



## The Use of Acknowledgements for Electronic Funds Transfers

Written testimony by Janet Estep, President and CEO of NACHA – The Electronic Payments Association to the National Committee on Vital and Health Statistics, Subcommittee on Standards

April 27, 2011

On behalf of NACHA – The Electronic Payments Association and our members, thank you for the opportunity to submit written testimony on the subject of acknowledgements. In this testimony, I will first describe existing uses of acknowledgements by financial institutions and their customers when making electronic funds transfers (EFTs) using the ACH Network. Then I will offer some thoughts about the applicability of acknowledgements to the Healthcare EFT standard transaction identified by NCVHS in its February 17, 2011 letter to Secretary Sebelius.

First, as background, a great many companies across all industries use the ACH Network to send and receive EFTs through their financial institutions. Therefore, financial institutions' practices with respect to acknowledgements and EFTs also apply across industries, and are not specific to healthcare-related customers.

### Acknowledgement of ACH Files

As a general practice, financial institutions do acknowledge or offer acknowledgements of their customers' ACH files, and of the specific EFT transactions contained within those files, in a variety of ways. Many originating financial institutions (ODFIs) will acknowledge the receipt of a customer's ACH file either in the simple affirmative ("we received your file") or with comments in the event that there is a problem with the file (e.g., it is formatted incorrectly, there is a problem with syntax, etc.). Financial institutions will also contact their customers if an ACH file that was expected is not received, such as a daily file of bill payments, or a weekly file of payroll payments.

There is no existing "acknowledgement transaction" standard that is used by all financial institutions in all circumstances to acknowledge the receipt of an ACH file. The primary reason for this is that there has never existed a business need to create such a standard. The relationship between a financial institution and its customer is always a "one-to-one" relationship. In such a one-to-one relationship, a financial institution and its customer will make arrangements regarding the manner, timing and formatting for submitting ACH files that are responsive to the customer's business needs.

As a practical matter, this arrangement is not a barrier to the use of EFTs. In fact, in recent research and interviews conducted by CAQH CORE and NACHA, healthcare industry users of the ACH Network reported that the EFT payment process generally works well, with industry uptime at virtually 100 percent, and this area was not raised as a pain point by health plans.<sup>1</sup>

### Acknowledgement of EFT Transactions

For specific EFT transactions, all financial institutions – originating and receiving - acknowledge EFTs in the very real sense that they are reported on customers’ account statements. In today’s environment of electronic and online banking, transaction reporting is commonly available through a number of methods and channels that can be next-day, same-day and even near-real time.

As one example, financial institutions offer business customers “cash management” or “treasury management” services. Among other things, these services typically provide daily reports to businesses about the transactions that post to their accounts. As with other banking services, these are widely available online. Through online access, daily reporting, and even e-mail or mobile transaction alert services, financial institutions provide business customers with acknowledgement of EFTs that post to their accounts.

The ACH Network supports two acknowledgement standard transactions – the ACK and the ATX.<sup>2</sup> These are end-to-end acknowledgements of specific EFT transactions, for which the receiver acknowledges the receipt of the EFT to the Originator.<sup>3</sup> (In healthcare terms, this would be the provider acknowledging receipt of the EFT from the health plan.) These are NACHA-formatted transactions; they are not EDI-formatted X12 transactions.

In today’s ACH Network, however, the ACK and the ATX transactions are not used by business trading partners.<sup>4</sup> There are several reasons why businesses do not find these acknowledgements of ACH transactions valuable. First, the ACH Network does not experience any significant down-time<sup>5</sup>; nor does it experience processing errors that would result in misrouted transactions. Therefore, users of the ACH Network do not experience any significant uncertainty about the delivery of their transactions<sup>6</sup>, which is one of the primary reasons why a user would otherwise want an acknowledgement. Second, the widely available and utilized transaction reporting services described above serve much the same purpose as an acknowledgement - that a specific EFT transaction to or from a specific party has posted to an account.

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<sup>1</sup> The findings from this research were included in testimony to the Subcommittee provided on December 3, 2010.

<sup>2</sup> The ACK is an end-to-end acknowledgement of the receipt of a NACHA CCD standard transaction; the ATX is an end-to-end acknowledgement of the receipt of a NACHA CTX standard transaction.

<sup>3</sup> In contrast, an acknowledgement from an ODFI to its originating customer, such as a health plan, is a “point-to-point” acknowledgement.

<sup>4</sup> In 2010, there were a total of 847 such ACK and ATX acknowledgment transactions.

<sup>5</sup> The Federal Reserve maintains a service-level target of 99.85 percent uptime for the FedACH service, and has exceeded this target every year since 1997.

<sup>6</sup> This is often referred to as the “black hole” problem.

Lastly with respect to acknowledging specific EFTs, financial institutions that accept EDI-formatted X12 transactions from a customer (such as an 820 or 835) do acknowledge the receipt of the transaction with the appropriate EDI-formatted X12 997 or 999 acknowledgment transaction. Such an acknowledgement, however, is not applicable to the receipt of a non-X-12 transaction, including a CCD+, which is not an X12 transaction.

### Acknowledgement of Healthcare EFT Standard Transactions

How does all this relate to the acknowledgement of EFTs in healthcare? On February 17, 2011 NCVHS wrote to Secretary Sebelius recommending the existing NACHA CCD+ standard as the Healthcare EFT standard transaction.

A health plan, as a covered entity under HIPAA, would send an ACH file of CCD+ transactions to its financial institution to initiate EFTs through the ACH Network. As described above, the health plan and the financial institution – in their “one-to-one” business relationship – would have arrangements and schedules for the submission of these ACH files, which would be acknowledged either in the affirmative (a file was received) or in the negative (a file was not received, or there was a problem with the file). There is no existing standard for such point-to-point acknowledgements.

Although not a covered entity, the financial institution would acknowledge in practice to the health plan each specific EFT that posted or will post to its account. This transaction reporting takes place through daily (or more frequent) transaction reporting as part of the health plan’s treasury management services. While there is also no existing standard for such point-to-point acknowledgements, there are common data elements that are reported with each transaction, including the date and amount of the payment, and the identity of the payor/payee.

Because neither the ACH file nor the Healthcare EFT standard CCD+ transactions are EDI-formatted X12 transactions, there would be no EDI-formatted X12 acknowledgements sent from the financial institution to the health plan as a point-to-point acknowledgement.

A healthcare provider hypothetically could acknowledge the receipt of the CCD+ EFT by responding with an ACK transaction, which would be delivered through the ACH Network to the health plan. These end-to-end acknowledgements, however, are not used today by business trading partners.

### Conclusions

As the Subcommittee, and then the full Committee, considers the topic of acknowledgements, NACHA makes the following observations regarding the EFT:

- The NACHA CCD+ standard is not an X12 transaction; therefore there is no X12 acknowledgment of a CCD+;
- Users of the ACH Network do not experience the “black hole” problem;

- Financial institutions do acknowledge the receipt of an ACH file from a customer; however, there is no existing standard for such a point-to-point acknowledgement;
- There is an existing NACHA standard for an end-to-end acknowledgement of a CCD+ transaction – the NACHA ACK standard. This is a NACHA-formatted transaction, and not an EDI-formatted 12 transaction. This standard is not currently used by business trading partners in any industry, including healthcare, for the reasons stated above.
- It is uncertain whether there is a business case for creating and/or adopting new standards for acknowledgement of Healthcare EFT standard transactions:
  - Acknowledgement of ACH files is handled through one-to-one relationships between health plans and their financial institutions, so there is no interoperability problem to solve;
  - Specific EFT transactions are reported on customers' account statements, serving much the same functional purpose as acknowledgements;
  - For end-to-end acknowledgements, all providers would have to implement the capability to send such acknowledgements. This would be a very large implementation effort for providers, with uncertain benefits beyond those already provided by transaction reporting;
  - Healthcare users of the ACH Network have not raised the topic of acknowledgements as a barrier to the use of EFT or as a pain point in using EFTs.

Certainly, more research on a business case can be done if the Subcommittee determines that this is an area of priority. NACHA would be glad to provide any additional information or answer any questions about acknowledgements of EFT transactions and the CCD+.