

Case Study: Taking the Sting Out of ACH Dispute Management

The financial services landscape is undergoing radical change, with transaction processing rapidly migrating from paper-based to electronic payments. According to the Federal Reserve's 2007 Payments Study, electronic payments now exceed two-thirds of all non-cash payments -- a big change from a decade ago when paper checks were still king. Automated Clearing House (ACH) transactions have been a key to the growth of electronic payments. The number of ACH transactions in 2008 topped 18.2 billion, representing an increase of 1.2 billion over 2007, NACHA reports.

But this ACH growth also has created new back-office challenges, particularly in the area of transaction dispute management. The limitations of traditional in-house ACH systems and the strict time constraints and complex processing requirements imposed by NACHA rules and Regulation E have led to increases in operations expenses and potentially higher charge-offs associated with ACH disputes. And changes in the interpretation of Regulation E -- spelled out by Federal Reserve Bank staff and an OCC Advisory Letter -- may further complicate matters.

The Situation

One of the nation's largest bank ACH processors has taken proactive measures to better manage its ACH disputes. The bank's ACH operations perform a wide range of functions, including daily inbound and outbound transaction management, implementation and maintenance, customer service, compliance, and exception support.

Over the past several years, the bank has achieved significant growth in its ACH transaction volume. Along with this growth in overall ACH transactions, the bank has seen its ACH disputes increase 25 percent during the same period.

To be sure, the overall growth in ACH volumes is a factor in the increasing number of disputes. But customers also are better educated about ACH, and have higher expectations. Regardless of the cause, ACH disputes are costly to manage (with different attributes for each dispute and conflicting Regulation E and NACHA timelines), and present the risk of non-compliance and charge-off losses.

The Solution

Recognizing these challenges, the bank began an evaluation of solutions to better manage its ACH dispute process. At that time, the bank used an ACH processing product that kept transactions online for a short period of time, after which the information was archived to an offline report warehouse. The offline warehouse required the bank to "restore" reports and customer statements, a time-consuming and costly process that prevented the bank from providing quick responses to customer inquiries.

The bank evaluated three options for enhancing its ACH capabilities:

1. Further extending its legacy ACH solution's capabilities
2. Developing an in-house solution
3. Leveraging a hosted solution for on-demand research and long-term storage

Comparing functionality, implementation cost, time to market and total cost of ownership, the bank choose eGistics' ACH Dispute Management solution as the best solution because it supports a range of ACH functions including dispute research, customer service inquiries (notably questions about transaction details and debit authorization), and compliance reporting for potential rules violations; and it could be implemented within a few weeks of selection. eGistics' ACH Dispute Management solution also provides a secure, easy-to-use Web interface that enables users to quickly search ACH transactions using a variety of configurable search criteria. The bank can now isolate individual transactions or, using powerful search criteria, locate all ACH transactions that fit a certain pattern or match known suspicious characteristics.

The Benefits

Most important to the bank, the eGistics hosted framework streamlined the research, management and reporting of ACH transaction disputes, all with the purpose of reducing losses associated with ACH Regulation E transactions.

Here's how it works: The bank receives ACH transmission files from the ACH network. A copy of these files is forwarded to the eGistics ACH solution. Operators log in to the eGistics platform and are able to search for transactions in real-time. Transactions in dispute are marked so and then are managed through the resolution process. Because there is a single view of the transactions, all operators can see the status of a dispute or inquiry. Finally, each disputed transaction is given a disposition status such as: credited, denied, or returned.

Streamlined research and management of ACH disputes were a key part of an overall business case for the bank that included long-term storage, improved customer service, attractive total cost of ownership, minimal internal resources, minimal capital expense, and rapid deployment.

In addition to providing key functionality, eGistics' solution is designed to reduce internal data center costs associated with storing and retrieving ACH data from long-term storage. In this case, the bank was able to avoid costs associated with in-house systems, hardware, software, upgrades, maintenance and administration.

And eGistics provided the bank with the peace of mind that its solution complied with industry requirements, was reliable and scalable, ensured the privacy of critical data, and maintained complete access management through transaction tracking, auditing and reporting.

The eGistics hosted solution enhances the bank's dispute management process by providing real-time, on-demand distributed data access to any authorized user (even across branches or operations centers); intuitive search capabilities; the ability to annotate comments to disputed transactions; and the ability to export data (such as for batch extracts). The eGistics solution also has provided the bank with expanded search capabilities, including the ability to search on any alpha-numeric field (e.g. date, amount, customer, etc.) or using multiple "operators" (e.g. "contains," "greater than," "less than," "equal to," etc.). eGistics' ability to search data based on configurable parameters allows the bank to spot trends and react more effectively to unauthorized ACH debits. And the filtering capabilities provided by the eGistics research tool will enable the bank to block and restrict access to certain transactions, when required. What's more, the bank can store data in the eGistics solution for an unlimited period of time.

The Bottom Line

At a time when rising ACH dispute volumes are impacting the back-office operations at banks, one of the largest ACH banks in the United States has achieved significant benefits by moving to a hosted ACH dispute management solution. These benefits include better, faster customer service, more accurate and timely dispute status and tracking, streamlined ACH operations with lower costs, and reduced losses from charge-offs.

About eGistics

eGistics provides hosted payment information management solutions for long-term enterprise storage and management, ACH dispute management, turnkey remittance archive, client decisioning, and COLD report management. Its customers include many leading financial services companies, including three of the five largest U.S. banks, five of the top 10 U.S. cash management banks, the world's largest asset management company, and the three largest third-party remittance processors. *For more information about our ACH solutions, contact us at www.egisticsinc.com.*