



PAYMENTS INSIDER

The inside scoop on payments for businesses of all sizes

The Best Defense Is a Good Offense

by *Emily Nelson, AAP, APRP, NCP,
Manager, Payments Education, EPCOR*

The adage that “the best defense is a good offense” means being proactive rather than passive can give you an advantage over your opponent—whether with your competition or in processing ACH payments. That’s right! Even when it comes to initiating ACH payments. So, what can your company do to protect itself from potential losses related to disputed ACH debit transactions? First...

Authorizations (refer to the *Nacha Operating Rules, Section 2.3*, for complete requirements based on the type of ACH debit your company is sending)

1. Obtain proper authorization from the consumer prior to debiting their account. You should ensure the terms of the authorization are clear and readily understandable by the consumer. This means they must know:
 - ⇒ Whether they are authorizing one payment, multiple payments or recurring payments (e.g., payment made on a monthly basis), and
 - ⇒ How to cancel their authorization (i.e., include specific instructions on how to do so, such as submitting a request in writing or requesting cancellation via a phone call).
2. Provide a copy of the authorization, either electronic or hard copy, to the consumer.

3. Retain the original or copy of the authorization (electronic or hard copy) for your records and ensure it is securely stored. The *ACH Rules* require your company to keep this for two years from the termination (e.g., the consumer is no longer a client or has fulfilled their financial obligation) or revocation of the authorization. As a best practice, you may consider keeping it longer.
4. Prepare to respond to requests from your financial institution for proof of authorization. The timeframe in which it must be provided to them should be outlined within your ACH Origination Agreement. If you cannot provide proof within the prescribed timeframe or not at all, you could be required to accept the return of the payment. This means you would give the consumer back the monies collected and potentially suffer a financial loss.

You’ve followed the authorization steps

and transmitted your ACH debit file to your financial institution, which sent it into the ACH Network for processing to the consumer’s account. Now what happens?

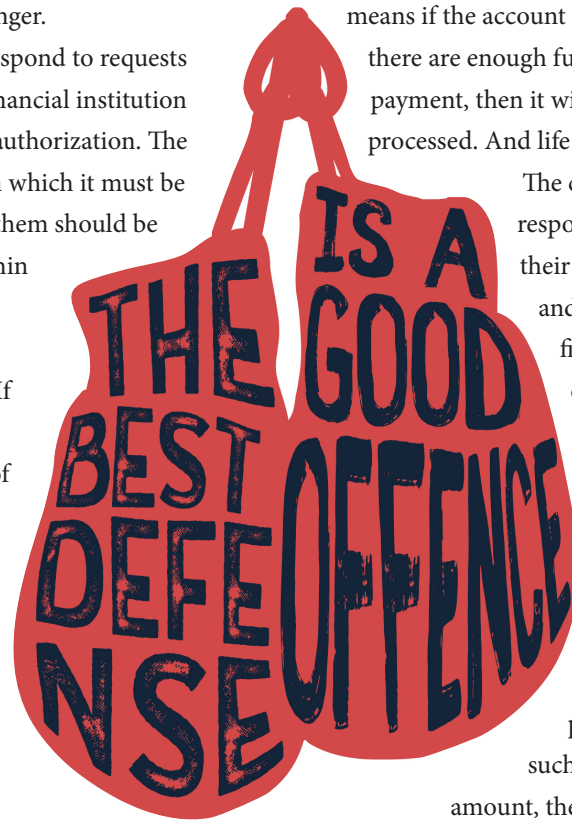
Understanding the Role of the Consumer’s Financial Institution

The consumer’s financial institution is responsible for processing ACH payments to the account number in the ACH entry. This means if the account number exists and there are enough funds to cover the debit payment, then it will automatically be processed. And life is good! Or is it?

The consumer is responsible for reviewing their account activity and notifying their financial institution of any errors. If they notice a debit that (1) they did not authorize, (2) they had authorized but have since revoked or (3) they had authorized that was processed incorrectly, such as for the wrong amount, they should contact

their institution.

If the consumer’s notification is within 60 calendar days of when the debit posted to their account, their financial institution can return the payment on their behalf. This means no investigation is required to determine



if the consumer's claim is valid or not. Instead, based on the consumer's signed and completed Written Statement of Unauthorized Debit (WSUD), they can return the payment to your company's financial institution. Upon receipt, your institution must accept the timely returned entry and may then charge it back to your account. Now what?

Handling Returned Payments

If you have a copy of the consumer's authorization related to the returned

payment, you must resolve the dispute directly with the consumer. In addition to having a copy of the authorization, you may ask your financial institution to request a copy of the Written Statement of Unauthorized Debit (WSUD) from the consumer's institution.

A WSUD is a legal document instructing the consumer's institution to return the payment. It does not relieve the consumer of any financial obligation to your company. Therefore, you may choose to seek legal

counsel to recover any losses associated with the return of the payment. Or, you could work out an alternate payment plan with the consumer. The decision is yours.

Requests for copies of WSUDs must be made within one year from receiving the returned entry. The consumer's financial institution has ten banking days, which equates to approximately two weeks, to provide the WSUD to your financial institution. 📄



Electronic Payments Core of Knowledge

EPCOR is a not-for-profit payments association which provides payments expertise through education, advice and member representation. EPCOR assists banks, credit unions, thrifts and affiliated organizations in maintaining compliance, reducing risk and enhancing the overall operational efficiency of the payment systems. Through our affiliation with industry partners and other associations, EPCOR fosters and promotes improvement of the payments systems which are in the best interest of our members.

For more information on EPCOR, visit www.epcor.org.



Nacha®
Direct Member

The Nacha Direct Member mark signifies that through their individual direct memberships in Nacha, Payments Associations are specially recognized and licensed providers of ACH education, publications and advocacy.

© 2024, EPCOR. All rights reserved.

www.epcor.org

2345 Grand Blvd., Ste. 1700, Kansas City, MO 64108

800.500.0100 | 816.474.5630 | fax: 816.471.7665