Implementation of the Operating Rule: A Payments Network Perspective

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NACHA – A non-profit, rulemaking association

Support for the industry, facilitating the balance of risk and innovation
NACHA – The Electronic Payments Association

• NACHA administers the ACH Network – A secure electronic network for the direct transfer of funds and data from one bank account to another
  – Facilitates global commerce by serving as a safe, efficient, ubiquitous and high-quality electronic payment system
    • Almost 19 billion transactions in 2009
    • Over $30 trillion in payment value
  – Links virtually every one of the more than 14,000 financial institutions in the U.S. – from largest banks to the smallest credit unions
  – Operational since the mid-1970s
    • Began by meeting the needs of the U.S. Air Force and other agencies of the government

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The Need to Consistently and Efficiently Reach Many
The Confluence – The Opportunity
NACHA Rulemaking

• The ACH Network is governed by the *NACHA Operating Rules*, a set of fair and equitable rules that guide risk and create certainty for all participants.

  – NACHA is very “inclusive” - rulemaking includes a formal notice and comment process open to the public
    • Resembles the *Administrative Procedures Act* process

  – Goal is to balance both innovation and risk management

  – Engage various stakeholders and regulators, to encourage efficient and safe, as well as innovative, utilization of the ACH Network
What are the **NACHA Operating Rules**?

- Establish the legal foundation for the ACH Network
  - All parties contractually bound to abide by the *Rules*

- Provide a common set of rules that applies to entries flowing between ACH participants – thereby establishing interoperability
  - Bind over 14,000 financial institutions
  - Embrace, through contractual extension, more than:
    - 3.5 million companies
    - 160 million consumers

- Prescribe the roles and responsibilities of parties to the transaction through a flow of warranties
  - Warrant to use the correct format, the correct SEC code, in compliance with the *Rules*

- Provide formatting requirements and specifications for universal system interoperability

- Describe different types of transactions for different types of users and the specific requirements of each
Scope of the NACHA Operating Rules

• Various transaction types include:
  – Consumers, businesses, government as makers and receivers of payments
  – Recurring and one-time payments
  – Payments, payments plus information, or information alone
  – Insurance company initiates a debit to a customer’s account to pay a bill (Direct Debit)
  – An employer initiates a credit to an employee’s account to cover salary or wages or travel expense reimbursement (Direct Deposit)
  – The Federal government initiates a credit for a Social Security payment or income tax refund to a recipient’s account
  – A Business pays an invoice with addenda data that allows for straight-through processing to the recipient’s A/R system

• The NACHA Operating Rules also address:
  – Risk management and security provisions
  – Third party service providers
  – Addenda records
  – OFAC compliance
  – Audit controls and compliance
  – National System of Fines
  – Arbitration and compensation
  – Automated enrollment
  – International ACH transactions
The *NACHA Operating Rules* facilitate the use of various industry standards within ACH transactions, while the *Rules* themselves more precisely describe the roles and responsibilities of participants, and parameters for specific uses of the Network.
NACHA Operating Rules prescribe the roles and responsibilities of participants to securely exchange the payment and information.

In accordance with various standards, the NACHA Operating Rules define the ACH Record Formats to enable the funds transfer and the transmission of payment-related information.
Operating Rules Are Adaptable

- Rules incorporate various standards, and are adaptable over time as both standards and regulations change – and both standards and regs can change without Rules changes
  - ANSI ASC X12, UN/EDIFACT and XML messages or data segments can be carried through the ACH Network.
  - The Rules adapt over time, either directly or by incorporation, as governmental regulations are changed.
  - Likewise, governmental bodies, such as the Treasury and Federal Reserve, have adopted the NACHA Operating Rules by reference.
Why do Operating Rules work?

• Save money

• Save time

• Create certainty with broad set of trading partners

• Consequences if *Rules* not followed
Paper vs. Electronic – the first step

• Simply moving from paper checks to an ACH payment saves money and drives efficiency, if all parties can be “reached”

U.S. Department of Treasury FMS

• Saves $0.925 per ACH vs. check **

• $1B saved per year

• What is needed to move more claim payments to electronic?


** Source: U.S. Department of Treasury Financial Management Service
Replacing Checks Saves Money

- Paramount Pictures is moving their payments from check to ACH * - their vendors benefit, too
  
  - Results of straight through processing:
    - AP headcount down from 30 to 5
      - Centralized process
      - Manual steps eliminated
      - Reduced check fraud
  
  - Benefits to vendors identified:
    - Eliminate mail delays
    - Full information on payment delivered
    - Faster payments, improved cash flow

* Source: SunGard 9/2010 Webinar
Payment plus Information – the second step

• Utilizing the innate capability of the ACH Network to pass both payments plus information saves money and time for all parties in a transaction
  
  – Straight-through processing of the payment plus information derives the highest level of benefit

  – The ACH Network offers receivers robust remittance information

  – Utilize non-proprietary formats that offer consistency and certainty
What drives inefficiencies in healthcare payments?

• There are subtleties below the high level steps

• Paper payments continue to dominate
  – Need to know banking information for tens of thousands of providers
    • Security of banking information as well as PHI
    • Value of a payment-routing database and payee registry

• Complexity associated with existing separation of data from funds, and need to marry payment and remittance information

• Lack of coordination
  – Healthcare insurers, providers, and the financial industry to implement interoperable end-to-end electronic processing capabilities
  – Interdependencies amongst transactions
  – Internal and external coordination required
    • NACHA on CORE steering committee since inception
How can the health industry realize savings?

- Utilize inclusive processes that recognize tradeoffs need to be made for the good of all stakeholders to move forward – work across industries
  - Dialogue and partnerships are critical

- Leverage existing processes and infrastructures

- Develop adaptive processes and rules that change as environment and technology changes

- Utilize certification and enforcement that work hand in hand
Drive Tangible Benefits via Operating Rules

• In Financial Services Industry, entities have embraced Operating Rules in order to:
  
  • Foster Innovation via Adaptability
  
  • Enable Efficiency
  
  • Ensure Interoperability
  
  • Embrace Security
  
  • Create Certainty