



ACH Payments: *Payment Processing Made Easy*

Checking Account Verification Best Practices: Mitigating Risk With Technology

Abstract: By implementing front end check verification tools businesses can increase sales and reduce risks associated with accepting check payments.

Any business that accepts checks for payments can benefit from using verification tools prior to check acceptance. The verification can be performed in a variety of ways:

- In person: an example might be a cell phone company that accepts payments in a retail setting. The check can be run through a scanner or the routing (TRN) and account numbers entered into an application (Internet connectivity). The verification is performed (typical response time sub 2 seconds). If the transaction indicates the payment will fail the company benefits in two ways: the check is not processed thereby reducing time and monies spent waiting for their bank to report back to the company that the check did not clear. The store can notify the consumer at the point of sale there is an issue and ask for a secondary payment method.
- By phone: Customer service representative can ask for check information (TRN and account number). Prior to payment processing the verification can be performed and account viability evaluated. The same benefits previously described are available
- Internet: Checking account data is collected from the check writer and the verification performed. Based on response decisions can be made regarding payment acceptance.
- Batch files: If check payment data is collected during a business day those transactions may be sent via batch for verification. Verification results would drive payment decisioning.

In addition to providing risk mitigation for single payments check verification tools can be useful as part of recurring payment schemes. An example would be an insurance agency using the verification services on a new subscriber before issuing coverage and initiating a monthly recurring billing. In this scenario the agency mitigates the risk of issuing a policy to a non-payer and is also informed that the recurring billing would be unsuccessful. This without incurring bank fees for failed payments and more importantly the policy is never issued.

Consider a credit card issuer that extends a \$5000 line of credit to a consumer. The consumer is late with payment and a collection call is made. The consumer makes a payment by phone to free up their credit line. If verification is performed at the point of sale and there is an issue with payment the card issuer can avoid potential loss if the credit line had been extended and not paid.

Check Verification: Technological Capabilities and Limitations

The most comprehensive tool available today is ATMVerify™. The majority of banks in the United States contribute data on a daily basis as to the standing of their customer bank accounts. When a verification transaction is performed an inquiry to this database is initiated. A variety of responses can be returned (see flow chart page 4). The response may be positive, meaning the account number is valid and there is money in the account. It does not mean that a \$250 debit will be successful as the dollar amount is not validated (a small percentage of banks do allow for dollar amount validation). In some cases “historical” account data will reside in the database. An example of historical data: Suzy Jones banks at ABC bank. ABC bank does not upload data to the ATMVerify™ database. Ms Jones writes checks to people or businesses that bank at YourBank. YourBank uploads positive data on Ms Jones bank account.

A negative response may indicate the account is overdrawn, has stop payments, does not exist (see flowchart for full description). If the account is from a bank that does not contribute data the response is “unknown”.

Response rates are a function of several variables (location, customer type etc) but in general 75-85% of accounts will be verified as positive or negative. If an account is not in network the NCN network may then be accessed. NCN is a national database that retailers across the country contribute check writer data to. The major difference between ATMVerify™ and NCN is that NCN returns the check writer’s history of writing good or bad checks. A positive result indicates successful check writing history. A negative indicates this person has written a bad check and NOT made good on it.

ATMVerify™ and NCN may be used in conjunction and together offer the most comprehensive protection available. A flow chart follows that details the verification transaction decision routing. This flow chart should enable logical decisions to be made that best meet your company’s needs. The “negative” response on ATMVerify may mean NSF/Closed Account/Stop Payment.

Using our online Virtual Terminal you may override this negative response and establish a rule to approve an NSF transaction. Depending on your specific business needs this override rule setting may be beneficial. Following the flow chart there is a screen shot of the “Rule Set” page.

Check Verification Response Flow Chart Transaction Initiated- Yes or No on ATMVerify database hit

ATMVerify™ Database Hit? → No → If NCN enabled NCN Response from Database? → No **P22** (Possible new bank account)

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V
Yes (Responses/Codes)

|
V
Yes

Positive Codes (Good Accounts)

P70: Validated (Account open/in good standing)
P71: Low risk approval - Positive historical data
P73: Medium Risk Approval
P15: High Risk Approval

Positive

P21: Positive check writing history
P40: No Negative info on this account (including NCN check)

Negative

P41: NSF/Closed Account/Stop Payment

Negative

P20: Negative history-has not made good on bad checks
P23: Invalid Acct/ABA Number-There is no positive history on the account in question in any of our databases. The account is considered a new account. A structural validation was applied to the account number and routing and transit, but either the routing and transit or the checking account number failed validation. The account is considered a new account.

Not in Network

P50: Not in database—ONLY returned if **NOT using NCN**

Unknown

Generally technical communication issues
P80, P90-93 (rare responses)

Unknown

P90 (communication issue)

Here are some typical transaction scenarios and how a business might make use of the verification tools:

Transaction 1: P70 Response-Dollar amount not validated but the account is open and in good standing. Payment risk would be limited to NSF (non-sufficient funds).

Transaction 2: P71 Response-The account is from a bank not in the ATMVerify™ network but has multiple histories of being “good” at banks in network. Payment risk of NSF, closed account etc reduced but not eliminated. Example check drawn on ABC local bank –not in network. Check is cashed at Bank of America-ABC bank account now in network.

Transaction 3: P73 response-Account exists and is open. We have analyzed ACH transactions internally that had similar ATMVerify response. Above average success rate for ACH debit.

Transaction 4: P15 response-Account exists and is open. We have analyzed ACH transactions internally that had similar ATMVerify response. Success rate for ACH debit is low.

Transaction 5:P40 Response- We have seen numerically similar account numbers ie in a range that were good. This would seem a good account # but the response is not as definitive as a P 70-72 code response.

Transaction 6: P50: This account is from a bank that does not contribute data to the network. If you are using NCN you will NOT receive this response.

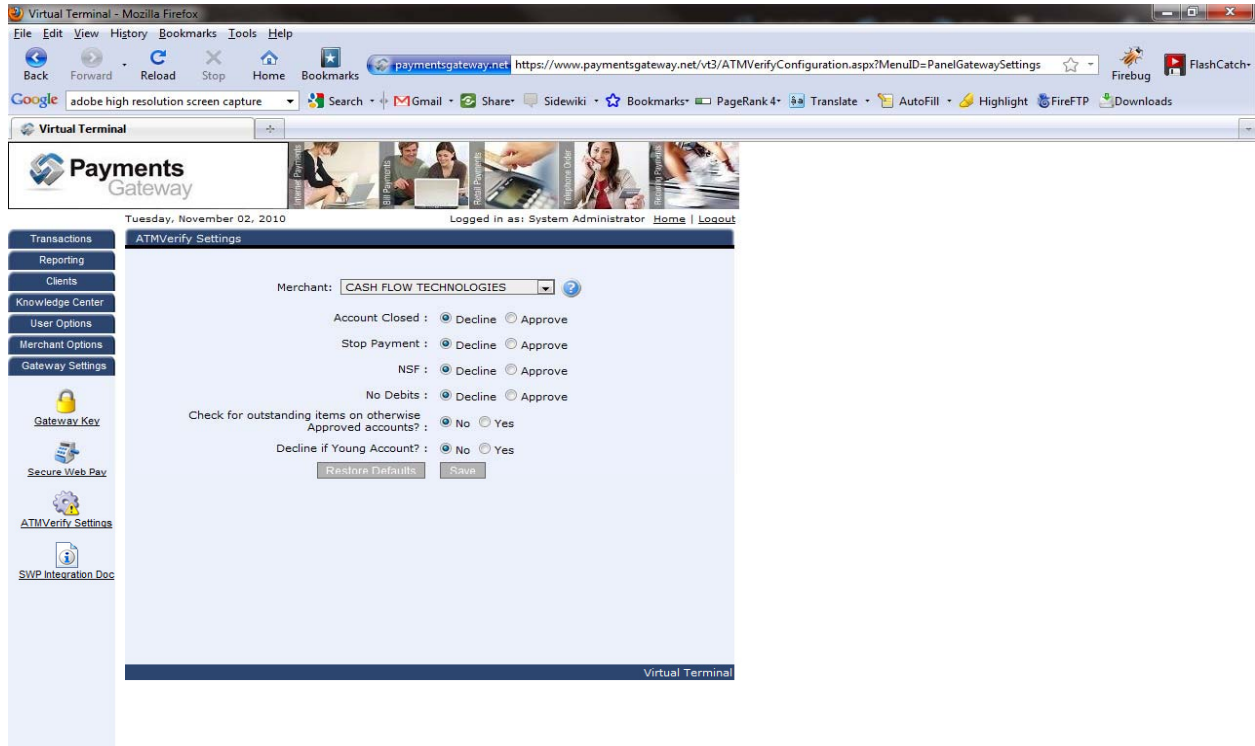
Transaction 7: P21: No data back from ATMVerify™. NCN network has positive historical data on this check writer account

Transactions 1,2,5,7 represent positive transaction data and serve to mitigate check acceptance risk. Transactions 3,4 are good accounts but may be risks for immediate ACH debits.

Transaction 9: P20 Response. No data back from ATMVerify™. NCN network has negative historical data on this check writer account. The check writer has an outstanding bad check(s).

Transaction 10: P80, 90-93-Network connectivity issues-no database response. These should be rare occurrences.

Merchants have the ability to apply rule sets to approval/declines for ATMVerify transactions. For example if your business model would benefit from approving NSF transactions you enable that setting in our online Virtual Terminal. As you can see from the diagram below the merchant can elect to approve/deny based on criteria choices. It should be noted these rule sets are global and will apply to all transactions sent while rule set is in place. Depending on programming/integration performed it may be possible to “trap” an NSF or Account Closed etc response if desired.



ATMVerify™ is the most comprehensive tool in the current marketplace for check verification. The service may be used as a standalone product or combined with an ACH debit or credit. Merchants may use the Virtual Terminal for one at a time transaction entry or upload batches for processing. An integrated solution is possible whereby the data exchange is completely automated.

For questions or more information please contact us at info@ach-payments.com or 888.729.4968