Safe ACH Processing Myths and Facts

This white paper discusses:

- Fraud Statistics
- ACH Processing Myths & Facts
- NatPay’s Insurance & Security
- NatPay’s Yearly Audits
- NatPay’s Funding/Timing Options
Fraud Statistics

In a survey conducted by Association for Financial Professionals (http://www.afponline.org/pub/pdf/2007PaymentsFraudSurvey.pdf), the following sobering statistics were documented:

- Thirty-six percent of organizations reporting payments fraud activity were victims of attempted or actual ACH payments fraud in 2006

- Those organizations that suffered financially from ACH fraud report it was because they failed to use defenses available from financial institutions or failed to follow best practices

- Seventy-two percent of organizations experienced attempted or actual payments fraud in 2006

- Thirty-nine percent of survey respondents report that incidents of fraud increased over last year

- The median loss resulting from ACH fraudulent activity is $23,300

You get a realistic picture of the risk associated with processing ACH for your customers when you take these statistics and compare them with the business survival statistics published by SCORE (www.score.org) which revealed that there were 627,200 new businesses, 595,600 business closures and 43,546 bankruptcies in 2008.

What makes these numbers even more astounding is that when Payroll Service Providers are asked for their criteria in selecting a third-party ACH vendor, risk prevention isn’t even on the list – It’s price and timing. In reality, every payroll service has taken a hit, and if they haven’t, they will.

To top things off, Payroll Service Providers continue to pressure their vendors to process payroll funding on a shorter and shorter timetable without even realizing the increasing amount of tangible risk that they are adding to their own balance sheets.
ACH Processing Myths & Facts

Banks are ok with 1 (one) day payroll ACH processing: MYTH

Banks are risk adverse, and do not allow non-customers to process one-day funding. There are only a few circumstances where a third-party ACH provider can process one or even two-day funding for their customers that do not have a depository account at that particular bank:

a. The ACH provider has provided a large and significant collateralization
b. The ACH provider has contractually obligated their individual customers to assume financial responsibility
c. The bank is taking adverse risk for ACH volume and fees
d. The bank doesn’t know

In each of the situations above, the implications for your service/business can be devastating. At best, your service/business can be on the hook for any losses incurred because of your customers. At worst, your bank or ACH provider can implode, which has happened, leaving you on the hook for the number of payrolls in process. If your provider is only using one bank and/or that bank isn’t “too large to fail,” you are looking at a potentially disastrous financial calamity.

It only takes one day to be notified about ACH items returned as NSF: MYTH

On average it takes three (3) banking days for your business to be made aware of a NSF payroll item. That’s two (2) days after your payroll is gone, and in most cases, gone for good. An ACH payroll deposit is available instantly, which means that the money can be gone two days before you know the funding was bad.
All ACH processors are pretty much the same.  
MYTH

There are two crucial questions that you should ask your ACH vendor. How safe is your network, and what type of insurance do you carry for liability and hacking? Studies show that a single identity theft can cost an individual several thousand dollars to correct. Can your vendor stand behind a large claim if their network is compromised? The conventional wisdom is that a vendor of financial services should maintain an E&O insurance policy of $5 million dollars – like NatPay. It is amazing how many businesses are just one data breach or vendor failure away from bankruptcy.

As a matter of fact, since most ACH vendors are online or web based, you should be asking what forms of certifications they have, as well as the amounts and forms of bonding and/or insurance. You will be surprised to find that few have security audits performed, much less financial audits by a certified third-party CPA firm. At NatPay, we are proud of our successful financial audit history dating back to 1991, and our successful SSAE 16 Type 2 (formerly SAS 70 Type II) audit history since 2009.

Security is one of NatPay’s top priorities that is why NatPay stores all of its customer information in a secure, third-party computer facility. Our facility is monitored 24/7 by live technicians and cameras, has commercial-quality emergency power supplies, is fully air conditioned, and requires three methods of ID to just enter the building.

NatPay also undergoes a once-a-quarter full disaster contingency test that requires the staff to perform an entire day’s work from an off-site location.

All payroll service providers are offering one-day funding:  
MYTH

The big players (like ADP and PAYCHEX) in the payroll services industry do not offer one-day funding except to:

- Major customers
- Customers who bank with a bank’s other financial partners (and that is still questionable).

In fact, most banks today are not even allowing their own customers to have one-day funding. The best that can usually be expected for the average business is two-day funding with extensive credit checking and typically a letter of credit. There is no free lunch as far as banks are concerned. This is why businesses use a third-party ACH provider in the first place. Generally, your bank won’t allow you to process your own customers files. This is no different for your ACH provider.
The Difference with NatPay’s ACH Services

NatPay’s funding/timing options are based on sound judgement, and practical safety measures that protect all parties while providing the safest, fastest funding/timing options available today.

NatPay is Your Partner as Well as Your Vendor

NatPay performs various reasonable and proprietary checks on your new customers. As a result, NatPay has not had a single loss, and has never passed on a financial problem to any of our payroll service partners.

“Because of NatPay’s thorough safety protocols, NatPay caught a fraud attempt by a new payroll customer of one of our newer partners. This payroll service had moved to us because they had a $40,000 bad payroll charged back to them by their previous ACH provider. In our first week of our having their account, we discovered an attempt to take them for $45,000 and successfully prevented the loss.” – Steven Pereira, NatPay Vice-President and General Manager.

Only Two Types of Customers Demand One-Day Funding

“NatPay’s twenty years of experience in the ACH services industry has taught us one thing, we don’t want customers that can only fund their payroll the same day as pay day. We have customers that need that quick of a turn around, but they wire the funds to us, or they use our ground-breaking pre-funding option. The same should hold true for you. The other services that your organization provides aren’t necessarily dependant on your customers’ cash flow, but payroll ACH certainly is one that does – as well as tax payments. Once that money is gone, it’s gone. It doesn’t take many bad payrolls to bring most business to their knees. NatPay gives your organization piece of mind. We have payrolls go bad, everyone does, but we also always get our money. Twenty years is a lot of experience, and we put it to good use.” Says Mr. Pereira.

In this new economic climate, you need an ACH service provider that can provide you with piece of mind. We protect our customers by providing them with advanced feedback on the type of customers that they are signing up. NatPay is an expert at preventing losses. Considering all of this with the fact that NatPay is now the lowest cost provider of third-party ACH services, you have a winning combination.” Says Mr. Pereira.
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