KYC: The Ins & Outs of Account Validation

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Why is NACHA focused on Account Validation?

• “Routing Data Validation” is one of the eight attributes defined by the 2012 ACH Blueprint
  – Identified account validation as critical to the long term support of payment innovation, user enablement, and ACH credit origination

• Industry and member surveys indicate a strong preference for the ACH Network to better support account validation
In NACHA’s 2012 industry survey to inform the 2013-2015 NACHA Strategic Plan, account validation was the highest-rated capability needed for the ACH Network, with end-users expressing the strongest support for this capability.

### Q15 – Long-term ACH Network capabilities

<table>
<thead>
<tr>
<th></th>
<th>ACH Network should allow for voluntary or “opt-in” applications</th>
<th>ACH Network should support parallel processing arrangements for opt-in users, advanced applications, or new formats</th>
<th>Users of the ACH Network expect faster payments and availability of funds</th>
<th>NACHA should focus on enabling increased use of ACH credit payments</th>
<th>ACH Network should support enhanced functionality for payment-related messages</th>
<th>ACH Network should support account validation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Union</td>
<td>5.7</td>
<td>6.1</td>
<td>8.7</td>
<td>7.0</td>
<td>7.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Banks under $5B</td>
<td>5.0</td>
<td>5.4</td>
<td>8.3</td>
<td>7.4</td>
<td>7.4</td>
<td>7.9</td>
</tr>
<tr>
<td>Banks over $5B</td>
<td>4.3</td>
<td>5.2</td>
<td>8.0</td>
<td>7.5</td>
<td>7.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Tech Provider</td>
<td>5.7</td>
<td>6.6</td>
<td>8.5</td>
<td>7.9</td>
<td>7.6</td>
<td>7.9</td>
</tr>
<tr>
<td>End-user</td>
<td>6.3</td>
<td>6.7</td>
<td>8.3</td>
<td>7.8</td>
<td>7.9</td>
<td>8.9</td>
</tr>
<tr>
<td>All Other</td>
<td>5.9</td>
<td>6.4</td>
<td>8.0</td>
<td>7.8</td>
<td>7.9</td>
<td>8.1</td>
</tr>
</tbody>
</table>

(Q15) As you think about the ACH Network and its long-term capabilities into the future, please indicate the degree to which you agree or disagree with the following statements: (Where 1 = Strongly Disagree to 10 = Strongly Agree)
In the 2015 survey, used to inform the 2016-2018 NACHA Strategic Plan, all respondents consistently placed the greatest importance on account validation, with greatest intensity expressed by both end users and FIs.

### Importance of Continued Work by NACHA in Following Areas to Address Future ACH Payment Needs

(1 = Nominally Important / 10 = Extremely Important)

(Weighted average responses)

<table>
<thead>
<tr>
<th></th>
<th>FI</th>
<th>End User</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tokenization</strong></td>
<td>8.5</td>
<td>8.4</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Payments Information &amp; Messaging</strong></td>
<td>8.0</td>
<td>8.1</td>
<td>8.1</td>
</tr>
<tr>
<td><strong>ISO 20022 Adoption</strong></td>
<td>7.5</td>
<td>5.9</td>
<td>7.1</td>
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<tr>
<td><strong>Directory Services</strong></td>
<td>8.5</td>
<td>7.3</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Account Validation</strong></td>
<td>9.0</td>
<td>9.0</td>
<td>8.8</td>
</tr>
</tbody>
</table>
NACHA’s 2013 Account Validation Survey showed consensus on the definition of account validation

Does your organization agree with the definition of an account validation service as:

* A service wherein a business or financial institution can validate the accuracy of the account information received from a consumer or business, and the ability of that account to receive electronic payments.
The 2013 survey also showed varying needs as to “what” should be validated

What should be validated?

![Bar chart showing the elements organizations would like to see validated in an account validation service. The elements include Valid Routing and Transit Number (RTN), Valid Account Number for that RTN, Match, EIN or D&B number match to account (optional), Account is eligible to receive an electronic entry, and Other (please specify).]
And, survey results varied as to needed timing of the validation

Participants favored from real-time to same-day to next-day for receiving an account validation response
Initial steps

• Shortened prenote waiting period from six days to three

• Identified EWS as NACHA’s Preferred Partner for Account Validation Services

• Continued dialogue with financial institutions, vendors, and end users
  – Industry Forum held in October 2015

• Engaged NACHA Board Advisory Group in brainstorming on how and in what cases account validation could add value to end users
NACHA Board Advisory Group

• Created to provide formal mechanism for non-FIs to communicate with the NACHA Board of Directors on strategic payments topics
• Represents natural progression of NACHA’s engagement of non-FIs to inform ACH Network capabilities and the future of ACH payments
• Comprised of executives from a balanced cross-section of non-FI ACH Network participant organizations representing diverse end user and technology solution provider constituencies
• Engages in dialogue and information sharing, provides feedback on concepts and identifies areas of opportunities
• Helps to inform strategic thinking and direction to ensure that ACH continues to evolve in ways that add industry value and meet market needs
• Visit https://www.nacha.org/about/governance for more information
Moving Forward with Account Validation

• Although specific needs vary, Industry agrees that ACH transactions (both debits and credits) could be better served if there was a way to validate the bank account numbers

• Our goal: Continue to make progress
  – Incrementally respond to the need for account validation by highlighting what is available today, while continuing to explore future options
    • DFI and Originator Account Validation White Papers for use by Industry
    • Possible future options: same day prenote and FI APIs for account validation
White Paper: Why is Account Validation Important?

- Reduce Exceptions
- Reduce Fraud
- Provide Positive Customer Experience
- Reduce Costs
White Paper: Account Validation Use Cases

Recurring
• Direct Payment
• Loan Payment
• Physical Point of Sale
• Mobile Wallet
• Online Transactions
• Payroll funding
• Direct Deposit

One Time
• Account Funding
• Online Payment
• Expedited Payment
• Rebates/Refunds
• Disbursements
• Loan Payment
White Paper: Current Methods of Account Validation

- **Manual**
  - These methods work, but are time consuming and don’t scale well.

- **ACH Prenote**
  - It’s faster but probably still not “fast enough”
  - Minimal information provided and relies on waiting period vs positive or negative responses

- **“Sign In” Applications**
  - Requires customer to share sensitive FI Login information
  - Customer assumes risks since not bank supported

- **Dual Deposits**
  - Customer resistance to use
  - Makes the enrollment process take too long
  - Not used for one time ACH payments

- **Shared Database Services**
  - Scoring technology still new and not widely available to corporates
  - Can be viewed as cost prohibitive
  - May not be an option for mid-size and small FIs
White Paper: Exploring Future Options

• Prenote Improvements
  – Create Same Day transaction for account validation
  – Require a “yes” or “no” response
  – Look at validating last name
    • Some sort of identifier and first four letters of last name
White Paper: Exploring Future Options

• Use of Standardized APIs for safe, secure, ubiquitous, account validation
  – Standardized API’s would provide FIs with control of financial data and protect consumer credentials that use third party services

• Who will lead standardization efforts and form an API library?
  – Technical specifications
  – Rules/governance
White Paper: Conclusions

• Important to use some sort of account validation

• May want to use different types of account validation for different use cases

• Business case for utilizing account validation includes loss factor as well as cost of implementing account validation system

• Industry must work together to improve current methods or create new ones - enhancing the ACH Network and/or developing standardized APIs will be a large task and require a big effort on everyone’s part to move forward