Becoming an ODFI Assessment Toolkit

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Sharing Our Passion For Payments
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Introduction

Even for mature organizations that have been active as a Receiving Depository Financial Institution (RDFI) for many years, the decision to move into Origination services is often a daunting process. Assessing the market opportunity, evaluating the costs and benefits and identifying potential risks can be complicated. Often, management and staff will discuss the option of implementing Origination for years and never take definitive action. This toolkit is designed to guide you through the decision making process so that any decision you make is grounded in sound business strategies with an appropriate balance of costs and benefits.

The ODFI Toolkit Series will walk you through the assessment process and, if you decide to proceed with launching Origination services, provide you with the steps and resources you will need for a successful implementation and continued operation as an Originating Depository Financial Institution.

To accomplish this, we have created three separate toolkits to aid you in the process: Assessment, Implementation, and Operations.

Becoming an ODFI -- Assessment Toolkit will walk you through a thorough decision making process that will bring all the necessary stakeholders in your organization into alignment with a decision to move forward with implementation or to hold off until another more appropriate time.

Let’s get started and look at the questions you will need to ask and answer to see if Origination is right for your institution.
Assessing the Origination Opportunity

Building a strong business case for ACH Origination can be time consuming and resource intensive. Walking through the decision process in stages can save a lot of time. There is no sense in collecting detailed information on potential ACH third party processors if you realize soon after that you don’t have enough corporate customers interested in origination to make a program viable in the first place. We have broken down the decision process into three distinct phases. Each step is progressively more detailed and resource intensive. At the end of each phase you will engage a Go/No-Go decision point before continuing on. This will save a lot of time and hopefully a lot of frustration.

**Phase I: Opportunity Assessment**
*Is Origination right for us?*

**Phase II: Organizational Review**
*What will it take for us to be ready to Originate?*

**Phase III: Business Case Development**
*Taking all of the costs and benefits into account, can we meet our organizational goals with this product?*
Understanding the Landscape

This document is designed to assist a financial institution in the evaluation process to decide whether to add Origination services to their payments program. You may fall into one of the following situations:

**RDFI Only**
Your institution only receives incoming ACH entries and you are interested in originating ACH items into the network either via an in-house solution or by means of a third party processor.

**ODFI: Internal Only**
You may be originating ACH items into the network solely for internal use. This would represent your financial institution sending payments to vendors, creating payroll transactions or auto-debiting your customers/members for loan payments.

**ODFI: Third Party Applications Only**
It may be that your institution does not originate ACH entries, but uses a third party to deploy services to your customers/members, and that third party utilizes the ACH network to effect these transactions. An example of this would be using a third party service for Bill Pay or Person to Person (P2P) transfers of funds.

**ODFI: Third Party Applications Only**
Your institution may currently not be doing any ACH origination, or only for “internal” purposes previously described. “External” origination involves your institution working with corporate customers to facilitate the origination of debits and credits on their behalf to other corporate entities or to consumer accounts.

To help get started with the planning, it is beneficial to get a high-level view of the landscape. The chart on the following page outlines the areas of responsibility for financial institutions for both RDFI functions and ODFI functions. Having a clear understanding of the roles and responsibilities you will be adding to your business processes will provide you with a good roadmap of the areas you will need to focus on in this analysis.

A good exercise to get started is to review the items that are specific to ODFIs and make note of the areas you believe your institution would need to spend the most resources to develop.
Becoming an ODFI Implementation Toolkit

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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.
Becoming a Better ODFI
Sales and Marketing Toolkit

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Introduction

Welcome to the ODFI Sales and Marketing Toolkit. The professional team at WesPay has gathered their collective expertise to provide this comprehensive toolkit in order to assist you in your development of Origination Services as an ODFI. We are seeing an increasing number of financial institutions building Origination Services into their financial suite of products.

This publication assumes that you have been an ODFI for some time and are now looking into expanding the program. Perhaps you have provided Origination services only for internal purposes and for a handful of select clients. Perhaps you have a small program that has languished for some time with little or no growth. This toolkit is designed to help you evaluate your current program and find the opportunities that are hidden therein.
**Assessment**

The first step to growing your Origination Services program is to do a thorough assessment of your current program and client base. With this critical information in hand, you will be able to make solid, strategic decisions about policy changes and marketing programs to grow your program. The evaluation should include both the product and the client base.

On the product side, a review of the financial performance of the Origination services will give you an indication of where there is organic growth that can be maximized and where there may be opportunity to expand the program in new areas. In addition, by reviewing the policy side of the product you can uncover areas of expansion through updating the current policy parameters.

Client evaluation will provide you a better idea of who is using the service today and where the greatest opportunity is to expand services within your existing customer base. It is always less expensive to offer existing customers additional services than to acquire new clients.

**Financial Review**

Many financial institutions have Origination programs that they only use for internal transactions such as payroll or make available for a small, select group of clients. In these cases the program was not implemented with the objective of generating revenue. When considering expanding your Origination program, a thorough review of the current financial picture can provide many clues and guidelines for the most promising opportunities to reduce costs and maximize revenue.

What is the current state of cost vs. revenue?

Gather both fixed costs and variable costs for the current program. Fixed costs include:

- Personnel and related overhead
- Equipment and maintenance
- Software licensing
- Technology dedicated to this particular line of business such as dedicated internet lines, etc.

Variable costs include:

- Transaction fees
- Processing and servicing fees
- Third party expenses

Make the calculations to determine the profit/loss status of your current product. Even if the management team does not require this information, it will provide a good baseline for determining benchmark goals for the future.
How does Origination compare to other financial products in your FI?

With the financial analysis in hand, take the opportunity to compare your current Origination program to other financial products you offer. What are the qualities of the highest performers compared to your Origination program? What are the similarities with the lowest performers?

This analysis can give you an idea of what aspects of your future Origination program you want to emphasize. It may be that revenue generation is not a primary goal and that client retention is more important. If that is the case, what investment (i.e. program losses) are you willing to tolerate for this outcome? What metrics do you have to measure non-financial outcomes? All these factors will help you develop a solid strategy for growing Origination.

How do your return rates and fraud rates compare to national averages?

In addition to cost and revenue analysis, also review your return rates and fraud rates. How do they compare to other financial products within your own institution? How do they compare to national averages? High numbers may indicate that you need to complete a careful review of your underwriting policies. But low rates might indicate that your current policies are too strict or that you have a fertile area to explore for expansion. Either way, the information can help shape your future products.

Useful Materials

AFP (Association of Financial Professionals) conducts an annual payments fraud survey that provides excellent benchmark data. http://www.afponline.org/fraud/
ACH Client Profile

Analysis of your current user base can deliver rich information for building and expanding new programs. If you have extended Origination services only to selected clients, these are likely some of your most loyal customers. They can provide valuable feedback to what aspects of the program they like, what they would use if offered and what new programs might be of only mild interest.

On the other hand, if you utilize Origination only for internal functions, you can do similar analysis with your most valued clients. Either way, the individuals you already have a relationship with will give you the best feedback for developing new programs.

Your analysis might include the following questions:

- Who is using the service today?
- What is their satisfaction level with the program?
- Are there any trends in the customer comments / complaints?
- What is the penetration in the existing customer base?

Prospect Review

Once you have completed your review of existing clients you will have good material to conduct some exploration into who will be your most likely prospects for adoption of new Origination products. Again, looking into your own organization is a good place to start.

- Does your sales team or cash management organization have to turn away potential new clients because your institution does not offer Origination services?
- Have you educated your sales team around ACH Origination, the prospects for future sales as well as associated risks?
- What are the most common requests that come through customer/member services areas?
- Are there Origination services or products that can address these requests?

Toolkit Element: Product Positioning Sample

Included in the toolkit is a sample survey questions you can use for client satisfaction studies.
Assessment

Competitive Landscape

Looking to your competitors can provide clues to what the market demands. By looking across a fairly large sample of competitors, including local, regional and national outfits, you can get a better picture of what services are offered, what commonalities exist and where there might be opportunity for differentiation. Be sure to consider non-traditional competitors in the research.

- What Origination services do your competitors offer?
- What services are they using for prospect attraction?
- How are they offering it?
- What are they charging?
- Are there credit requirements?

Note: If you’re not using one for other products you offer, there are services which provide analysis on pricing based on your competition.

Policy Review

The policies you have in place today were designed to support the scope of your current Origination program. It may be that your program has naturally expanded over time but your policies have not been reviewed since the program’s initiation. This section will provide a guide for what areas of policy should be reviewed. The chapter on Policies and Procedures will provide more detailed information on policy development.

SEC Codes

Review the SEC codes you currently offer. Match internal customer needs defined in the previous section to SEC codes not currently being offered. Where do you have the most opportunity for growth? Which areas have the greatest risk? You might want to create a test program to offer new SEC codes to a limited set of customers and then evaluate the performance over a specific period of time. When going through this process, consider your risk appetite vs. reward. Some of the faster growing and more widely used SEC codes, such as WEB (Internet) and TEL (Telephone Sales) present a higher level of risk. A full list of SEC codes is included in the Appendix.

Useful Materials

WesPay provides a ACH Policies Advisory Service that reviews your current ACH policies against an inventory of electronic payment regulations and industry sound practices. Visit www.wespay.org for more information.