

# News from FedACH

VOL. 3, NO. 4, DECEMBER 2006

The Financial Services logo, "FedACH," "FedACH International," "FedACH Risk," "FedLine," "FedLine Web," and "FedLine Advantage" are either registered or unregistered trademarks or service marks of the Federal Reserve Banks.



## UPDATES TO FedACH SERVICES

2

November and December changes



## Q&A: DENNIS SIMMONS

5

ACH Risk Management: The Role of a Regional Payments Association

## NEWS KIOSK

3

## OCC BULLETIN

4

## WHAT'S COMING UP

4

## CUSTOMER IN THE SPOTLIGHT

# First Hawaiian Bank

## ACH in the Pacific

As many of us anticipate another cold winter, the prospect of living somewhere warm and sunny may seem more enticing than ever. While we would like to be able to arrange for each of our readers to escape, however briefly, to such a locale, it just doesn't look likely. Instead, we hope you'll settle for a glimpse of First Hawaiian Bank, an \$11.9 billion institution headquartered in Honolulu, Hawaii. A subsidiary of BancWest Corporation, First Hawaiian Bank has grown from a tiny banking partnership founded in 1858 to the largest bank in Hawaii and the second-oldest U.S. bank west of the Rockies. Taking on the name "First Hawaiian Bank" in 1969, the bank has 57 branches in Hawaii, three branches in Guam and two in Saipan and has more than 2,000 employees. Now, *that* is a footprint to be taken seriously.

To find out how a bank in this idyllic setting serves its customers, we talked with Doug Sakamoto, a 34-year employee who started in the mailroom and worked in many areas of First Hawaiian Bank before becoming vice president and ACH manager. Not surprisingly, Sakamoto confirmed that the needs of First

Hawaiian Bank's customers are much the same as those of any bank's customers.

First Hawaiian offers its corporate customers cash management services under the umbrella of a service called "Web Cash Manager." Through this service, which Sakamoto describes as an "à la carte service," customers originate ACH transactions and internal transfers among business accounts maintained at First Hawaiian Bank. These services, among others, are available 24 hours a day, seven days a week, through a standard Web browser.

### Facing Unique Circumstances

One constant and unique characteristic of any bank in Hawaii is being five hours behind East Coast time (and six hours behind during Daylight Saving Time).

Even within First Hawaiian Bank, challenges surrounding time zone differences exist. For the bank's branches in Guam and Saipan, local time is 20 hours ahead of that in Hawaii. For customers served by these branches, funds must be made available based on their date and not on the date in Hawaii.



Since all participating depository financial institutions in Guam settle through the Federal Reserve Banks, their ACH files must be processed and transmitted to FedACH in a time frame that ensures the transactions settle on a timely basis in Guam.

A more infrequent and somewhat unusual circumstance encountered by ACH participants in Hawaii is earthquakes. In October 2006, as we were preparing to talk with Sakamoto, several of the Hawaiian Islands were affected by an earthquake centered off the coast of the island of Hawaii. Fortunately, none of First Hawaiian Bank's offices were affected, despite structural damage in the surrounding areas.

While Oahu, the island where First Hawaiian is headquartered, suffered an island-wide

## CUSTOMER IN THE SPOTLIGHT

blackout, the earthquake occurred on a Sunday when no ACH processing was scheduled. Even so, the bank's data center automatically switched to emergency power and was not affected. Had a blackout occurred on a processing day or had the building sustained damage, operations would have moved to the bank's backup site. Sakamoto assured us that First Hawaiian's data center—the heart of its back-office operations—is specially constructed to withstand earthquakes, hurricanes, and anything else Mother Nature might send to the island.

### Sales and Marketing

Shifting focus to the not-so-unique aspects of ACH processing at First Hawaiian Bank, Sakamoto said “The marketing efforts and branch referrals to sell the bank's cash management services have been outstanding.” Coupled with this are efforts by sales staff to target prospective customers for first Hawaiian's ACH origination service. By bringing to the bank the ACH business of some of the largest companies in Hawaii, First Hawaiian has been able to increase its ACH volume by double-digit percentages each year.

While First Hawaiian is one of the largest lockbox processors in Hawaii, customers have not yet asked the bank to offer accounts receivable conversion (ARC). The March 2007 implementation of back-office conversion, combined with potential ARC volume that would come if the bank decides to offer this product, is expected to contribute to First

“You have to stay on top of it..., especially in the ACH world, which is always changing.”

Hawaiian's continued ACH volume growth.

According to Sakamoto, the underlying key to First Hawaiian Bank's ACH success is education and information sharing. In his words, “You have to stay on top of it (the information that is available), especially in the ACH world, which is always changing.” Ensuring effective information sharing and education surrounding ACH at First Hawai-

ian Bank is no small feat. A number of areas of the bank involved in one or more aspects of ACH include the transaction management division (ACH processing), business services sales and cash management (ACH sales and marketing), audit and legal (compliance), and, last but not least, customer service.

Through ACH workshops conducted by its regional payments association, WesPay, and various teleseminars and Webinars, First Hawaiian Bank's employees are able to stay well-informed. In addition, Sakamoto conducts quarterly meetings with those departments involved in ACH. He makes sure that those who need to know are aware of upcoming ACH rules changes and compliance expectations. While education is the most critical component to continued ACH success, Sakamoto made it clear that First Hawaiian Bank recognizes that success is ultimately the result of many areas of the bank working together. Simply put, each area of the bank plays an important role, whether to bring in new customers, retain existing customers, or effectively resolve customer support problems. We suspect that working to fit all the pieces together must be just a little easier when you're doing it in Hawaii.

## Updates to FedACH Services

On December 2, 2006, changes were made to the Entry Register functionality under the “Send a File” and “Receive a File” options within FedACH Services via FedLine Advantage. Entry registers can be created only for files with 55,000 or fewer items and/or addenda records. Customers requesting an entry register exceeding 55,000 items and/or records will receive a message stating that the register is unavailable.



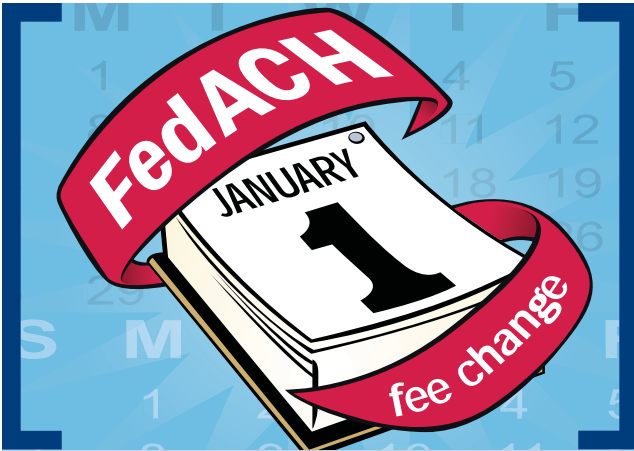
On November 11, 2006, application enhancements were made to FedACH Web Services. Some of these improvements are visible to customers while others are transparent but equally important. Many of these enhancements represent an effort to present to customers similar screens within FedACH Services, whether via the FedLine Web or the FedLine Advantage access solution. In addition, FedLine Web customers can see file transmission status within the Search for File and Search for Batch screens.

Among the more visible improvements, customers will no longer need to handle R74 returns for CIE and MTE transactions via facsimile. This functionality has been added to FedACH Services via FedLine Web and

FedLine Advantage. In addition, the November operational improvements include design changes to the FedACH Risk Origination Monitoring Service. The rate at which monitored batches are screened has increased to provide improved processing, and the “Routing Number Only” Origination Monitoring search screen has been modified to include Managed Company ID search criteria.

### Summary of recent updates:

- Size limits for entry registers
- Risk service batches monitored more quickly
- No more faxed R74s
- Company ID search added to risk monitoring search criteria



- The monthly subscription fee for the FedACH Information Extract File will increase in January 2007; no other FedACH service fees will change. An RDFI receiving its own Information Extract File will be charged \$20 per month, up from \$10, reflecting the first fee change since the introduction of the service in 1998. If a third-party service provider (TPSP), such as a bankers' bank or corporate credit union, receives an Information Extract File on behalf of one or more RDFIs, the TPSP will be charged \$20 per RDFI per month. Please contact your local FedACH sales specialist with any questions about this charge.
- Beginning January 1, 2007, financial institutions will be assessed network administration fees by NACHA. These fees will be billed and collected on NACHA's behalf by the ACH operators. Through monthly billing, the ACH operators will bill and collect the annual fee of \$42 via monthly charges of \$3.50 and will bill and collect per-entry fees of \$0.0001 for all applicable transactions processed.
- March 16, 2007, is just around the corner, and with it comes NACHA's newest SEC code, BOC (Back-Office Conversion). Visit [www.electronicpayments.org](http://www.electronicpayments.org) to find information about back-office conversion and what it will mean to you and to your customers. You can also visit [www.frb.org](http://www.frb.org) to obtain additional materials, or simply contact your local FedACH sales specialist for answers to any questions you might have.

FedACH SALES SPECIALISTS

Each of these regional account executives is an ACH resource expert and is dedicated to helping customers find just the right FedACH solution. We encourage you to contact the sales specialist for your district.

Atlanta	Nedelka Bell, AAP	305.471.6472
Boston	Jean Fisher, AAP	617.973.3218
Chicago	Mark Taylor	312.322.8449
Cleveland/St. Louis	Susan Bivens, AAP	901.579.2405
Dallas	Matt Davies, AAP	214.922.5259
Kansas City	Joni Hopkins, AAP	620.221.2712
Minneapolis	Marilyn Coleman, AAP	612.204.6964
New York	Thomas Goodman	201.531.3637
Philadelphia	Carol Chartrand, AAP	215.574.3414
Richmond	Della Tate, CTP	410.576.3384
San Francisco	Dorothy Williams, AAP	801.322.7948

FedACH CUSTOMER ADVISORY GROUP MEETS

On November 14, 2006, the FedACH Customer Advisory Group held its first meeting at the Federal Reserve Bank of Atlanta. The 18-member group includes a variety of ACH network participants, ranging from a financial holding company to an investment brokerage firm to credit unions and regional and community banks. Intended to serve as a forum through which members can discuss pertinent and timely ACH topics, we view the customer advisory group as a critical component of the Federal Reserve's payments planning and business strategy.

Among the topics discussed in November were ACH risk mitigation, back-office conversion, ACH education, Check 21/ACH convergence, and customer feedback surrounding electronic payments. We look forward to future meetings and the value derived from learning about ACH business issues and concerns from the perspective of these customers.

COMING IN MARCH 2007 . . .

*News from FedACH* will answer readers' questions in a new feature called "What About This?" E-mail your question to us at [fedachnews@atl.frb.org](mailto:fedachnews@atl.frb.org), and we will do our best to respond in the next issue. All anonymous, of course.

## WHAT'S COMING UP

### JANUARY 2007

**NACHA's Global Payments Strategies 2007**  
Informed Decisions for Measurable Results  
January 22–23, 2007 Monte Carlo, Monaco  
www.nacha.org

### FEBRUARY 2007

**EastPay's Information Interchange 2007**  
February 11–13, 2007 Orlando, FL  
www.eastpay.org

### MARCH 2007

**WACHA's Electronic Payments Conference 2007**  
March 26–28, 2007 Waukesha, WI  
www.wacha.org

### APRIL 2007

**NACHA's Payments 2007 Conference**  
April 15–18, 2007 Chicago, IL  
www.nacha.org

## OCC BULLETIN 2006-39: WHAT YOU SHOULD KNOW

It is nearly impossible to discuss ACH these days without also hearing the words “risk management.” Therefore, it comes as no surprise that a new bulletin from the Office of the Comptroller of the Currency (OCC) was published in September 2006 to supplement guidance on ACH activities contained in the *FFIEC IT Examination Handbook on Retail Payments Systems*. This bulletin provides guidance to national banks and examiners on managing the risks of ACH activity and outlines key components of an effective ACH risk management program.

Whether your financial institution acts as, or is even considering acting as, an ODFI, or an RDFI, this guidance applies. In addition, third-party service providers acting on behalf of an ODFI or RDFI should be familiar with the guidance. The OCC cites various factors as contributing to the need for updated guidance. The following are significant reasons to pay more attention to ACH risk management:

- advances in technology resulting in changes in the nature and volume of ACH activity without corresponding enhancements to risk management systems and controls;
- efforts by consumers and businesses to find more cost-effective and convenient payment alternatives (e.g., growth of nonrecurring payments); and
- new participants in the ACH network, including certain types of merchants and third parties.

The bulletin sets forth expectations for ACH network participants. These expectations include establishing risk management systems and controls, reporting to boards of directors, and conducting ACH audits. To see the details surrounding these expectations and to obtain a copy of OCC Bulletin 2006-39, please visit [http://www.occ.treas.gov/occ\\_current.htm](http://www.occ.treas.gov/occ_current.htm).

## CUSTOMER SUPPORT INFORMATION

### For FedACH Customers in these Districts

Boston (1)  
New York (2)  
Philadelphia (3)  
Cleveland (4)  
Richmond (5)  
Atlanta (6)  
Chicago (7)

### Central Operations Support Site

**Federal Reserve Bank  
of Atlanta**  
1000 Peachtree Street, N.E.  
Atlanta, GA 30309-4470  
Toll Free: 866.234.5681  
Local: 404.498.8902

### For FedACH Customers in these Districts

St. Louis (8)  
Minneapolis (9)  
Kansas City (10)  
Dallas (11)  
San Francisco (12)

### Central Operations Support Site

**Federal Reserve Bank  
of Minneapolis**  
90 Hennepin Avenue  
P.O. Box 291  
Minneapolis, MN 55480-0291  
Toll Free: 888.883.2180



Dennis Simmons, president and CEO of SWACHA – The Electronic Payments Resource®, talked with us about the role of a regional payments association (RPA) in its members' efforts to manage payments risk. SWACHA serves as the RPA for approximately 1,100 organizations, most of which are financial institutions located in Texas, Louisiana, and New Mexico. Simmons, with more than 20 years of experience in commercial banking and 10 years at SWACHA, serves as the chair of NACHA's Electronic Check Council and co-chair of NACHA's Risk Management Advisory Group. He is the recipient of two public service awards from the Federal Bureau of Investigation and is an Accredited ACH Professional.

## ACH Risk Management

**Much attention in the payments industry has been directed toward risk management and maintaining security and soundness. What do you see as the role of an RPA in addressing these concerns?**

We serve two primary roles, one of which is education. Through education, we help our members understand and identify ACH risks. We provide them with risk mitigation tools through education, training, and publications. Another role is that of serving as an advocate for our membership. Many of the issues our members face as ACH receivers are the same issues faced by larger institutions, and we ensure that our membership's concerns are voiced in various forums.

**What are some specific ways in which SWACHA has assisted its membership in risk management?**

In addition to classroom training, we have conducted compliance symposiums. These sessions are intended to provide institutions with an understanding of regulatory compliance within the payments industry. SWACHA also hosts regional intelligence meetings with representation from financial institutions and law enforcement agencies. Those discussions focus on fraud-related issues faced by all parties and how they can work cooperatively to address those issues. We also offer a unique program known as the Loss Avoidance Alert System™.

**What can you tell us about the Loss Avoidance Alert System?** This online database facilitates information sharing about bank security and potential losses. Our members can search the database for reports based on specific data fields or types of fraud. They can also request e-mail alerts about specific types of frauds based on user-defined preferences.

**Is the flow of payments risk-related information between SWACHA and its membership a one-way flow?** Not one-way at all. In fact, we get a great deal of information from our members. The SWACHA associates who man our Payments Answer Line are trained to refer any incoming reports of fraud, whether confirmed or potential, to the Loss Avoidance Alert System. That way, we are able to put the financial institution in contact with the appropriate law enforcement agency. The success of the Loss

Avoidance Alert System depends largely on information gathered from our membership.

**In your opinion, are there some key efforts that all ACH participants can undertake to manage their risk exposure?** You cannot overestimate the importance of education and information. Knowing what the risks are and how to mitigate and control those risks is probably the single most important factor. We encourage institutions to apply to the ACH arena the knowledge already at work in other areas of risk management within the institution. Falling into this category would be credit risk assessments, knowing your customers, and internal controls as related to loan and securities portfolios. We find that financial institutions are very comfortable with risk management in these areas, and they just need to carry those strengths into their ACH operations.

**If you compared today's ACH network to the network five or 10 years ago, how would you assess its vulnerability to risk?** I think the overall network is much more secure and sound today because the industry is better educated than it was 10 years ago. The understanding of risk and security controls has resulted in a better-controlled environment. And while some of the newer transaction types haven't necessarily brought about new risks, they have allowed certain existing risks to shift into the ACH network. However, education and information have allowed the industry to keep these risks in check.

**You spoke at SWACHA's annual conference in October 2006 on the topic of payments system risk. If someone left that conference with a single thought on ACH risk, what would you want that thought to be?** That would be to appreciate that ACH risk is no different than any of the other risks that a financial institution faces. Whether the risks are associated with securities and loan portfolios or liquidity, financial institutions are effective at managing those risks. Managing the risks surrounding payments systems is the same. In the end, through an effective treasury management program, a financial institution can be both profitable and competitive while also mitigating its ACH risk.

## FedACH SERVICES PERFORMANCE MEASURES

Year-to-Date through 3rd quarter 2006

### Performance Quality Measure

**99.73%** **Transaction files processed and available timely**

Online transaction files processed and delivered electronically by the scheduled delivery times

**99.96%** **ACH service availability (uptime)**

Percentage of time FedACH service was available

**100.00%** **Research and trace requests resolved timely**

Accounting and billing research requests and trace requests concerning ACH items or files responded to within 24 hours

FedACH Volume Statistics	Volume (000)	Dollar Value (000,000)
<b>Commercial Forward Value Items Originated</b>	6,064,380	\$9,780,480
<b>Government Forward Value Items Originated</b>	751,574	\$2,613,163
<b>Commercial Return Items Originated</b>	81,449	\$43,331
<b>Government Return Items Originated</b>	5,447	\$7,304
<b>Total Commercial and Government Non-Value Items Originated</b> (includes NOCs, DNEs, ENRs, prenotes and zero-dollar entries)	78,985	N/A
<b>Total Items Originated</b>	<b>6,981,835</b>	<b>\$12,444,278</b>

## 2007 FedACH SERVICES FEE SCHEDULE<sup>1</sup>

<b>Origination</b>		
Items in small files (< 2,500 items)		\$0.0030
Items in large files (> 2,500 items)		\$0.0025
Receipt Items		\$0.0025
Addenda Records		\$0.0010
Input File Processing		\$2.50 /file
Web-derived Returns / NOCs		\$.30
FedPhone-derived Returns / NOCs		\$2.00
Facsimile Exception Returns/NOCs		\$15.00
Information Extract File Subscription		\$20.00 /RTN /Month
Account Servicing		\$25.00 /RTN /Month
FedACH Settlement		\$20.00 /RTN /Month
<b>FedACH Risk Origination Monitoring Service</b>		
Subscription Fee		\$20.00 /RTN /Month
Monitoring Criteria		\$15.00 /Criterion /Month
Batch Monitoring		\$.0025
<b>FedACH International Services</b>		
Item Originated to:	Canada	\$0.0390
	Mexico	\$0.67
	Austria, Germany, Netherlands, Switzerland, United Kingdom	\$2.00
Return Received from:	Canada	\$0.77 (surcharge)
	Mexico	\$0.69 (surcharge)
	Austria, Netherlands, Switzerland	\$5.00 (surcharge)
	Germany, United Kingdom	\$8.00 (surcharge)
	Same day Recall of Item – Canada Service	\$4.00 /\$7.00
	Item Trace - Canada Service	\$3.50 /\$5.00
	Item Trace - Mexico Service	\$11.50

<sup>1</sup> Refer to [www.frbervices.org](http://www.frbervices.org) for additional details



FEDERAL RESERVE  
RETAIL PAYMENTS OFFICE  
1000 PEACHTREE STREET, N.E.  
ATLANTA, GEORGIA 30309-4470

RETURN SERVICE REQUESTED

PRESORTED  
FIRST CLASS  
U.S. POSTAGE  
PAID  
ATLANTA, GA  
PERMIT NO. 292