

ACH Disbursements

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Good day everyone. My name is Steve Bernstein. I'm an ACH product manager at J.P. Morgan Chase. Today we're going to discuss ACH disbursements.

ACH disbursements entail such things as ACH direct deposit for consumers, as well as corporate disbursements as well. Let's go back all of the way to the beginning of the ACH.

Back in 1972, the ACH was first formed. And the first ACH transactions were direct deposits. Previously, payments made to consumer were checks — check disbursements that people had to cash at a bank branch or other location for their salary. With the advent of direct deposit, the ability to receive a direct deposit electronically transformed a way of life for many people. ACH direct deposit is quite a prevalent form of payment in the U.S. and continues to be so. Each year, more and more individuals receive their pay via direct deposit. The exception typically being if that person doesn't have an actual bank account.

Let's talk about the process with ACH direct deposit, and then we'll talk about corporate payments. Corporate payments are also becoming quite popular as corporates look to eliminate cost by removing checks from the process and sending disbursements to their counter parties as an ACH payment.

For direct deposit an individual signs an enrollment or authorizes their place of business to disburse funds to their account. Typically this authorization form is a signed authorization that also provides the account and routing number to where the payment will be directed. That authorization is in place for the length of time that individual receives direct deposit of payroll.

From the corporate standpoint, the corporate can be one of many guises. It could be a payroll provider, or it could be a corporation directly. What can happen typically is a corporate initiates a pre-notification to the consumer account to validate the account information that was provided at the time of the authorization or enrollment. Now, what is a pre-notification? In ACH terminology, a pre-notification is a zero dollar amount transaction that is used to validate the account information, the routing information, the name, the transaction type, or all four of that information, to confirm with the receiving bank that information is valid and up to date. Although pre-notifications are optional, if a pre-notification is sent by the originator, then the originator must wait six banking days prior to initiating a money bearing transaction. If the pre-note is utilized by the originator, if there's a problem with the account, the routing number, the name, and/or transaction type, the receiving bank has the ability to send something known as a notification of change back to the originator. The notification of change is a zero dollar transaction that indicates to the originator that they need to make a change on one or more of the elements of the payment that was sent previously.

In the past, pre-notification has been a very effective tool for the originator to validate that account information. However, it must be said that in the last five or so years, because pre-notifications are optional, they are increasingly not being adopted by originators to validate the account information. In other words, they send the payment without a pre-note, especially if the payment is something that needs to be executed in one or two days.

Let's talk about the payment process itself. Typically, a business will send the direct deposit payroll file two or more days into the future. That allows enough time for the file to be validated, the information to be processed, the transaction to be sent to the customer's bank or the individual's bank so that they can see that they were paid on a

given day. Most people are paid on a weekly or bi-weekly basis. So typically an originator would send that payment file about two days prior to settlement date.

However, it's not unusual, especially these days, for an originator to send a payment file one business day in advance. However, it must be noted that the less time that elapses between when the payment file was sent and when the settlement date is, there's less time for recompiling or resending the file in the event of an error, a duplication, or other problem that may be experienced.

In many cases the originator may send a file more than one or two days in advance and that information may have consequences in the event that there is some type of activity that occurred subsequent to the file being sent. In those cases, there are some options available for the originator to handle that type of activity where a transaction or transactions must either be deleted from the payment file that was remitted, or needs to be reversed after the payment file was submitted and settled.

In the first case there's an ability to delete a transaction prior to the file being sent out into the network. In this scenario, that deletion must occur prior to the file being processed and sent out of the bank. In the event that a deletion is unsuccessful, the originator has the ability to effect a reversal or reclamation of a transaction after the fact. In the event of a problem that occurs, or an error was made with regard to a payment, then the originator has the ability to send a reversal back into the network.

A reversal is a provisional transaction however. In other words, if a direct deposit was made for \$1,000, and then five days later a reversal was made for the same amount, there is no guarantee that account will either be open or will have \$1,000 in it. When a reversal is actually executed, we can only take the full amount of the original transaction. A partial reversal cannot be executed. So if the initial transaction was \$1,000 and then five days later if there is \$250 left in the account, that request will in effect be denied and returned back to the originator and will appear on the originator's return item file which is sent each day.

Going back to the process, when a file is sent there's a confirmation for that file, and then that file is remitted back out into the network. In the event on the settlement date, the transactions themselves settle and the offset to that transaction file is a debit on a net basis to the originator. In the event that a return item should occur, then those returns are credited back to the originator and those funds — the details of those transactions that are returned are provided to the originator as well.

Earlier we mentioned about notification of change. Notifications of change will also be included in the ACH return file in the event that there was information that was outdated, but yet posted by the receiving bank. In most cases, the receiving bank would like to find a home for a direct deposit or a disbursement transaction. So they may send a notification of change whereby the account and/or routing number, and/or type of account, and/or name, may have been erroneous. Most of the larger banks rely upon the routing number and account number to post the transaction. In the event the transaction cannot be posted, it is either returned within 24 hours of settlement date, or a notification of change is sent within 24 hours of settlement data back to the originator.

It's the obligation of the originator if they do receive a notification of change, to correct such information prior to the remission of the next or subsequent payment.

Let's talk about some other services that may be provided in the near future. J.P. Morgan in the fall of 2010 will be extending its capability for preemptive payment intelligence to include corrections on a proactive basis of any transaction that J.P. Morgan has seen in the past that has been corrected. And now we receive that transaction from that client that has a match between that record and what exists on that learning database. If there is a match on an account number or routing number or both bases, then J.P. Morgan will proactively correct the transaction and send it out into the network. This will be a subscriber service, which will be optional, but made available to our client base in the later part of 2010.

Other tools that we have at J.P. Morgan include eServe, which stores 180 days worth of history for any origination file that our clients can utilize through a security administrator who provides the rights to an individual at the company level to be able to review or identify any transactions on an as needed basis that were submitted to the bank. Further, there's the ability within eServe for a user to be given rights to create a reversal or reclamation for a payment that was made previously. eServe also has the capability of supporting inquiry queries from originators that would like us to research any particular transaction that needs investigating. And they are given the highest priority within our customer service group. That's direct deposit of payroll.

Let's also talk about corporate disbursements. In addition to checks waning over the last ten or so years, corporates have been increasing looking for ways to replace checks with electronic payments. In the corporate world these transactions tend to be of a larger dollar size and may pertain to transactions that are the result of invoicing or they are bills being paid. These types of transactions are known as corporate disbursements. Corporate disbursements can take one of three types of options with regard to our client base.

The first is corporate to corporate disbursement. And that's where a corporation is simply sending an ACH payment instead of to a consumer account, to a corporate account. The information is fairly minimal in nature, but enough to identify by the receiver the type of payment and from whom it was sent.

The second category is known as a CCP plus, or corporate payment with one addenda. This type of payment is just like the first one where there's a corporate payment that is rendered, but with 80 bytes of additional data that the corporate conveys along with the payment.

The third option is known as CTX, or corporate trade exchange payment. This payment is also a corporate payment, but can have up to 9,999 addenda. And again, each addenda can contain 80 bytes of information.

Currently, there are a number of corporates that are looking into migrating checks to corporate payments with varying degrees of data. We work extensively with our client base to fashion solutions whereby our clients can utilize the ACH network to generate both the payment and the addenda within that transaction. However, we also have other tools and products at the bank. For example, PaySource where a client may render a payment file in an EDI 820, or other ANSI format, where we translate the data for multiple payment types, including ACH, for disbursement purposes. We also have other tools in which we can handle payments that come out of various legacy systems whether it be Oracle, SAP, or PeopleSoft, and other types that we're receiving an ACH formatted file in an EDI format. We also can, through our client access group, receive FileAct, or SWIFTNet FileAct files, where we can also translate those into ACH.

So much of our activity revolves around finding solutions both for consumer and corporate disbursements. Increasingly as corporates look for ways to replace checks, minimize fraud, and reduce cost, they look toward either ACH direct deposit or corporate disbursement options as part of their solution toolbox. We'll be happy to work with our clients for supporting either or both types of applications as we have many options to offer with regard to both implementing, deploying, and supporting various payment types that render themselves to electronic payments, which are the lowest cost payment type. Thanks for listening, and have a great day.

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