



The Approaching Storm for Third-Party ACH Providers

By Steven F. Pereira

*Learn how to find a quality
ACH provider by asking
eight critical questions that
will ultimately protect
your valuable business.*

Choosing the correct ACH provider is becoming more of a critical decision for professional payroll processors (PPPs) across the nation as banking regulations and requirements continue to increase, as well as the scrutiny in which they are enforced. Those who need the use of an ACH third-party provider must select one carefully after getting answers to very important questions.

This article discusses the big issues and problems of choosing the wrong ACH provider, and the questions to ask so that you may select a high-quality ACH service provider for your business.

ACH Nightmares

The worst case scenarios for a customer of a third-party ACH provider are situations that can cause great harm to you and your business. Generally, these situations involve fraud which usually occurs by signing up and processing payroll for a bad customer.

These fraudulent situations are rapidly becoming more real and debilitating for professional payroll processors. You see evidence of this by taking note of the increasingly-distant behavior that most third-party ACH providers are exhibiting to their clients. This phenomenon can be demonstrated by noticing how many ACH providers are isolating themselves behind their web sites, and distancing themselves from their clients. Ask yourself this – do you get to immediately talk to a real person when you have an issue? Does someone call you when there is a problem with an item or a payroll, or do you get a notice and a charge back to your account?

It is clearly apparent that many ACH providers today are reducing any hint of a quality business partnership with their clients, making your business much more vulnerable to fraudulent issues that could ultimately close your business. If your provider is your partner, then why are most ACH service providers being required to provide some form of financial or personal guarantee? What you should look for is an ACH provider that has your best interests in mind. Select an ACH provider with a long track record of protecting their customers.

A good ACH provider has a good relationship with their bank as well as with their customers. They should follow the Patriot Act rules and take this constant and real worry off your shoulders. A good ACH provider will do this as a matter of daily business and not charge you for this service. A top-notch ACH provider is there to back you up. They should have security procedures in place to provide you with the peace of mind that your new customers are who they say they are. Most losses that payroll providers encounter are from new customers, and 99.9% of the time this occurs within the first two payrolls. Make sure your provider has a rock solid procedure in place to protect you and your business.

For example, one nationally-recognized third-party ACH provider boasts that they have never had to pass a bad payroll on to one of their PPP customers, and that they regularly catch fraud attempts before they occur. When asked, they won't tell you their secret, but they do provide you with a list of references to customers who will gladly testify. However they do it, they have a long list of PPPs that have been spared losses in the hundreds of thousands of dollars.

Shaky Providers

When comparing and selecting ACH service providers, use common sense when making your final decision. Do they have a separate operations department? Do they have a dedicated customer service department? Are you able to speak to various people in the organization? Can your call escalate to a manager or vice-president?

You'd be surprised how many third-party ACH providers would answer "no" to these questions even though some of these questions require a "yes" for them to stay in business, and to hold up under the increasing scrutiny from banks and the Federal Reserve.

By 2011, you should start to move beyond the comfort of long-standing, cozy relationships with your ACH provider, and begin asking them tough questions – questions that are going to allow you to stay in business. The following questions should be answered "yes" by an ACH provider before a prudent professional payroll processor should even consider entrusting them with their valuable business:

1. **Does the ACH provider have SSAE 16 Type 2 examinations or their equivalent?**

ACH providers that are SSAE 16 Type 2 examined gives you and your business a level of comfort that your ACH provider meets the industry standard for computing and internet safety. To pass this examination, a business must undergo a yearly, six-month audit to verify that control policies and procedures are in place and adhered to. This type of control and security is absolutely critical to your business. Imagine dealing with a data security breach that involves all of your customers, employees, and partner bank accounts. In today's world, identity theft is a very real threat, and there is a growing list of careless companies put out of business by disregarding it.

2. **Does the ACH provider require all employees to have a background check?**

You're giving your ACH provider very critical banking information. The least they can do is assure you that they hire honest individuals. ACH providers that don't adhere to this minimal security policy are going to find themselves on the wrong side of a bank audit very soon, and that problem will be passed right down to their clients.

3. **Does the ACH provider carry a sufficient amount of insurance?**

You should be very concerned about whether or not your ACH provider is properly insured. It's expensive to maintain a level of insurance that protects an ACH third-party provider, but that is the cost of doing business. If your ACH provider can't afford the insurance, or worse, can't qualify for the insurance, you are taking a huge risk. Make sure your ACH provider can sustain a loss, or absorb the financial responsibility of making good on a data breach. Currently, the standard insurance amounts are a minimum of two (2) million dollars of liability and malfeasance, with five (5) million being the amount a quality-oriented ACH provider carries.

5. Is the ACH provider able to sustain a disaster?

By the middle of this year, regulations being passed down are going to begin targeting ACH service providers without proper and prudent procedures to withstand a service interruption. You should make sure that your ACH provider has their computer facilities in a safe and hardened facility. It's not cheap for an ACH provider to have disaster recovery procedures. A quality ACH provider certainly understands the importance of securing your critical customer data, and should assure you that your transactions are not being processed by an off-the-shelf desktop computer in a closet somewhere in their office.

The days of picking the cheapest ACH provider, and not worrying about how they run their business are over. For those ACH providers that have spent time and money making sure that they are safe and secure from disaster, they are now being vindicated for their high standards. Top-notch ACH providers have expressed frustration over the last few years for investing in their business, while still having to compete with cheaply-run and unsafe competitors. Your best move is to pick an ACH provider that has the expertise and the financial stability to maintain first-class online operations without a hitch. Go and visit the potential ACH provider if possible to get a realistic impression of their organization. Be weary of ACH providers that would prefer that you not visit them in person. These providers may appear at first to be cheaper than a top-tier ACH provider, but understand that you will be getting what you are paying for, and that you might be putting your business in a very vulnerable position.

6. Does the ACH provider avoid processing dangerous and heavily-scrutinized items?

In the ACH world, all items are not created equal. For example, the Federal Reserve may not be overly concerned with payroll direct deposit items, but they get very concerned if a provider processes collections, or check re-presentments. Currently, alerts and audits are increasing for ACH providers that process files for "Pay Day Lenders."

Some ACH providers get involved in risky types of transactions because their business can't be sustained by sticking to payroll transactions. In other words, they need the money that these types of fast and loose transactions bring to the table to survive. Select an ACH provider that distances themselves from risky transactions and concentrates their efforts towards direct deposit transactions that align closely with your core business. If the ACH provider is conservative, that caution spreads safety to all of their customers. You'd hate for your ACH provider to implode financially during your payroll cycle because the FDIC or NACHA shut them down for collecting items like high-paying health club payments.

7. Does the ACH provider have diverse sources of revenue?

Your ACH provider should definitely show diversity in its sources of revenue. Ask if your ACH provider is a "one-horse" business, or if they show some diversity by having revenue streams other than direct deposit? The rule of thumb for a healthy ACH provider is that only about 50 percent of their income should be derived from ACH transactions. For example, a bank doesn't just process ACH; they have other sources of revenue in the event of a down turn. You also have the right to view an ACH provider's financial statement to verify properly-diversified sources of revenue.

8. Does the ACH provider undergo rigorous yearly financial audits?

If your ACH provider does not undergo rigorous yearly financial audits, there is definitely trouble brewing for them. ACH providers are hearing that the ACH and NACHA networks will soon stop allowing entry to their networks by third-party providers that don't meet rigorous financial stress tests as well as state-of-the-art security standards. As regulations, requirements, and standards increase, the payment industry is seeing more ACH providers falling prey than ever before, and closing their business in the blink of an eye. It's not hard to imagine the devastating effects this could have on your business, and the ability to pay your clients' employees on time, every time, and without fail.

The bottom line is that you should pick your critical ACH provider with great care. Unlike a quality ACH provider, a low-quality ACH provider will eventually put you out of business. Unfortunately, for one reason or another people don't think of the business-shattering failures that an ACH provider is able to inflict on to your valuable enterprise.

There is no reason why you can't successfully navigate the increasingly-turbulent banking "waters" easily with the right ACH provider. Select the right provider and you will be able to rest assured knowing that you will be able to continue concentrating on running and growing your business and not closing it. Remember, just because your organization has weathered the storm so far, that doesn't mean you shouldn't worry. Check into your current ACH provider thoroughly, and shop around for a new one if the criteria mentioned in this article are not met satisfactorily.

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