



ACH: Five Things You Shouldn't Compromise





Introduction



From Checks to Clicks

The Evolution of Payments

It's hard to believe Americans wrote billions of checks less than a generation ago. In Post-WWII America, banks had to manually process all those checks, resulting in some branches having to close early to process and post the daily deposits and payments.

All that changed in the mid-1950s with the introduction of a machine called **ERMA**. This electronic reading machine expedited check processing, and by the early 1960s, it became widely adopted by banks nationwide. However, as the popularity of check writing continued to grow, California financial institutions began to grow concerned they wouldn't be able to keep up and started **exploring alternatives**. By the early 1970s, electronic fund transfers began to move money from bank to bank forming the ACH network. In 1974, the National Automated Clearing House (now known as **Nacha**) was established to provide administrative support and governance for the growing EFT sector.

Today, the ACH network continues to provide fast and secure bank-to-bank transfers. In 2022, more than **30 billion payments** totaling \$77 trillion moved across the network. According to Nacha, eight billion transfers were direct deposits, 5.9 million were business-to-business payments and 453 million were paid medical claims. However, the vast majority of ACH activity came in the form of online bill payments (ongoing, pre-authorized payments for utilities, streaming services, etc.) and internet payments (one-time authorization for purchase).

That's a lot of money moving around electronically. It's also why you need to partner with the right ACH provider. A reliable partner is paramount to providing both the sending and receiving parties the confidence that funds will be accurately and securely delivered on time.

2022 ACH Network
30 Billion Payments
Totaling \$77 Trillion



Direct Deposits
8 Billion
Totaling \$13.6 Trillion



Consumer Bill Payments
14.5 Billion
Totaling \$8.8 Trillion



Internet Payments
9.38 Billion
Totaling \$5.26 Trillion



Person-to-Person
294 Million
Totaling \$448 Billion



Business-to-Business
5.9 Billion
Totaling \$52.5 Trillion



Healthcare Claim Payments
452.9 billion
Totaling \$2.11 Trillion

Source: Nacha, March 2023
nacha.org/content/ach-network-volume-and-value-statistics



Choosing Your ACH Partner



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You can originate ACH payments via the ACH network in two ways: one, partner with an established payment processor, or two, partner directly with a U.S. financial institution.

When you partner with an established payment processor, look for a partner who understands the various complexities of ACH processing, including ACH file formatting, next-day and same-day processing timeframes, and the everchanging ACH network rules as set forth by Nacha. When you partner with a processor, you may gain from their expertise, tools and technology. You will also be reliant on the strength of their relationships with their partner financial institution, which ultimately originates the ACH transactions into the network.

When you partner directly with a bank, you gain the ownership of the ongoing relationship. However, the ability to provide the necessary files, technology and understanding of Nacha rules will fall upon your shoulders as you remove the middle layer and expertise a payment processor offers. Partnering with your bank also means there is already an established relationship, knowledge of your business and an understanding of your ACH payment needs. But not all banks offer this service to their customers.

Whether you partner with an established processor or your bank, it's essential to research before signing on with either choice. Like any critical business relationship, do your homework, understand your abilities and needs, and prioritize the type of relationship you are looking for to find the right fit.

“Understand what you need from an ACH provider and prioritize that as you look for a partner.”



#1 Don't Compromise: Reliability



Don't Compromise: Reliability

The ACH network is open 23¼ hours every business day and there are four windows during that timeframe in which payments are settled.¹ If you don't have a reliable partner processing your ACH files, it could have a snowball effect upon your employees, vendors and bottom line.

For example, if your direct payroll deposit is delayed a few days, it could create financial issues for your employees. According to the American Payroll Association's 2022 "[Getting Paid in America](#)" survey, 70 percent of people said it would be somewhat or very difficult to meet financial obligations if their paycheck was late.

Suppose you have an unauthorized purchase and the subsequent ACH return is not processed in a timely manner. In that case, you, as the originator, could lose the opportunity to have that money returned. You might also risk bad customer reviews, broken payee relationships, Nacha fines or worse – being banned from the ACH network.

¹ ACH payments are settled during Federal Reserve operating hours, M-F, 7:30 a.m. (ET) to 6:30 p.m. (ET.) The Fed is not open on federal holidays and weekends. Depending on when the holiday falls, payments are settled the business day prior or the first business day after. <https://www.nacha.org/content/abcs-ach>



Ask these questions about Reliability

1. Does your potential partner monitor and know Nacha's rules?
2. Do they have redundant processes, a continuity or recovery plan in case of a natural disaster or another pandemic?
3. Do they utilize multiple windows during the day to process files, or are they relying on one or two?



#2 Don't Compromise: Compliance



Don't Compromise: Compliance

Nacha has very specific rules and regulations that govern the ACH network. As we said above, not following Nacha regulations can put you at risk financially and reputationally. As one of 33 [direct Nacha members](#), our community bank ([First PREMIER Bank](#)) has a seat at the table when it comes to the understanding and direction of the ACH Network and the Nacha Operating Rules. We are also heavily involved in [UMACHA](#), the Upper Midwest provider for ACH training and compliance, and currently chair its [board of directors](#). This allows us to service our customers better because we are well-versed, understand the rules and can quickly identify potential issues. We also provide best practices and guidance on resolving rule compliance issues before they become potential violations.

Some financial institutions may not monitor these pitfalls as closely or offer guidance on fixing them. For example, as you originate various types of Standard Entry Class ("SEC") codes, you must understand the requirements of every kind of ACH entry. You will need to be extremely knowledgeable in many areas of the sector, right down to the specific authorization language requirements laid out by the Nacha rules. Because we know our customers and their businesses, we can be proactive and help ensure they have the proper verbiage in place that complies with regulations and provide the consumer with an appropriate understanding of the transaction they are authorizing.



Ask these questions about Compliance

1. Do they know the Nacha rules?
2. Do they have a positive record of keeping up on changes made to these regulations?
3. Are they looking out for you by sharing best practices to help you avoid rule violations?



#3 Don't Compromise: Consistency



Don't Compromise: Consistency

Have you heard the saying, "One bad apple can spoil the bunch?" It's the same in ACH. All processors and banks have multiple ACH customers. If just one doesn't follow or prescribe to the best practices and Nacha rules, it can create issues for all customers. Let's say that one company has enough violations that they and your ACH processing partner get suspended or removed from the network. That will also result in delayed transactions for you.

Think about what would happen if your vendor payments weren't processed. Or if you couldn't receive online payments? Not only would it create plenty of extra stress and hassle, but it could also cause cash flow issues for you, and in turn, for your vendors who depend on your payments to make theirs. Consistency among customers truly matters. Ensure your ACH partner treats all customers the same by providing best practices, an in-depth understanding of your and other clients' business and a consistent approach to supporting payments.



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#4 Don't Compromise: Communication



Don't Compromise: Communication



We've all experienced the frustration of trying to contact a customer service representative. You get lost in the "Press 1 for this" or "Press 2 for that" queue. Or maybe you've been on a continuous hold with rotten, over-modulated music for what feels like days. Customer experiences like this are frustrating and often lead to consumers going elsewhere with their business.

One of the tools we use to overcome this issue with our customers is to provide them with a direct phone number that rings to a member of our in-house team both during and after bank hours. Our team prioritizes that all phone calls are answered by someone who can provide help and directly answer questions.

Please remember that direct communication shouldn't just be when there is an issue. It should be constant. Your ACH representative should call you and come to see you in person. I believe face-to-face meetings are the best way to build trust and get to know someone and their business. So, what does it say about the importance of your business if a provider doesn't consistently check in with you?

“Keep in mind, direct communication shouldn't just be when there is an issue. It should be constant.”



#5 Don't Compromise: Financial Strength



Don't Compromise: Financial Strength

This is by far the most important thing to consider and you should never compromise on the strength of the partner you choose. Are they financially strong and well-diversified? [2023 bank failures](#) have demonstrated the importance of sound fiscal policy, no matter how many assets the financial institution has on the books.

Don't be afraid to ask questions. The strength of our bank is one of the things we tout the most to potential customers. We want them to know we're [highly diversified](#) and well-positioned for industry and economic challenges. Our strength allows us to provide the same service of "the big guys" but with the personal touch of a community bank in your neighborhood. We often say [our size is our strength](#). We are nimble, personable and have a proven record of success.



“Bank failures in 2023 have demonstrated the importance of sound fiscal policy, no matter how many assets the financial institution has on the books.”



Conclusion



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Reliability, compliance, consistency, communication and strength should never be compromised. Electronic payments are going to continue to grow as technology changes consumer behavior.

In 2000, there were **42.6 billion check payments** and 2.1 billion ACH transfers. In 2018, ACH transfers exceeded check payments for the first time. In 2022, the volume moved through ACH equated to **roughly 89 ACH payments** per American.

If it's not already, ACH is quickly becoming the preferred way Americans pay and get paid. Don't compromise on your partner, do your research and join the network with someone who gets it.



When it comes to your ACH partner, remember you shouldn't compromise these five things:

- 1. Reliability**
- 2. Compliance**
- 3. Consistency**
- 4. Communication**
- 5. Financial Strength**

12th Largest ACH Originating Bank



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It processes \$419 billion annually through the ACH network for large and small businesses, fintech, healthcare systems, state and local governments, non-profits and e-commerce clients. First PREMIER Bank is the bank of the State of South Dakota (since 1999) and the bank of its largest city, Sioux Falls (since 2004). Learn more about First PREMIER Bank [Treasury Services](#), or contact [Mike Kaiser](#) via phone or email. Also, be sure to follow him on [LinkedIn](#).



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