

Phase Two of P2P Payments via ACH Effective March 20

New NACHA rules that mandate how all person-to-person (P2P) payments must be sent through the ACH Network became effective March 20, 2015. The rule provides additional clarity and consistency to ODFIs, RDFIs, Originators and Third Parties about how to apply the NACHA Operating Rules to P2P payments since the first phase will become effective in March 2014. A discrete set of rules for P2P payments enable Originators and Third Party Service Providers to implement internal processes and procedures for these entries to improve operations and customer service, reduce costs, reduce risk and fraud, and minimize exceptions and disputes.

The initial implementation phase permitted the usage of the new credit WEB P2P application by Originators. However, ACH Operators and RDFIs were required to be able to accept these transactions on March 21, 2014. The second implementation phase means all ODFIs are now required to use the credit WEB transactions for all P2P payments via ACH.

Credit WEB volumes grew exponentially during the year after the P2P rule implementation last year, with more than two million entries processed by the end of the third quarter, culminating in more than 7.4 million credit WEB entries for all of 2014.

“We are pleased to see the strong use of the credit WEB for P2P transactions. The inclusion of the Consumer Originator’s name in the payment record and the optional 80-byte freeform text field carried in an addenda record that describes the purpose of the payment provide benefit to the Consumer Receiver,” said Christopher Huppert, chair of NACHA’s Product Innovation Standing Rules Workgroup and a senior vice president at Wells Fargo Bank.

It is important to understand that the March 20, 2015, rule implementation does not contain formatting changes to the credit WEB Entry format; it simply requires all P2P payments to be originated using the credit WEB format.

Background:

Increasing the use of the ACH Network for P2P payments aligns with several overarching objectives of financial institutions for the ACH Network:

- Replace costly cash and check payments;
- Facilitate ACH credit origination and enable more RDFIs to become ODFIs for retail customers, keeping financial institutions at the center of their customers’ payments;
- Enable “payments plus information;” and
- Utilize technology such as mobile in support of the adoption of ACH payments.

Specifically, this Rule:

- Defined P2P payment in the Rules;
- Requires the credit version of the WEB Standard Entry Class (SEC) Code to be used for a P2P credit transaction sent from a consumer’s DDA, as of March 20, 2015;
- Established standardized formatting requirements for such a WEB credit and ensure that for WEB credits - and WEB debits if used to fund P2P transactions - the Company Entry Description in the Company/Batch Header Record contains a value that lets the Receiver know that the entry is a P2P transaction, as well as the provision of other information necessary to enable RDFI compliance with Regulation E;
- Clarified in the Rules how Notifications of Change (NOCs) should be handled for P2P credit WEBs and for bill payment CIEs; and
- Allowed an Addenda Record for a credit WEB to include up to 80 characters of payment related information in free form text.

A. Definition of Person-to-Person Payment

This Rule, upon initial implementation, modified the NACHA Operating Rules (the Rules) to define a P2P Entry as “a credit

Entry initiated by or on behalf of a holder of a Consumer Account that is intended for a Consumer Account of a Receiver.” It also modified the definition of a Customer Initiated Entry (CIE) to “a credit Entry initiated by or on behalf of the holder of a Consumer Account to the Non-Consumer Account of a Receiver.”

B. Use of WEB SEC Code

Under this Rule, P2P Entries will use a credit version of the Internet Initiated/Mobile Entry (WEB) Standard Entry Class (SEC) Code, and the definition of WEB in the Rules has been modified to encompass its use for P2P transactions.[1]

Previously, the WEB SEC Code was a debit-only application (except for reversals); upon implementation, the credit WEB application is to be used only for P2P credit transactions which, like the WEB debit transaction, may be a single entry or recurring. P2P Entries must conform to the definition and formatting standards as set forth in the Rules.

C. Standardized Formatting Requirements for WEB Credits

This Rule has modified the Rules to standardize the formatting for P2P transactions using credit WEB Entries to require the consumer Originator’s (sender’s) name be placed in the Individual ID Number field of the Entry Detail Record, and the name of the provider of the P2P service (including the sender’s financial institution if it is the service provider) be placed in the Company Name field of the Company/Batch Header Record. The consumer Receiver’s name appears in the Individual Name field of the Entry Detail Record. In addition, the Rules to require that for both P2P credit WEB Entries, and any associated debit WEB Entries used to fund the P2P transactions in the split transaction model, the Company Entry Description in the Company/Batch Header Record be populated with a value that will let the consumer Receiver know that the entry was a P2P transaction in a way that is meaningful to the consumer. For example, the text could use the phrase “person-to-person” or “P2P”, or could refer to the trade name of a specific P2P payment service.

D. Notifications of Change (NOCs) for P2P WEB Credits and Bill Payment CIEs

This Rule clarified the treatment of NOCs related to CIEs and credit WEB Entries. As a consumer customer is the Originator of the Entry, and is not likely to be in a position to receive or make these changes, it is the financial institutions and/or third-party bill payment/P2P service that should be using the information in the NOC to update its systems. Just like any other NOC, the bill payment/P2P provider must make the changes specified in the NOC or corrected NOC within six Banking days of receipt of the NOC information or prior to initiating another Entry to the Receiver’s account, whichever is later.

E. Changes to Addenda Record

The modification the Rules allowed Originators to place up to 80 characters of payment related information in the Payment Related Information field of a “05” type Addenda Record of a credit WEB Entry in plain-text format that utilizes valid characters as defined in Appendix One’s ACH File Exchange Specifications. Delivery requirements have not been included in the rule change and are left to the Receiving Depository Financial Institutions discretion.

[1] As with all ACH applications, if a P2P entry meets the requirements for an IAT, then it would use the IAT SEC Code and not the credit WEB SEC Code.