details of same-day ACH.

Radford: Sure, so on this slide are the nuts and bolts of same-day ACH. To allow the industry to get acclimated to the new processes, the full implementation of same-day ACH was broken down into three phases, with credits eligible for same-day ACH beginning in September of 2016, and then debits following a year later in September of 2017. NACHA and the operators set up two same-day ACH processing settlement windows to allow for morning and afternoon settlements. The morning window deadline is at 10:30 a.m. eastern time, so all input ACH transactions have to be received by the ACH operator by 10:30 a.m. Sometime around 11:30 or 12:00, we process those transactions, and the transactions are placed in an outgoing file, to be sent to the receiving bank. And then at 1 p.m. eastern time, settlement takes place.

The afternoon window works the same way. The deadline is at 2:45 p.m., so again—all input ACH transactions have to be received by the ACH operator by 2:45 p.m. Output files will be distributed to the receiving banks by 3:30 or 4:00, and settlement occurs at 5 p.m. eastern time.

Something you may need to take into consideration is that the 10:30 a.m. and 2:45 p.m. deadlines are our operator deadlines. Your financial institution or processor may have earlier deadlines—perhaps they wanted to build in some buffer time, due to the processes that they may need to undertake prior to sending those transactions to the operator. So that's just something to keep in mind.

So as you know, the first two phases have been completed—successfully, I might add—and now we're looking for phase 3 to be implemented this Friday. Although no software changes were required for this phase, this is more of a procedural type change for the receiving banks. So the receiving banks, now they're getting their entries early. Now it's time for them to make those credit entries available to the receiver by 5 p.m. local time. Which makes sense—you're sending the transaction earlier, your receiver should have access to it earlier. Anecdotally, I understand that many financial institutions are already doing that, but I don't have "for sure" stats, so I don't want to share any incorrect information there.

Washington: And Jodi, anything to add from the phase/technical aspect, and the deadline?

Moore: Well, I would just remind everyone that the deadlines are in Eastern Standard Time, so for Central Time Zone, that would be 9:30 and 1:45 would be your deadlines. Of course, being that it is Eastern Standard Time, it has made it more difficult for the West Coast institutions to really participate with same-day ACH—although some still do. With the questionnaire from NACHA that was recently out—and I think a vote will be coming soon, is the vote still out there?—the extended time period or a third window is being considered. So, again: pay attention, and keep track of when, if that does come to fruition.

Washington: Absolutely.

Moore: I would also note that with same-day, we actually have a new benefit that is not really for just same-day entries, but for any type of return, which is the 4:00 deadline. In the past, ACH returns needed to be in to the Fed by 2:00 p.m. eastern time to have same-day settlement. We've actually had same-day settlement for returns for a very long time. With the implementation of the same-day windows, that time frame was actually extended to 4:00, so a number of institutions didn't have to make any changes at all, but those that were actually sending after 2:00 were now gaining the benefit of same-day settlement on their returns.

Washington: Thanks for pointing that out. I know many consider faster returns a way to mitigate risk, so it's great that that's even more available.

On the next slide, we can start to talk about some fun use cases for same-day ACH—and the funds availability aspect of that case, just to point out where a settlement was happening in the prior phases. And phase 3, making those funds available by 5:00 increases resiliency and dependability for customers, as a product of the whole.

So to look at how financial institutions are preparing, how they're kind of teeing up—not just financial institutions, but payment processors or originators, corporate customers. Jodi, you have spent a lot of time kind of one-on-one working through some of these use cases—what are you hearing now that we're in phase 3? Or what are you seeing as some use cases?

Moore: Well, I see three different types of DFIs. I see the financial institutions—these can be credit unions or banks—that are anxious to utilize same-day, and they are working with their customers or with their internal processes, and they are actively sending same-day transactions. And the volume is growing for them.

I see some others that are absolutely saying "no" to same-day. It's just not part of their process right now. They may not be receiving any requests for it, and they're not looking at same-day transactions at all—from a sending perspective. They all receive same-day transactions.

And then the third is those that are kind of sitting on the fence and waiting right now for probably the software, their software vendor, to be more up to date for them. It could be that their platform is a little outdated and they have to upgrade to a new platform in order to really have the bells and whistles that they want for same-day transactions. Or it may be that they are looking at internal procedures and how they want to want to roll out same-day. So there are the DFIs that are very strongly moving forward with it, those that are still thinking about it, and others that are saying "no" to it.

Washington: And then, what kind of reporting would an FI want to establish just to determine if maybe unintentional same-day is going in, or maybe they're unaware, or...what kind of operational monitoring should be put into place?

Moore: Well, there are probably reports that a processor can give to a financial institution. But I will also indicate that, for sure, you can receive an originated batch report from the Federal Reserve—this is through our FedPayments Reporter Service. We have been providing these reports through the phases to help you prepare for the unintentional same-day transactions, and now the report is through our FedPayments Reporter Service, and you can request to see only the batches that are same-day, or you can see all of the batches for the day, the week, or the month to help you identify and work more with the customers that are sending same-day transactions, whether they are intentional or unintentional. And this report can be a very effective tool for knowing your customer, knowing their volumes, seeing the sending patterns that they might have. The originated batch report can be very effective for you.

Washington: So you'll be able to see the times of day that they're used to sending, and maybe if they would be just naturally eligible.

Moore: Yes, exactly. It's a great report for both operations and treasury management staff.

Washington: Excellent. You said there are three kinds of basic FIs—and I forgot to mention this earlier when we were talking, but—I heard of also another kind of, not necessarily FI, but a customer, the procrastinator customer that learns that they have the opportunity to send same-day. They used to be fine with the next-day settlement, and now all of a sudden they say, "Well, I might take that extra day to just sit on the file." [laughter] So beware of procrastinator files as well. Wendy, I know you had some good use cases and analogies, and how to work through the review of reports and treasury management, and how to consider who and when and why.

Radford: Yes, I think same-day ACH is just an option. You don't have to use it. It'd be great if you did, but I kind of think of same-day ACH as going to the post office. So let's say you waited until the last minute to send that birthday gift to your mom, and you didn't use Amazon Prime, so you've got to take this package to the post office. So you've got a post office down the street, and you go down there to mail the package and you find you can send it a variety of ways. If you're really late, does it need to be there tomorrow? Is mom going to be hurt if it arrives Monday and not Saturday? Probably so.

Maybe you didn't wait until the last minute, and you're mailing it a week ahead. You can just do the regular old parcel post, and it gets there when it gets there. So it's just really an option. How fast does the payment, or package, need to be there? Does it really need to be there tomorrow? Maybe it does. Are you willing to pay that \$15 or \$20 to overnight that package? And I'm not in any way comparing the price of same-day ACH to mailing a package, but certainly it's an option for you. If you need it, if you want it, it's there for you to use.

Washington: And just knowing consumer behavior—once we tend to realize that we can prolong or wait till the last minute, and have quicker access to funds, and make and receive last-minute payments, we consumers tend to adopt that more regularly. And for businesses and government end users, just improving payment speeds means quicker access to capital, and greater efficiencies in their supply chains, so as those use cases are realized, we may pick up some steam. So on the next slide, Jodi actually has some insight as to the volume. Are we picking up speed, Jodi, or what does it look like to you?

Moore: Well, on this next slide, I believe you're going to see that the volume is definitely picking up. We have two ACH operators, as Wendy mentioned earlier: the Federal Reserve, and the Electronic Payments Network. The yellow bar on this slide indicates the FedACH transactions, and the dark columns are a combination of both operators.

Now, FedACH actually has around 4,000 institutions that are sending same-day batches. This represents nearly a 25 percent increase in participating DFIs since January of 2017. So the visual shows that volume is increasing, but also the number of financial institutions is increasing. On average, the daily volume of transactions are about 305,000 items per day. On the next page—and don't move there yet—but on the next page you'll see that the average is \$1,100 per item. Now, I think we had a question asking about the limit on the same-day transactions. The limit is \$25,000 per item. So the fact that the average is \$1,100 per item right now tells somewhat of a story, but then on the flipside there are plenty of folks that are saying that \$25,000 is too low. They could use the service more if the dollar value were higher.

But back to the graph here: prior to September of 2017, the volume is representing only credit transactions—so sending payroll, sending contingency payroll, maybe some P2P transactions. And so up until September, it's not fluctuating very much—it's pretty steady—but, a good amount of volume. In mid-September, you'll see a spike beginning. This is when debit transactions became eligible.

So we have an increase of the type of business cases, and more transactions happening—maybe credits and debits, for sure, debits—the ability to send balanced files. Then we also have some inadvertent entries, because financial institutions are still maybe cleaning up those effective entry dates with their customers. Notice that by October, though, the debit transactions were equal to, and if not a little more than, the credit entries.

Now you'll also notice there's a spike in December, and this represents continued growth in same-day usage, but it also highlights a particular business case: that of time-sensitive investment. So in December, there was fluctuation with virtual currency purchases, and prior to this, on a regular basis, and still continuing on a regular basis, these types of transactions—the virtual currency—they're processed by their ODFI as originated, same-day transactions, debit transactions as well as credit transactions. That's their business case, is to send them as same-day transactions.

The circumstances surrounding virtual currency changed drastically in December. In other words, the value changed drastically in December, which resulted in growing demand and therefore an increased number of transactions. So the spikes that you see in December, coming down a little bit in January as the value changed again—a little less valuable, I guess—and then also in February. It's still higher than November data, but there is a downward trend. So, bottom line—I think this graph shows that there is interest in faster payments—in particular, in same-day ACH—and we'll be discussing more use cases in some of the future slides.

Washington: Excellent. thanks for going through that. And as you noted, in September, when debits were added this past September, we did hear from quite a few that those that sent balanced files may have been almost waiting to do same-day ACH. And not that we're encouraging the use of balanced files, but that might have been...just through the process, maybe processors weren't ready because of how they were previously set up, or origination software, or whatnot. And then that allowance of debits really kicked us off. It's really surprising, Jodi, that you shared that one particular use case: very time-sensitive investments could really grab hold of same-day ACH, and change our volume fluctuation.

Excellent. So on the next slide, we see the value of same-day transactions. I think the story really is best depicted in the overall volume, but it's great to see the value broken out. At the bottom of this slide you see the average value per payment, at a little over \$1,100. We'll continue to watch the average value. I think that in retail payments, the average value of a transaction can really tell a much deeper story as to how folks are using it. And like you said: we are well under the \$25,000 limit, but we know some folks are limited by that limit. Maybe with the new proposal we might see an increase, and we might see our values and volumes jump a little bit. But as new retail products and services are built on, it might pull the value per item down.

And not to keep plugging the UK, but just because they have a great lesson learned from their implementation of faster payments, and still have the domestic ACH, they also, too, when they implemented faster payments, saw incremental increases in their limit set into their phases as well. So it seems to be a common strategy.

So let's look at the 2017 overall volume, on the next slide. Here is what we've seen so far as use cases. I want to get your reactions as to any surprises. Now, this was an infographic published by NACHA, and so we are able to look at overall volume for the past year. And of course, debits were not introduced until September, but we do see 92 percent of our debit volume is going to be consumer bill payment, or that account-to-account transfer, with 8 percent being a business-to-business payment.

And then for credit volume, direct deposit is our tried-and-true ACH purpose. Those credits, about 47 percent—so not quite half—and then business-to-business payments, 33 percent. Person-to-person payments is a very hot topic today, and we're seeing some use cases there at 12 percent. Then also, consumer bill payment, from a credit side. So I'll open it up to Jodi and then Wendy, for some comments as to the overall actual use going on.

Moore: You'll see a lot of marketing material that'll say "B2B" and "B2P" and all of that, and that might resonate with some, but I like to hear examples. I like to put some names to the types of transactions that are happening. And so, when I am visiting with my financial institutions, if they are active in same-day ACH I try to ask them, what are they hearing from their customers? Why are they doing this? Who is doing it?

So obviously, on the credit side, as Jessica mentioned, the direct deposit is a high percentage. Sending emergency payroll, from the get-go, has been one of the examples that most of the volume has come from. But additionally, we are seeing that DFIs are—well, actually, I'll say contingency payroll, but that can be from the customer perspective or from the financial institution's perspective. If they forget to send a file, same-day ACH now becomes a very good answer for that. But I also hear that some institutions are using same-day ACH to help improve their process. In particular, an example where a customer was receiving their payroll sheets on Wednesday and the payroll person was then preparing the payroll data. They were cutting checks, they were having to distribute checks, they needed to have those out by Friday because it was so critical that the staff be paid on Friday.

So by moving to ACH, they realized that they could streamline their process, so they still received the payroll sheets on Wednesday. They prepared the file, but now they're able to utilize either regular ACH—or, Friday morning, use same-day ACH. Their employees are satisfied, because they're still getting paid on Friday, but on the back end it is actually taking fewer hours for the person that handles the payroll. So she or he can be finished with it by Friday morning, and not having to worry about getting those physical checks out to all the different locations. So in that particular case, it's been a great advantage, and it helped streamline their whole process.

Additionally, I see that some banks have a policy when the payroll file is sent in on Wednesday that they prefund, or they hold the money from that corporation's account until Friday, when settlement occurs. So now, companies can choose to send their file on Friday morning for same-day ACH transactions—which means that their company financials...it might work, in their case, to have their company financials be in a better position.

Same-day payroll has also been noted as a benefit for companies that handle contract or hourly staff members. One example that I heard was a commercial customer that manages contract nurses and doctors. So they are now using same-day ACH to satisfy their payroll because they can make it quick. It's for these contract individuals, and both parties are then satisfied. Another example would be Uber drivers or other part-time employees, so it can become an employee benefit when a company is able to make same-day payroll.

In addition to sending same-day payroll, then, companies certainly have figured out that they can send other types of business payments via same-day. So examples would be: an industrial company making a same-day payment to meet the "10-day, 10 percent discount" deadline, or the 45 payment cycle, a realty company making payments for rental maintenance or cleaning, a library making nonprofit split payments—or even a nonprofit entity sending donations.

So there's a wide variety of commercial customers, both large and small, that have realized benefits. And I think an important point with both debits and credits is finding the niche for your commercial customers that a same-day transaction fits for.

On the debit side, a lot of utility companies—whether it's electricity, telephone, cable, gas, water—a lot of utility companies are using same-day transactions. Now, what I've understood is that a lot of them, they've set up a process where I'm going to debit you on the 12th for this cable bill or the phone bill or whatever. They send it through their financial institution, but the payment doesn't come out until the 13th or the 14th. Which—okay, so you could see the consumer might be happy that it's delayed, but the consumer can also be unhappy that they have no consistency of the transaction. So being able to send it through as same-day has shown that the consumer prefers the certainty of the timing.

And then, also—you know, I've heard of monthly newspaper billing, an accounting firm billing for services rendered, a marina billing for docking fees, a charter school debiting for tuition. I mean, there are all kinds of different examples that having the same-day settlement or the same-day transaction can be a benefit to your customer. For the next customer, they may say, "No, I'll just do it the normal way." But there are a number of commercial customers that are preferring to send it as same-day.

Washington: That is great, that's another real example that you've seen and heard from. Anything, Wendy, that you've...?

Radford: Yes, Jessica. I would say, for all of our listeners: if you haven't found a use for same-day ACH, you will. If you're a consumer or a business, you should ask your financial institution about it. I know I'm still waiting for my bank to offer it. I would like to do the account-to-account transfers, and the person-to-person transfers as well.

So if you're a financial institution, you should have it. If you're not offering same-day ACH, you should think about it because this is something your competitor probably will offer. So it's something to think about, especially if you have business customers who are generating payroll. And I'll go back to my post office example: I don't need to send a package every day overnight, but it's nice to know that that option is down the street if I need it. So you want to have that ready for when someone needs it.

I will also share that emergency payroll is probably one of the top use cases for same-day ACH, but we've heard about other scenarios that most of us wouldn't even consider. So there was one situation in which erroneous debit entries were made to thousands of consumer accounts through the traditional next-day ACH, and those entries hit the consumers' accounts Monday morning. So imagine yourself going into your bank account Monday morning and finding not only are you overdrawn, but you had maybe three or four \$1,000 debits. That's enough to ruin your week.

So what happened was, after discovering the error, the originating bank was able to send thousands of credit reversal entries using same-day ACH, and that was a perfect example, because those reversals actually settled on the same-day as the debits. You know, I'm not saying everything was perfect at the end of the day, but certainly, the situation could have been so much worse if same-day ACH had not been available.

So there's kind of an exception-type case. We don't want to advertise problems, but this was a problem that was really helped out so much with the same-day ACH, so there's an example for you that don't probably hear every day.

Washington: Well, operational risks happen. There are technology failures, human mistakes, and I've definitely heard about those erroneous debits going through, and I've heard about examples of forgetting payroll—so I'm proposing the new acronym for same-day ACH be P-H-E-W [laughter]. Phew! We have same-day ACH!

But yes, it is a competitive advantage. I know a lot of folks will say, "Have you received your paycheck yet?" and will compare: "Does your bank post it early? When do you get it?" So where phase 3 is funds availability, some have been making funds available by 5:00 p.m. or earlier in some cases, prior to this phase. So it might be kind of uneventful for a phase in some particular cases, but for others it's really kind of ringing the bell, saying, "We should get started."

That kind of brings us to our conclusion, but we have a few discussion items to bring up before we go to questions from the audience. So on our discussion slide, I want to pose a couple of questions to Jodi and Wendy, who definitely have boots on the ground and talk to folks that are implementing or thinking about it. There are varying models that might exist, and so based on the network flow we know that the ODFI ultimately serves as a gateway to being able to process same-day. Are financial institutions implementing ACH? Do they have a strategy? Is it really alive and well? Jodi?

Moore: I would say that every financial institution is talking about same-day ACH, if they have not already implemented it. Some have implemented it as a product, and they're charging a fee for that—usually coming from the treasury management group. I also think most institutions have at least thought about it from a contingency payroll perspective, and set a strategy and maybe a pricing perspective that they will charge—potentially a file and a per item, for contingency payroll.

And then I have also talked with institutions that their strategy is just to roll it out. It's not a product. It's a service offering, that if the file is to them in a timely manner, and it has all the criteria that same-day requires—meaning, it's \$25,000 or less, not IAT, comes in in the window of time and has today's effective date—that it'll automatically float through as same-day, and whether they charge for it or not is not the issue. It's the service that they're providing for their customers. So, different strategies by different types of financial institutions.

Washington: Sure, and I definitely have heard of some using it as a demand strategy, where if there is the emergency contingencies they'll take that opportunity to set an originator up for same-day capabilities. And some are moving towards a more evolved strategy, where it's just available right off the beginning of the relationship. So let's talk about, a little bit: any comments on how institutions are operationally managing access, with identifying same-day ACH? Or are they just relying on the effective entry date?

Moore: I think a lot of that depends on whether they are charging for it—if there's a fee associated with it. So if there is a fee, then either their software vendor has it set up so that they can flag a customer for being able to send same-day ACH or they are looking at the...what was that field...the indicator company, the indicator field, like for the same-day 1300, same-day 1800 designation, so that...

Radford: I believe it's the company effective date.

Washington: And that's an optional field.

Radford: I'm sorry, descriptive date—company descriptive date.

Moore: Okay, so in some cases, that's the indicator that it should be same-day.

Washington: And that would be worked out between the customer and their financial institution...

Radford: Correct.

Moore: Correct.

Washington: ...in their agreement, and...

Radford: Yes, the operators and the receiving bank don't have anything to do with that. It's just an indicator for the originator to tell his bank, "Yes, I do intend for this to be same-day ACH."

Washington: Excellent. And as far as marketing and communications go, we know we've got to get everyone in the conversation as far as treasury management, product development, risk management, compliance—but there's a lot of communications necessary when you're ready to roll out your plan. I know that there have been some campaigns—the Regional Payments Associations have some resources available, NEACH had created "Check@5," a consumer campaign—have you heard of that?—that supports the efforts to educate customers about the potential for faster payments to move in and out of accounts, and when they can expect their funds. And that makes regulators and supervisors happy, to have clear and conspicuous disclosures and expectations as far as consumers are concerned.

Now, we can't let a payments conversation end without mentioning fraud, but [laughter] let's just touch on that quickly and then we'll open it up for comments.

Radford: Yes, real quick, Jessica—I just wanted to mention this, so before the first phase of same-day ACH was even implemented—and I think we got some more of this after the credits, and before the debits—but there seemed to be a lot of hype out on the internet, different articles about possible fraud increasing with same-day ACH, and, "Oh, no, what are we going to do?"

You can talk to NACHA as well. We have not seen it. We've not heard about it. Obviously, we're not the authority on fraud, but if there was something going on, we probably would have heard about it. We've got our tentacles feeling out the industry in various ways, but the first and second phases of same-day ACH were very smooth, and we just haven't heard anything about fraud. I will say this: whether it's a same-day payment or a next-day ACH payment, you should have—if you're a financial institution or a processor functioning these transactions through your system—you should have a full, robust risk and fraud mitigation system already. So I would just say, either way: an ACH transaction should go through all the same due diligence and processes that a next-day would. So really, you should be looking at all those transactions, whether they're same-day or not.

Washington: Yes, and I don't think it's a stretch to say that ACH is typically a low-fraud vehicle, for the most part. And it's going to be difficult to differentiate any fraud moving through the network, to assign it to same-day ACH. And the same due diligence channels will apply. And I do want to mention that there has been talk about business email compromise, or account takeover fraud, which is still a very prevalent scheme, but that is really the compromise of credentials, and it's identity theft, so it's not necessarily associated with ACH or necessarily same-day. So we're going to go ahead and—any resources that you'd like to point the audience to as we close today?

Radford: This is Wendy, and I personally put a lot of blood, sweat, and tears into the [laughter] Fed's—and I wasn't the only one. There are many people responsible for the same-day ACH Resource Center, and that can be found at frbervices.org. And I could not let this call go without mentioning NACHA's excellent resource center. That is probably the place to go for your big overview, and all the details. If you come to our, the Federal Reserve's, site, you'll see more Fed-specific information, such as our file distributions and that sort of thing. So those two are excellent sites to look at for same-day ACH resources.

Washington: Thank you. And the Regional Payments Associations have training on demand, online, in person, as well as resource centers—and don't forget to keep an eye on the FedPayments Improvement Community, who will have updates, like Jodi mentioned, throughout the year. And Jodi also mentioned a few times, she referenced the fact that there was a request for comment already on new changes, new updates, to same-day ACH. That comment period has, for now, closed, and we are waiting to see what the next steps might be. But if you're asking about limits, or maybe additional windows or processing times: please pay attention to that NACHA rule-making process going forward. So at this time, I'd like to pass it back to Meredith, with any additional items from the audience.

Elmore: Thank you very much. And I do just want to remind everyone, if you do have any questions feel free to submit those to rapid@stls.frb.org, or you can submit them right there through that webinar tool using that "Ask Question" button. So while I give everyone that opportunity to get that question submitted if they have any, I do want to check with all of our presenters to see if they have any additional closing thoughts.

Washington: Okay. Well, I'd like to thank both Jodi and Wendy for your time and preparation for today's call. Your insight and continued dedication to the efficiency and availability of the payments system is very appreciated. And so, we encourage the feedback from the audience as well. The mission of the forum is to identify, detect, and encourage mitigation, but we need your help, so we need help in understanding what topics, in relation to same-day ACH or other payments, or other security and payments resiliency standards are—if you have other topics you'd like to see us discuss, please let us know. And thank you so much for your time, and participating on the call today. Have a great week.

Moore: Thank you.

Elmore: Thanks, everyone. And again, Jessica's information is there, right there on your webinar player, so if you have any questions please feel free to forward them on to her, or go ahead and email rapid@stls.frb.org, and I will be sure to pass those along to Jessica. I do want to thank Jessica, Wendy, and Jodi, for all of their hard work on today's session. It was very informative.

You should be receiving an email shortly with a quick little survey. Just take a few moments to fill that out and let us know how we are doing. And that concludes today's webinar. Have a great day.

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