eBOOK

# Getting Ahead of Same Day ACH Risk

## A Guide for Better Transaction Risk Management

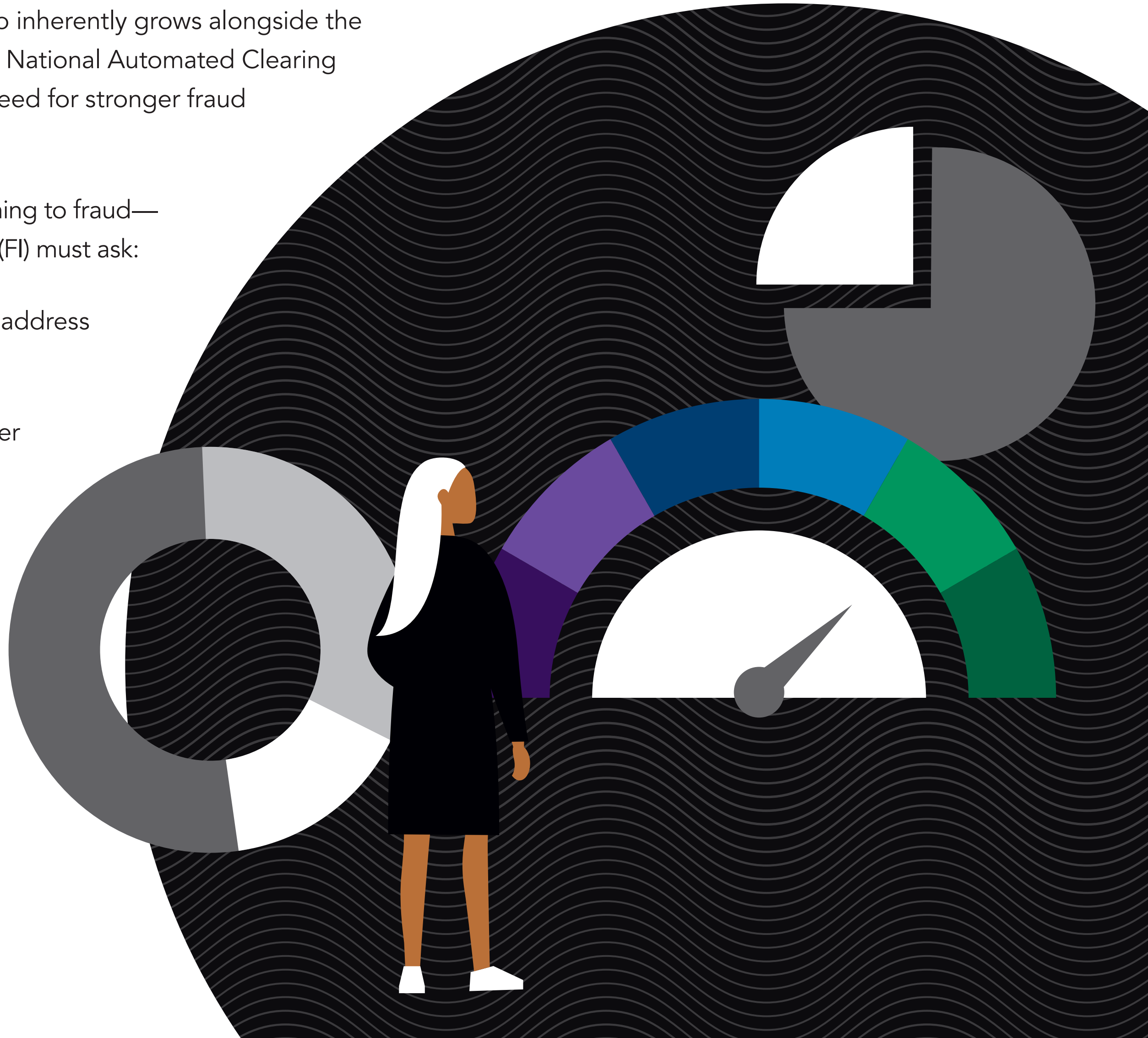
The payments landscape is changing, and quickly. In 2021, the volume and dollar value of ACH payments increased at unprecedented clips. More growth and change appears to be just around the corner. Automated Clearing House (ACH) same day per-payment limits were significantly increased in 2022 to $1 million—a change that will further accelerate the pace and volume of payment activity. According to Jason Carone, SVP of ACH Product Management at The Clearing House, "During the pandemic, businesses and consumers shifted to faster payment methods and that trend is continuing. Increasing the Same Day ACH transaction limit to $1 million is good for not only businesses and consumers, but for the entire economy."

While Carone's comments are spot on, transaction risk also inherently grows alongside the accelerated payment volumes and per-limit increases. The National Automated Clearing House Association (Nacha), for one, has emphasized the need for stronger fraud protection in Same Day ACH payments.

In this environment, when it comes to managing risk pertaining to fraud—and an increased regulatory burden—a financial institution (FI) must ask:

1. Does our transaction risk management effectively address Same Day ACH payments volume growth?
2. More specifically, can we effectively handle a higher volume of transactions, and a shorter period of time in which to review them before they clear?

To help your FI assess transaction risk management options, our guide offers an overview of the current state and future of Same Day ACH and draws attention to the innovative technology that is available to mitigate risk and address compliance concerns.

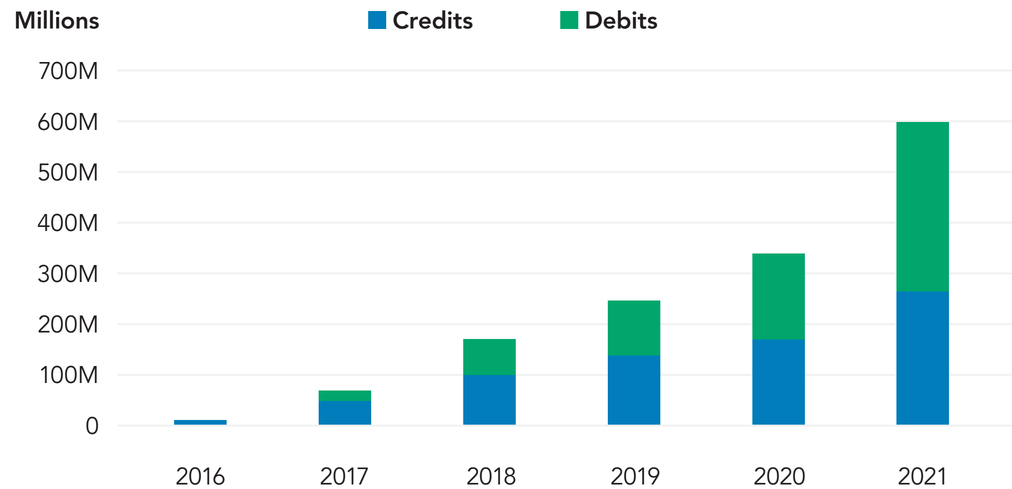


# The ACH universe is expanding at a faster rate

The increased ACH payment activity in 2021 marked the seventh consecutive year volume grew by at least one billion payments, and when it comes to Same Day ACH, nearly 604 million Same Day ACH transactions took place in 2021—a 74 percent increase from 2020. From a monetary value standpoint, Same Day ACH transactions doubled from 2020 to 2021 to almost $950 billion.

**Rapid Growth of Same Day ACH Since Its Inception in 2016**

Payment Volume of Same Day ACH




Source: Nacha

**YoY Growth:**
Payments - 73.9%
Dollars - 105.1%

**Total Payments:**
603.82 million

**Debits:**
330.75 million

**Credits:**
273.07 million

**Total Dollars Transferred:**
$943.69 billion

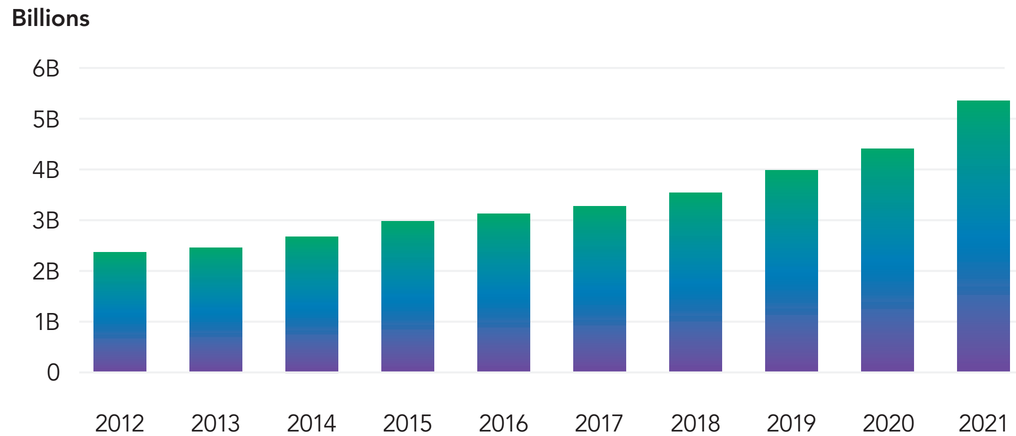
Q2 can attest to this expansion. From February 2021 to January 2022, our internal research has found ACH transactions totaling $24B have taken place using our digital banking platform, representing a major shift forward in the use of ACH payments, including Same Day ACH.

There is no indication that Same Day ACH use will slow, making it clear that FI staff will need help in conducting reviews and mitigating risk. It's simply unrealistic to trust that a fully or even partially manual approach to transaction risk management is viable anymore.

# When it comes to B2B ACH payments, the upward trend is striking too:

**Businesses Increasingly Use ACH to Make Payments**

B2B Payments by Volume




Source: Nacha

**YoY Growth:**

Payments - 20.4%

Dollars - 19.3%

**Total Payments:**

5.32 billion

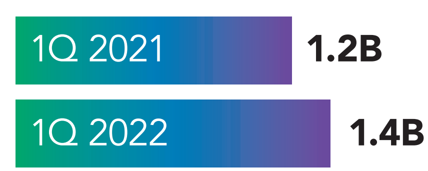
**Total Dollars Transferred:**

$49.79 trillion

**And the volume of B2B payments from 2021 to 2022 is keeping pace with historical patterns.**

B2B volume increases

**15.5%**



# B2B Same Day ACH will only accelerate.

The higher Same Day ACH per-payment threshold, according to most digital payment experts, is expected to create new use cases, as well as expand existing ones for this faster payment method. ACH growth, based on the most recent research, is expected to be expansive in many B2B payment areas.

**In 2022 and beyond, Same Day ACH will fill an increasing need when it comes to:**

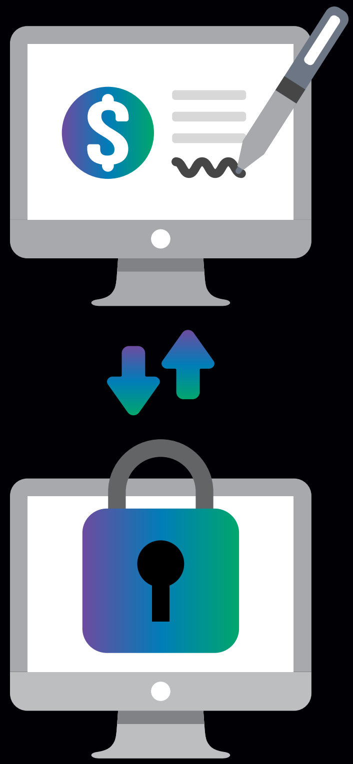
- Account to account transfers
- Merchant funding for payment card transactions
- Vendor and supplier payments
- Insurance claims
- Tax payments
- Payroll funding
- Reversals
- And overall business continuity

When it comes to the wider use of B2B Same Day ACH, the stakes are higher for effective transaction risk management from both Originating Depository Financial Institutions (ODFIs) and Receiving Depository Financial Institutions (RDFIs). Consequently, the right approach to managing the risk of these transactions will increasingly be the difference between a stellar reputation or a tarnished one for ODFIs and RDFIs alike.

**A greater role for technology was expressed by Nacha in it June 2022 Operating Rules Update**

One of the "themes" included in Nacha's ongoing work on the ACH Risk Management Framework is,

**"Do RDFIs have an active role in prevention, detection, and recovery?"**



# Find a cost-effective solution that meets the needs of busy staff

It's becoming increasingly clear that ramping up hiring, by itself, is not a viable way for FIs to keep pace with the growing regulatory and risk management requirements that accompany growing payment volumes. There is an ever-increasing consensus that the Same Day ACH per-limit increase and high volume are better managed with technology. A technology solution can play a larger role authenticating and verifying ACH payment senders, payment recipients, and transaction amounts from origination to receipt. This means automation and risk scoring aided by analytics will be more critical to top-line transaction risk management in 2022 and beyond.

Technology also gives FI staff the ability to review and return transactions within hours, no longer in days—providing critical risk management scale to absorb growing transaction volume. But the cost effectiveness of that technology matters and can vary widely. There are affordable solutions available that an FI can utilize to meet sender authentication, file(s) security, and transaction monitoring—and that can be implemented quickly.

## A better user experience makes for better transaction risk management

Today, conducting an annual originator review shouldn't be an overwhelming or onerous experience. A solution of choice should help lessen the stress of staff by offering ease of use and robust, hands-on features for fast, thorough assessment and management. And better UI/UX for these tools yields efficiency gains that will improve the outlook and effectiveness of staff and allow them to concentrate on other growth areas.

In evaluating technology solutions for managing ACH risk and reviews, here are some of the important questions to put forth to a vendor:

- Will my staff be able to see relevant historical activity at a glance, including return percentages, ACH volume, and dollar amounts?
- Are risk worksheets included that automate the gathering of data for the review, present relevant activity to reviewers, and provide a comprehensive history of review activity for easy reporting and auditing?
- Is automatic recurring report scheduling available?
- Will my staff be able to use flexible report filters that allow analysis of the entire institution, specific originators (or groups of originators), or specific transaction types?
- Is there drill-down capability to quickly and simply research individual ACH transactions and see all relevant details?
- Can we archive remote deposit and wire activity for use in on-demand activity reporting, as well as automated customer reviews?
- Are there institution-defined reporting tags to define custom reporting groups, such as third-party originators, sales regions, or new/higher risk clients?

## Equally important, the solution should produce consistent criteria in determining risk, ending biased decisions, and improving the audit trail.

According to Q2's Debbie Smart, who has been a thought leader in the payments industry for decades, "Payments are speeding up, and with the continued adoption of Same Day ACH and the advent of newer, faster methods like Real Time Payments, we're still in the early innings of this phenomenon. As such, technology that removes obstacles and friction in both the immediate processing of the transactions along with the monthly or annual originator risk assessment process is vital to just about any bank or credit union. Those vendors that have made every effort to bring data and analytics together to aid auditing and decisioning efforts are the ones an FI should consider as a partner to today."

# For Consideration:

## Transaction Risk Management from Q2

Transaction risk management—using automated reporting and risk scoring—is an area where innovation aligned with business requirements will continue to evolve. In assessing vendors to deliver today's business banking technology, it makes sense to get an understanding of their commitment to active development.

This is the approach taken for Q2's Payments I.Q. System (PIQS) which brings the core components of transactional risk management together in one platform.

### AUTOMATED REPORTING

- Save Filters as Templates
- Schedule Reports to Auto Generate

### RISK REVIEW

- Automated Risk Scores
- Automated Calculation of Limits

### TRANSACTION MANAGEMENT

- Create output file(s) for core ACH system or FED
- Validations
- Reversals/Returns/NOC's

**The PIQS system provides an FI with three main benefits:**

1. Originated and incoming ACH reporting required by Nacha and other regulatory agencies.
2. Electronic cross-channel risk reviews that are required annually by Nacha. Cross channel components include deposits, loans, wires, and RDC activity. A new flexible risk score calculator and the calculation of recommended limits are also available.
3. ACH processing services include the ability to create reversal, return, and NOC files. Monitoring originated and incoming transaction fraud are also part of the product. Finally, warehousing along with automated NOC correcting are available as well.

# When it comes to Digital Payments Growth, vendor commitment to R&D matters

A vendor delivering lasting value in transaction risk management has to be ahead of the curve with ready-to-go solutions. The rapid acceptance of Same Day ACH is a case in point as to why.

At Q2, a significant amount of funding goes to R&D each year and includes transaction risk management and other vital areas of risk and compliance management. One important reason why we are committed to innovative solutions is because 'speed to transaction' is growing faster and more complex with each year.

Today, 89 percent of banking customers expect financial transactions to be processed in fewer than two minutes, and more than half expect even faster processing—and expectations for transactions within seconds are rising. Is it time to modernize how you handle transaction risk management?

**For more information, go to Q2.com or call (833) 444-3469.**