

White Paper

ACH Processing Services:
A Profitability Enhancing Option for Mid-Tier and Large Financial Institutions



ACH Processing Services Enhances Payments Profitability

Financial Institutions are facing greater challenges as the payments industry continues to grow in complexity. Mounting regulatory pressures further compound that complexity.

Banks are forced to manage overall cost, while at the same time, provide differentiated services, reduce operating expenses and maximize revenue potential.

To make the payments business more profitable, financial institutions must first look at ways to reduce or eliminate cost. Technology and staffing have always accounted for a significant portion of the expenses associated with running a payments business. With check volumes declining and ACH transactions becoming more prevalent, it is increasingly complicated for financial institutions to control per-item processing costs. And, keeping up with regulatory compliance also requires extensive resources and institutional focus.

One way for financial institutions to reduce payments-related expenses is to migrate from the primarily fixed cost model of Automated Clearing House (ACH) processing to a variable cost solution. By shifting work and systems management to a solutions provider, financial institutions can reduce costs while improving customer service and payments product delivery.

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In-House Payments Processing Is Expensive and Challenging

Mid-tier and larger financial institutions most often process their payments in-house, on their own mainframes, which incurs significant hardware, software and personnel costs.

As the quantity of check and ACH transactions continues to change, it is becoming more complicated for financial institutions to allocate mainframe costs. It is difficult to gauge how changing volumes will impact processing speed (MIPS) and data storage (DASD). This makes it hard for financial institutions to estimate future hardware usage and forecast related expenses. And, in addition to volume fluctuations, the trend to move mainframe applications onto servers is exerting additional cost pressure on mainframe-dependent ACH processing.

Beyond the costs for MIPS and DASD, financial institutions must pay salaries and benefits for the IT professionals who maintain the mainframe hardware and implement and customize payments processing software. Keeping pace with the ever changing regulatory and payments landscape requires dedicated operational and technical resources. And, those technical resources are becoming harder to come by since today's IT professionals pursue more flexible career paths by learning HTML, Java and the other Internet-based languages, instead of COBOL, the language used exclusively for mainframe programming.

Outsourcing ACH application processing reduces the requirements for both computing resources and personnel. For many institutions, in-house ACH

processing requires investments that might be better spent on customer-facing activities that have the potential to actually generate revenue.

Outsourcing Offsets Costs and Alleviates Pressure

As a high-volume payments processor, clearing network provider and the leading provider of ACH processing systems, Fiserv has a working knowledge of payments processing costs and service issues. In addition, interaction with literally thousands of financial institutions provides Fiserv with insight into how those institutions can enhance revenue and eliminate costs.

The business case for ACH Processing Services can be proven by immediate operational and IT cost savings from the elimination of ACH mainframe expense as well as software maintenance and upgrade costs. Further, migrating to a predictable, volume-based cost model makes it easier for financial institutions to estimate how changing volumes will impact per-unit costs.

Outsourcing Models Combine Processing Expertise with Best-in-Class Software

Used by the majority of the top 100 ACH participants, PEP+® from Fiserv is the preferred in-house solution for originating and receiving ACH payments. Now Fiserv is combining our proven ACH technology expertise with our long-standing experience as an ACH outsource provider. The result is ACH Processing Services from Fiserv, providing mid-tier and larger financial institutions with options to deploy a variable-cost ACH processing model that leverages PEP+ software.

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For financial institutions already using PEP+, outsourcing to Fiserv provides the opportunity to redirect resources dedicated to hardware and software maintenance in order to concentrate on customers and revenue generation. For other institutions that have been unable to deploy PEP+ due to cost or staffing constraints, outsourcing to Fiserv is a way to leverage the nation's leading ACH platform.

Fiserv offers three ACH Processing Services models so that financial institutions are able to best support their operational and customer service objectives.

Hosted Software Outsourcing Model

Selecting this model shifts primarily fixed in-house costs for data processing and storage to a variable per-unit cost. So, instead of processing ACH transactions on the financial institution's hardware, the processing is migrated to a Fiserv data center— and hosted on a Fiserv mainframe. Financial institution staff continues to manage implementation and customization of the PEP+ software and is responsible for running all cycles, processing end-of-day, balancing and reconciliation. In the hosted model, management of end-user touchpoints, including exception/returns and risk management, remains the responsibility of the financial institution.

	Hosted Outsourcing Model	ASP Outsourcing Model	BPO Outsourcing Model
ACH Processing Requirement	Managed By	Managed By	Managed By
System hardware	Fiserv	Fiserv	Fiserv
System software	Fiserv	Fiserv	Fiserv
PEP+ software license	Financial institution	Fiserv	Fiserv
PEP+ software maintenance fees	Financial institution	Fiserv	Fiserv
PEP+ software maintenance: <ul style="list-style-type: none"> • Problem reporting • Installation/testing of updates 	Fiserv	Fiserv	Fiserv
System console processing	Fiserv	Fiserv	Fiserv
Daily cycle operations	Financial institution	Fiserv	Fiserv
Exceptions and risk processing	Financial institution	Financial institution	Fiserv
Technical support	Fiserv	Fiserv	Fiserv

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Application Service Provider (ASP) Outsourcing Model

In addition to shifting costs for hardware use, the ASP model also enables financial institutions to offset software and IT staffing costs. In addition to processing all ACH transactions with PEP+ software on a Fiserv mainframe, Fiserv handles running all the cycles, processing end of day, balancing and reconciliation. Fiserv also manages all software implementations and upgrades. Using this model, financial institutions gain access to the latest enhancements to PEP+ by subscription, eliminating the need for in-house software implementation projects and application testing. Exceptions and returns handling, as well as risk management, remain the domain of the financial institution.

Business Process Outsourcing (BPO) Model

In this turnkey solution, Fiserv acts as a virtual extension of the financial institution—providing complete management of the PEP+ software as well as day-to-day processing, exceptions/return handling, help desk and risk management. While the hosted model offers the greatest opportunity for financial institutions to customize ACH processes and the ASP model leverages a software version that is common to all users, the BPO option is a hybrid of both. Choosing this model provides the flexibility for Fiserv to evaluate and implement requested customization on behalf of the financial institution.

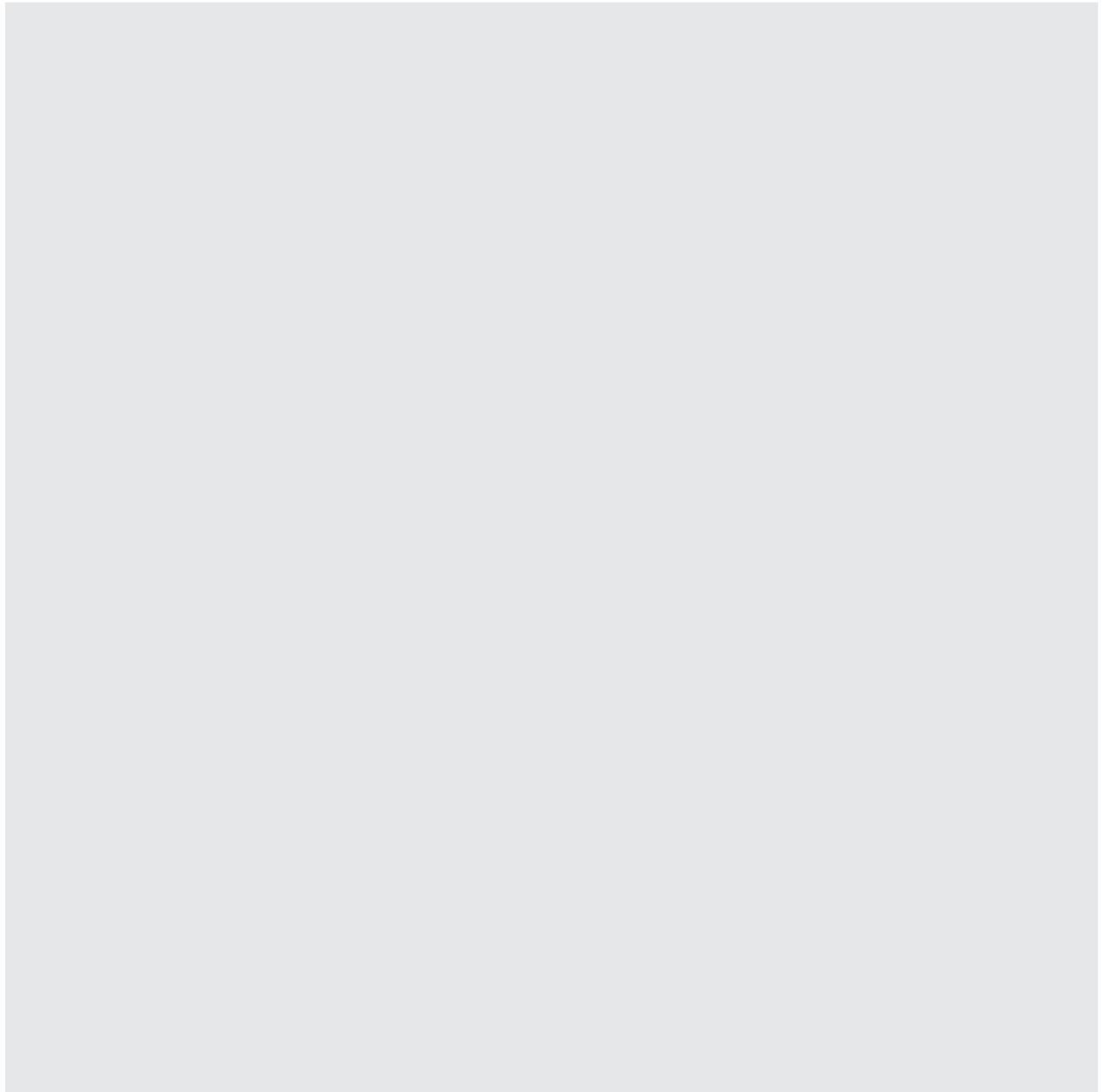
Conclusion

The state of the industry requires that financial institutions find more cost-effective ways to manage their operations. ACH Processing Services is a way to free up resources, eliminate costs and do more with less. Fiserv options provide financial institutions with the opportunity to leverage the nation's leading ACH processing software as well as Fiserv-owned hardware and services. Outsourcing ACH processing to Fiserv results in a predictable cost model that will help financial institutions navigate these evolving times by protecting and even growing payments profitability.

About the Authors

Laura Clary, director, Product Management at Fiserv, an Accredited ACH Professional, has more than 20 years of experience in financial services. In her role with the Payments Management Solutions group, Laura and her team are responsible for payment processing software product management. Prior to joining Fiserv, she was a Director in the Retail Payments Office of the Federal Reserve Bank of Atlanta responsible for various ACH-related initiatives.

Ken True, SVP, Outsourcing Business Development at Fiserv has over 20 years experience in the financial services industry and has been with Fiserv since 1998. Ken is responsible for business development and delivery for outsourcing services provided by the Global Payment Solutions businesses. This includes providing the full range of outsourced offerings across its industry leading solutions in ACH, account reconciliation and dispute resolutions.



About Fiserv

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimization, and leading the transformation of financial services technology to help our clients change the way financial services are delivered. Visit www.fiserv.com for a look at what's next now.



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