Becoming an ODFI Implementation Toolkit

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WesPay has a long tradition of working with financial institutions in the Western U.S. to promote the use of electronic payments and increase effectiveness through professional development and client support. These toolkits are a collection of reference guides designed to provide a clear understanding of the technical requirements of the ACH Network.

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Introduction

Welcome to the ODFI Implementation Toolkit. The professional team at WesPay has gathered their collective expertise to provide this comprehensive toolkit in order to assist you in your implementation of Origination Services as an ODFI. We are seeing an increasing number of financial institutions planning to add Origination Services to their financial suite of products. This toolkit is in response to the need for significant guidance and the relative lack of available resources available to guide organizations like yours in the implementation process.

This publication assumes that you have either completed the due diligence and decision making outlined in the “Becoming an ODFI: Assessment Toolkit” or that you have already completed your own assessment process and have a fully committed decision from your management team to implement ODFI products at your institution. If you’re just now at the stage of considering if becoming an ODFI is right for your financial institution, we recommend starting with the Assessment Toolkit as a guide for making a thoughtful and strategic decision.

Throughout this toolkit, we will reference items that were completed in the Assessment Toolkit process. If you did not utilize the WesPay Assessment Toolkit, we will indicate the items that you will need to develop to complete each stage of the implementation process.
Planning

To successfully implement an origination program using ACH, you will want to create a work plan, which clearly outlines the tasks that need to be accomplished. This plan will include specific dates for tasks to be completed and will identify who is responsible for each phase of the work plan. A work plan should be put in writing, made available to all involved in implementing the project, and updated regularly.

Identify the Stakeholder Team

The best way to ensure a smooth and efficient implementation of new ACH services is to have all of the interested parties at the table early in the process. You will likely have two levels of participants in the team—one group will be involved in the day-to-day activities and decisions; a larger group will need to be updated only at intermittent scheduled times.

Following is a suggested list of stakeholder teams:

Core Team

- Product Management
- ACH Operations
- IT / Systems
- Accounting
- Vendor Project Management
- Project Manager(s) (if applicable)

Full Team

- Risk
- Compliance
- Fraud
- Audit
- Legal
- Marketing
- Credit
- Branch / Sales / Cash Management
- Customer / Member Relations
Identify the Origination Goals

Origination services are an integral part of your overall business strategy. The goals and objectives of a successful program will differ from institution to institution. In projects of this scope, it is often easy to lose sight of the primary objectives of the program as the details of implementation and product launch take over. A sound ACH origination program should contain clearly defined objectives that fit into your organization's overall business strategy as established by your board of directors.

It is very helpful to clearly state the goals of the program in manageable time frames while setting measurable goals along the way. For instance, your business strategy may be to improve retention of business customers. Or, you may be looking to increase revenues on existing customer accounts over a five-year period. Clearly stating these objectives and goals at the beginning will help guide decisions during the implementation and rollout phases of launching Origination services.

Following is a checklist of items to consider:

- Increase non-interest income
- Respond to customer demand
- Strengthen existing relationships and improve retention
- Re-position financial institution and bolster differentiation
- Realize cost reduction (for internal departments)
- Improve operational quality & efficiencies
- Maintain service equity with competitors

Set Timeline and Milestones

Setting a timeline in the planning stage will help keep all of the various moving parts of the project in alignment. It is helpful to remember that a timeline is a living document and best utilized when it is modified as situations change over the course of the project. The danger of not modifying the timeline to match realities on the ground is that soon the team will just ignore the schedule because the dates are not relevant.

Milestones are points along the timeline where sub-projects need to come into alignment in order for the overall project to continue. These are good points to pull the full team together to be sure that all aspects of the project can be voiced in a single meeting.
Refine Budget

If you already completed the Assessment Toolkit, then the budget you developed in the due-diligence process should be sufficient to move right into the implementation project. If you are using this guide because your management team has already approved the implementation of Origination Services, then you may need to do some additional work to develop a project budget.

In either case, this is a good time to review the budget in detail and validate the assumptions and make adjustments in the cases where new information has changed the scope of work or financial impacts.

Program Evaluation and Management Reports

Keeping all of the stakeholders informed during the implementation process can help to avoid time-consuming and often costly adjustments late in the process. Short, weekly program evaluation and management reports will allow everyone on the full team to stay up-to-speed along the way.
Product Development

Product Definition

There are two primary aspects to any Origination service. First is the technical implementation of systems, procedures and legal agreements that make up the backbone of an ODFI program. The second, equally important aspect, is the marketing and product development of your Origination services.

The product definition is the positioning of services to your customers or members. It includes a description of the target audience, which SEC (Standard Entry Class) codes will be offered, underwriting and credit requirements, transaction limits and other elements important to your clients. SEC codes define the type of transaction taking place. For example, the SEC code PPD (Preauthorized Payment or Debit) is limited to credits and debits to consumer accounts. A complete list of SEC codes can be found in the Appendix section.

Following is a checklist of items to consider in your product definition:

- Audience description and use
- SEC codes
- Underwriting requirements
- Transaction limits
- Related products
- Channel distribution
- Data security requirements
- Contingency capabilities (business continuity)
- Reporting capabilities
- Customer service/technical service offering

Pro Tips
Write reports that people actually read:

- Put the items that have changed or made progress in the first part of the report. If the report looks mostly the same week after week, important progress or questions are easily missed.

- Create a visual dashboard for status. A table with a line item for each of the primary areas of development with a color code that indicates if that area is moving forward according to plan (green), a little behind or over budget, but being addressed (yellow) or off schedule, over budget and needs attention (red), should be developed.

- Have a section that includes the tasks that are scheduled for the coming week and the person responsible for that item. This helps put a tickler in people’s personal to-do list and keeps the whole project on track.

- Be consistent and timely when reporting to your audience.
Pricing

Establish Your Fee Schedule

Prior to offering your customer’s ACH origination, you will want to develop a fee schedule for this service. As you develop this fee schedule, there are three types of costs you will want to keep in mind, set-up costs, fixed costs and transaction costs.

Identify Cost Structure

Set-up Costs

If you will use a third party processor to originate ACH items, you may incur set-up costs for that connection. If you choose to purchase vendor software, that will also be a set-up cost. The initial set up on any software will be a labor cost to you if you choose to enter items manually. In addition, you may choose to perform a credit analysis on any new corporate Originators. Finally, education and training costs may be part of the initial set up. This includes both internal and external education.

Fixed Costs

Overhead costs related to your ODFI operations, including: personnel, hardware, maintenance, software and proportional office space, need to be allocated to your budget accordingly. In addition to direct costs of the new Origination Services department, a portion of other department expenses may be relevant. Other areas to consider are: customer support, customer education, underwriting, risk, etc.

Transaction Costs

You will want to consider ongoing costs that include processing and servicing fees paid to the Federal Reserve Bank, correspondent, or third party. If you will be manually updating items in Fed for Web, you will incur internal labor costs. If you purchase vendor software, there may be software maintenance fees charged by the software vendors. Any marketing (including internal and external education and training) you choose to do for your ACH origination service will be an ongoing cost. Each step of the ACH origination process should be evaluated and considered as part of the costs to be recovered by established fees. For example, you may want to include a file handling fee to recover any costs for special handling of files. An example of this would be accepting alternate file types (Excel, Comma/Tab Delimited or other proprietary formats) and converting them to standard ACH format for processing.

Toolkit Element: Pricing Spreadsheet Template

Included in the toolkit is an Excel spreadsheet that provides a template for developing your own pricing model.