



ELECTRONIC CURRENTS

—ACH ORIGINATION ISSUE—

ACH Origination: The Competitive Edge

Consumers and corporations demand efficient, predictable payment services and are rapidly expanding their use of and participation in the Automated Clearing House (ACH). In response to this, we've created this special edition of *Electronic Currents* focusing on ACH origination, both from a marketing and technical perspective. Whether you already originate ACH items or are new to the commercial ACH arena, this newsletter includes tips to help you understand and take advantage of the opportunities ACH affords you and your customers. Topics include: external media origination, ACH end point balancing, NACHA rules changes and much more.

Whether you're a large, medium or small financial institution, offering ACH services opens doors to new account relationships and profit potential. ACH services save you and your customers money and reduce your costs because long teller lines are shortened and manual check processing is reduced. If you have a hospital, school district, utility company, health club or other prospective ACH customer in your area, you can position yourself as a community leader by providing ACH origination services. As an ACH originator, you can meet your customer's needs for collection, disbursement and investment of funds by offering direct deposit, cash concentration, pre-authorized bill payments, corporate trade payments, ATM payments, point-of-sale transactions and customer-initiated entries. These ACH services give you and your customers enhanced cash management abilities, operational efficiencies and reduce costs.

For example, after experiencing mail delays and lost checks with its employee payroll, Union Electric began offering direct deposit to 3100 pensioners and realized a 45-cent per-item savings. This translates into a yearly savings of \$9,000, and, with 100 percent ACH participation, the utility could save as much as \$17,000 per year.

So, what are you waiting for? Now's the time to take advantage of a wide range of ACH and account management services offered by the Federal Reserve Bank of St. Louis. To learn more about ACH opportunities, please contact your local account executive or our Customer Support Department at 1-800-333-0869 or (314) 444-8680.

Pre-authorized Bill Payment Popular

Pre-authorized bill payment programs allow corporate customers to electronically debit a consumer's account for recurring payments. Through the ACH, corporate customers access a quicker, more efficient, less expensive collection system in addition to more predictable, manageable cash flows. Several utility companies throughout the U.S. promote pre-authorized bill payment to their customers and also work with financial institutions to distribute statement stuffers promoting non-paper bill payments.

Little Rock utilities offer their customers the opportunity to save time and money and write fewer checks. More than 20,000 utilities customers in Central Arkansas pay their bills automatically by giving companies direct access to their bank accounts. Here's how it works—customers complete authorization forms and about 10 days before the day a bill is due, they receive a bill showing the amount and the due date. Customers then have five to 10 days to contact the company with questions.

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It Keeps on Growing and Growing. . .

This bar chart illustrates commercial ACH origination volume which, in the Eighth District, has more than doubled since 1987, averaging an impressive 20 percent per year. This growth is due to several factors. For one, Fed St. Louis and local ACH associations are actively promoting institutions' awareness of the efficiencies of ACH. The Fed's interest-generating ACH origination campaigns and the all-electronic ACH initiative have also increased commercial ACH volume. In addition, several Eighth District financial institutions have established ACH corporate payroll accounts and are using ACH services to solidify existing corporate relationships and to acquire new corporate customers. Commercial ACH origination is expected to grow steadily in 1992 and beyond as a result of these activities.

ACH Origination Checklist

Are you ready to start originating ACH files? If so, you may find the following checklist helpful!

- ✓ Determine the method of origination between the company and your institution (i.e. electronic transmission, tape, diskette).
- ✓ Review the Fed's deposit deadlines and price schedule.
- ✓ Purchase a NACHA rules book. This book contains information on customer pricing, sample agreements and the ACH file format and record layout.
- ✓ Contact the originating company:
 - explain the responsibilities of the company and financial institution.
 - define the means of origination between the customer and your institution.
 - establish settlement, reporting procedures and prices.
- ✓ Order a copy of the Fed's Composite Receiver File (CRF) from the Fed's ACH Department. The CRF is used to verify that financial institutions that you want to send to are ACH participants.
- ✓ Notify the Fed's Electronic Access Support section that you plan to originate and on what date.
- ✓ Contact the Fed's ACH department TWO WEEKS before you send the first 'live' file.
- ✓ Send all necessary agreements to the Fed.
- ✓ Establish procedures for:
 - daily operations and reconciliation.
 - return items, rejects (file and batch) and NOCs.
 - contingency situations.
- ✓ Send prenotes to the receiving financial institutions 10 business days before 'live' items are sent.
- ✓ Begin ACH origination.

Not Another Reject!

Have you ever received a telephone call from an ACH operator who informs you that your ACH file has been rejected? The Fed's ACH software edits incoming origination files for more than 130 possible errors which may cause item, batch and file level rejection of your ACH files. One of the most common causes for file rejection is "Unauthorized OFI/SP Relationship". This edit error occurs when correspondent banks and/or data processors, functioning as a sending point (SP) submit ACH items for another originating financial institution (OFI) without proper authorization. The Fed's ACH software examines every ACH batch to ensure proper authorization is on file before the item can be accepted and processed. Consequently, if the OFI has not authorized the sending point to originate items (including returns/NOCs) on their behalf, the entire ACH file will be rejected.

Originating financial institutions who wish to have another financial institution or data processor submit ACH items on their behalf are required to send a letter to Fed on their bank's letterhead stating the arrangements they have entered into. In addition, all OFIs and data processors who are sending points for originating financial institutions are required to have a UCC4-A Security agreement on file with the Fed before they begin originating ACH items.

A listing of common batch and file level errors is available from Fed St. Louis. If you would like to receive this listing, or if you have any questions concerning this or other edit messages, please call Julie Junker or John Bargiel at (314) 444-8712.

NACHA Rules Change

As you know, NACHA rules have changed every April and this year is no exception. 1992 changes became effective on April 3. To accommodate these changes, all Fedline customers should have installed version 2.3 software including any patches. The most current version of Fedline software is 2.3.4 and you can check the version level by pressing the [ALT] and [V] keys simultaneously when you are in the Fedline software.

In many cases, these rule changes require that modifications be made to the Fed's ACH host computer, and to Fedline software. If you have questions about the Fedline patches we sent to you in March, please contact our Electronic Access Support hotline at 1-800-333-0861 or (314) 444-8711.

Some of the more significant NACHA rules changes are highlighted below. Fedline software accommodates these changes, but ACH customers with other types of electronic connections should modify their software as required by the rule changes.

- *ACH operators, including the Fed, will acknowledge the status of each file received by the operator (see related Q & A).*
- *New NOC codes will allow you to change several types of information (account number, transaction code, routing/transit number) at the same time.*
- *The format for Refused NOCs has changed.*
- *New Refused NOC codes will allow you to specify "DFI account number not from original entry" or "Incorrect transaction code".*

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■ There are new codes for dishonored returns that carry an incorrect transaction code or contain multiple errors.

■ The batch number field is mandatory.

If you need additional information regarding these changes, please refer to our letters dated January 17 and 28, and February 28, or refer to NACHA's 1992 ACH Rules book which can be obtained from your local ACH association. If you have further questions, you may call Cheryl Whitworth at (314) 444-8947.

Bill Payment (cont'd)

The amount is deducted from the customer's bank account on the due date and the utility bill is paid automatically.

Utility customers save time, and money—the cost of the check itself, postage, and transportation to the post office or utility office. Plus, they have the security of knowing their bill will always be paid on time. The utility benefits through lower processing costs, consumer convenience, fewer delinquencies, better customer retention, fast return-item processing and improved cash flow/forecasting. Financial institutions also benefit because they can expand account relationships by meeting corporate and retail customers' needs.

In addition to utility bill payment, pre-authorized bill payment applications can be used for insurance premiums, bank mortgages/loans, health club membership dues, investment fund purchases and subscription fees. With high demand for pre-authorized bill payment programs, utilities and others expect to see participation increase over the next few years.

Contributors to this issue include:

John Bargiel, Mary Kuni, Maria Maravelas, Tony Montgomery and Genette Seawood.



Ready to answer your ACH questions! Left to right, front row: Cheryl Whitworth, Genette Seawood, Langston Scott. Second row: Deanna Elless, Irma Turner, Carnell Maclin, Julie Junker. Third row: Della Thomason, John Bargiel, John Hargett, Mary Kuni. Not pictured: Patty Lynch, Louis Smith and Kim Stuckey.

Corporate Customers Can Create Files

Once your financial institution has decided to become an ACH originator, you must first determine your in-house capabilities for receiving and processing ACH files from your corporate customers. Will you enter and process the files in-house or pass them to a data processor for electronic transmission to the Fed?

Financial institutions with low-to-medium-ACH volume that decide to process the ACH files in-house can use Fedline software to create ACH files by 1) entering them from the PC keyboard using Fedline's preformatted screens, 2) importing them into the PC from a diskette created by the corporate customer, or 3) downloading them from an in-house computer to the PC for transmission to the Fed. Institutions with medium-to large-ACH volume can use FEDLink Bulkdata software which provides a direct computer-to-computer connection with the Fed. ACH files can be created by utilizing software written by your programmers or a software vendor. FEDLink Bulkdata requires a specific hardware and software configuration to operate.

Whether you use Fedline or FEDLink to create ACH files, you must

determine how you will receive ACH files from your customers (i.e. paper listing, magnetic tape, diskette or electronic connection). You may decide to enter ACH files from your keyboard but this could be extremely time consuming if you have multiple corporate ACH customers. Another alternative, importing ACH files into Fedline from a diskette created by your corporate customers, is referred to as *external media origination*. Various software vendors have developed software packages that allow corporate customers to create ACH files and pass the files to a financial institution via diskette or electronic connection. You, in turn, import these files into Fedline and transmit them to the Fed. Some vendors have also developed PC-based software that lets financial institutions upload and download ACH items to/from mainframe systems for transmission to the Fed.

If you're interested in additional information on external media origination, please contact your local software vendor, or our Customer Support department at 1-800-333-0869 or (314) 444-8680.

CURRENT QUESTIONS

QUESTION: How can I be sure that my ACH files were received by the Fed?

ANSWER: You may verify that your ACH files have been received by the Fed in three ways:

Fedline messages: When you transmit your file, look on your Fedline printout for the message "Outgoing file: AHxxxxxx file queued on host." If the file ID is the same as the printout message "AHxxxxxx created and queued", then that particular file has been received by the Fed's host computer. This means that a file has been received, but not yet processed.

Acknowledgements: Recent NACHA rules changes require the Fed to electronically acknowledge each input file as soon as possible after we have **received** and **edited** the file. This provides you a higher level of control because the acknowledgement reflects the status of the file and any file or batch level errors will be noted. You will receive the acknowledgement via Fedline the first time you sign on to Session 3 (file traffic), after the Fed has processed your file. Please note that the Fed's host computer accumulates incoming files for at least an hour prior to editing, and sometimes longer depending on the

time of day. If you wait until the deposit deadline to transmit your file, the acknowledgement may not be issued in time for you to correct and retransmit files with errors. Customers that upload the acknowledgement file to their own system will need to modify their software to accept and convert the acknowledgement file to a usable format.

End point balancing: This new Fedline feature gives customers information on **both** input (files coming into Fed) and output files (files sent from Fed). However, status information on input files is not as comprehensive as that provided by the acknowledgement feature. We are currently generating this report for several Fedline customers once per day, after the final processing cycle. *If you would like to receive this report, please call Cheryl Whitworth or Langston Scott at (314) 444-8947 or 444-8461.*



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Electronic Currents is a publication of the Federal Reserve Bank of St. Louis and its Little Rock, Louisville and Memphis Branches designed to inform financial institutions within the Eighth District of electronic access issues, products, and services.

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