

One Giant Leap for ACH!

Could a new Fed settlement option create an ACH end-run around Visa and MasterCard?

Watch out VISA, MasterCard... here comes the automated clearing house system of the 21st Century. Make no mistake about it, the Federal Reserve, through their announcement of a new same-day settlement opt in product, has single handedly changed the competitive relevance of the ACH system.

The new service is a small first step to changing the entire payments system by offering a same-day settlement feature that ultimately will be able to compete with and match up to the transaction efficiency of the card networks, but at a much lower cost. In my opinion, this represents a trial balloon being raised by the Fed. The new service is limited to three payment options. The eligible payments are:

- Consumer checks converted in to ACH debits. These can be checks written for a recurring car payment—known as an accounts receivable entry (ARC) ACH debit;

- Checks written to a business for a one time purchase and processed later—such as buying your groceries where the check is converted into a BOC ACH debit later (back office conversion); or

- A check written at a point of sale that is scanned for the MICR line information and then handed back to you—a point-of-purchase (POP) ACH debit.

With all three of these transactions, you no longer have to wait the two days or more to settle as the NACHA rules govern. Merchants can process these consumer purchases and create an ACH debit origination file to be transmitted through their financial institution. If the originating institution delivers the file to the Fed no later than 2 p.m. eastern time and if the receiving financial institution has opted in, you can settle same-day (5 p.m. Eastern). Not tomorrow or the next day, but today!

The new service also allows consumers that authorize debit transfers over the internet (WEB-ACH debit) or the telephone (TEL-ACH debit). An example of this would be a consumer who forgot to make their mortgage payment now has until the morning of the last day to make the payment. Of course, some financial institutions may have a problem with this, but then again, this could be a great service to your customers.

The real implication here has to do with a new ACH parity in regard to other products offered by the industry today. First, same-day ACH settlement to the consumer can compete with wire transfer services that are cost prohibitive for small value payments, and second is last minute telephone or internet initiated payments that currently use credit or debit cards through the card networks. The market place is changing and consumers have a new option. It is cheaper and faster than an off-line signature debit card transaction at the point of sale.

The question then becomes, could checks be making a comeback? NOT, but I did mention earlier that the same-day settlement product was a trial balloon. What better way to spur innovation than to offer merchants a viable alternative to

paying interchange on card transactions? This is just the beginning of a new kind of "Check Card"!

Will other ACH service organizations respond with similar products? I think that they would have to in order to remain competitive. The market will ultimately dictate that same-day ACH settlements be expanded to include other processing options and payment options.

What's next? Once this trial balloon reaches an appropriate altitude of acceptance, I envision same-day credits taking the form of payroll based products. In my opinion, there is no doubt that same-day ACH will put NACHA back on the path of growth and relevance. In addition, it will compete, head to head with the card networks. The real question: Is it feasible that ACH could enter the realm of real time transaction processing? The answer... yes! With an all electronic Fed, it is not only feasible, it is highly probable!

— Dan Fisher, The Wombat!

About the Author

Dan Fisher is president and CEO of The Copper River Group, a consulting firm headquartered in Fargo, N. D., that focuses on technology and payment systems research and consulting for community financial institutions. For nearly 30 years, Fisher has worked in the financial industry using technology to improve the bottom line. He was CIO of Community First Bankshares (now part of BancWest), has served as a director of the Federal Reserve Board of Minneapolis, the chairman of the American Bankers Association Payment Systems Committee, and was a member of the Independent Community Bankers of America Payments Committee. Fisher has written numerous articles on banking technology and the payments system. He has authored or co-authored six books and recently published a book titled, "Capturing Your Customer! The New Technology of Remote Deposit." You can contact Fisher at dan@copperwombat.com.

P.S. To understand Dan's nickname, check out "About the Wombat" on his website, www.copperwombat.com