PayStand's Guide to Understanding ACH and eCheck

How to Receive Direct Bank Payments Online

PayStand

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Do direct bank payments make sense for your business?

Congratulations! By downloading this guide, you're taking the first step toward modernizing how your organization takes payments and increasing your bottom line. Direct bank payments have come a long way in recent years and are no longer a privilege of large companies alone. The good news is that it is now possible for your customers to pay you directly from their checking accounts, online and from their mobile devices, just as quickly and securely as a credit card payment. What's more, direct bank payments come at a fraction of the cost of credit card transactions.

If you're not sure how direct bank payments can work for your business, here's a few questions to get you started:

Do you currently accept paper checks?

If the answer is "Yes," don't worry! Paper checks have persisted well into the 21st century for good reason. Despite the low-tech nature of checks, they function very well as a relatively secure, reliable and low-cost payment method. They enable two parties without a pre-existing relationship to exchange funds directly between their bank accounts, for a specific amount, with the authorization clearly present in the form of a signature. That's a lot of information on one small slip of paper, which hasn't been easy to replicate in online transactions—until now.

By transitioning your check payments to one of the new direct bank debit methods described in this guide, you can retain all the good things about paper checks with some key added benefits. You'll be able to spend less time doing data entry and depositing checks, receive payments more quickly, and even set up automated recurring payments directly from your customers' bank accounts.

Paper checks persist as a payment method, but the processing behind them is 100% electronic today.

Do you accept high-value payments?

For payments in the hundreds and thousands of dollars, transaction fees can take a big chunk and compound over time. A 3% credit card transaction fee on a $2500 item is a hefty $75—that's a lot of office supplies or a nice lunch for you and a coworker! Too often in the rush to get paid, we overlook the fees that credit card processors and banks take off the top for the speed and convenience of transferring funds to our bank account. Rather than wait a week for a check to be mailed, processed, deposited and cleared, many of us opt to swallow the fees and accept them as a cost of doing business.

Thanks to the internet and new direct payment methods, this painful trade-off is no longer necessary. For example, that same $2500 item can be paid online with eCheck for 0% and a flat fee of 25 cents. In the same amount of time or less than it takes for a credit card transaction to clear, you'll end up with $2499.75 instead of $2425. Direct, online bank debits open up a whole world of possibility for modernizing high-value transactions such as rent payments, doctor bills, tuition, donations, and more.

Do you accept payments from other businesses?

There's no reason for merchant processing middlemen to be collecting fees on transactions between trusted business partners. In the past, the only way to avoid this was to accept paper checks or set up a legal agreement between your businesses to directly credit and debit each other's accounts. Setting up and maintaining these arrangements necessitated legal review and a lot of your accounting personnel's time.

Today it's possible to facilitate direct, online bank payments from your business customers, even if you don't know them. You can set up a secure portal on your company website to enable other businesses to authorize one-time or recurring payments directly from their bank account to yours. No additional paperwork is necessary—like a paper check, your customer authorizes the debit along with the amount, and it transfers to your account without the need to make a physically deposit. Accepting online bank debits will make an immediate and lasting impact on your business' bottom line, because the fees involved are fixed, nominal fees under $2 for even large transactions in the tens of thousands.

Do you manage a Not-for-Profit or Nonprofit?

The opportunities for foundations and good causes to reach potential donors have exploded in recent years, with the rise of social media and web platforms devoted to supporting nonprofits. However as nonprofits expand their online presence, they have been subject to the same high fees for credit card transactions as for-profit businesses. Unfortunately almost everytime a nonprofit is successful at online fundraising, they must divert a portion of every donation to credit card processors, which means less money goes to the cause the donor wants to support. This problem is especially acute in the case of large donations.

The good news is that now nonprofits can accept checking account payments from donors directly on their websites, and even on their smartphones out in the field or at fundraisers. For the price of a stamp, a nonprofit can take an online donation of thousands of dollars and put it all to use for their cause. They can also encourage new and young donors by offering smaller donation packages which can be spread out over time and automatically debit their bank account monthly or annually.

Clearly, many kinds of organizations stand to benefit from looking beyond paper checks and credit cards to online bank payments. Now, let's take a look at the two main options available today, **ACH** and **eCheck**. Although these two terms are often used interchangeably, they are actually two different payment technologies built on completely different architectures and networks.

What's the Difference between ACH and eCheck?

We all know it's possible to transfer funds directly between bank accounts—that's the way most of us get our paychecks via direct deposit and allow our loan payments to be deducted. Traditionally these types of funds transfers are for large sums and take place between banks and large corporations with preexisting authorizations to transact electronically. But a new kind of electronic bank debit method, eCheck, has emerged in recent years that enables small businesses and even individuals to take payments directly from bank accounts, with a one-off authorization.

The Automated Clearing House (ACH)
When we get paid via direct deposit or pay our mortgage online, those funds are likely being transferred over the ACH, or Automated Clearing House, network. The ACH network was

developed in the 1970s by a consortium of banks with the goal of replacing paper checks for large transactions between trusted parties. It was launched as a completely separate system than the one that governs paper checks, with its own set of rules and regulations to govern authorizations and transactions. The biggest difference was that ACH enabled two parties to have a "blanket authorization" to credit or debit an account on a recurring basis, even for different amounts each time. ACH also settles funds differently, in "batches" at the end of each day, increasing the efficiencies between banks in the network. At the time of its introduction, ACH was a great leap forward in digital money transfer, but required (and still does require) a great deal of initial paperwork due to the powers it grants to debit the payer's bank account.

For that reason, ACH hasn't been particularly adaptable to online transactions for ecommerce purchases, or for payments between small businesses. Meanwhile, the paper check has persisted well into the 21st century, and costly credit cards have become the default payment method of the Internet.

Enter eCheck

The eCheck initiative began in 1995 as a joint effort among banks, government agencies, tech companies and industry associations with a different goal than ACH—to take the existing check system and modernize it for the Internet age. eCheck's early proponents focused on what works well about checks—the fact that they facilitate direct, secure, one-time bank debits with built-in authorization in the form of a signature—and designed a system to emulate those features online. What's more, the eCheck system would function on the same existing back-end process as paper checks, alleviating the overhead of paperwork and staff that ACH had necessitated at banks and other financial institutions.

Unlike the ACH network, eCheck was designed to facilitate transactions over the Internet

When eCheck was officially launched in 1998, it was heralded as "a new payment instrument combining the security, speed and processing efficiencies of all-electronic transactions with the familiar and well-developed legal infrastructure and business processes associated with paper checks," and "the first and only electronic payment mechanism chosen by the United States Treasury to make high-value payments over the public Internet." Although it has been relatively slow to catch on, software developers and merchants alike are starting to see the advantages of enabling eCheck for online transactions.

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Because eCheck is based on the existing framework for paper checks, anyone with a U.S. bank account can initiate or receive an eCheck transaction. Unlike ACH, accepting eChecks doesn't require a pre-existing authorization and legal agreement from the other party, and your customers won't need a login to a 3rd party system to pay you. The upfront setup and ongoing administrative overhead are minimal, creating a low barrier to entry for merchants.

Comparing costs: ACH vs. eCheck vs. Credit Cards

The most obvious driver for eCheck adoption is its low cost relative to credit card transactions. Because eChecks operate within the same infrastructure as paper checks, there is no need for the middlemen involved with credit cards. As a result, eCheck transactions generally do not (or should not) carry a transaction fee other than a small fixed fee. By contrast, ACH transfers are often charged a hefty up-front cost with additional transaction fees.

	Industry average fees		
$ Transaction volume	Credit cards	ACH	eCheck
500	17.50	5	2.50
1000	35	10	5
2500	87.50	25	12.50
5000	175	50	25
10,000	350	100	50
25,000	875	250	125
50,000	1750	500	250
75,000	2625	750	375
100,000	3500	1000	500
500,000	17,500	5000	2500
1,000,000	35,000	10,000	5000
Assumptions	2.9% + $.30	$0.50	$0.25
Source: PayStand.com		*Based on $50 per unit sold	

The cost savings of direct bank payment methods, which normally carry a fixed fee instead of a percentage, compound as transaction volume increases.

Any cost-benefit analysis of adopting direct bank payment methods should of course include any up-front costs and subscription fees. Every vendor is different and employs a unique business model for providing direct bank payment services. Even with these added costs, adopting ACH and eCheck still beats out credit card merchant fees by a large margin.

Is Accepting eChecks Online Secure?

The eCheck system was architected to exceed even the high standards for online credit card processing. It leverages state-of-the-art cryptography and digital signatures to ensure the validity of each transaction. Below are just a few of the security features that make eCheck the most secure online payment method.

Authorization via Bank Login

eCheck's support for authorization through the customer's online banking login adds a layer of security not present in ACH. Instead of entering their routing and account number, the payer uses their familiar online banking login to authorize the transaction. Only the owner of the account would know this login, so merchants can feel safe knowing they are dealing with a legitimate customer. In contrast, the routing and account number can be copied off of any physical check that may be in circulation, exposing the account owner to unauthorized online purchases.

eCheck transactions using bank login authorization are the most secure method of funds transfer available.
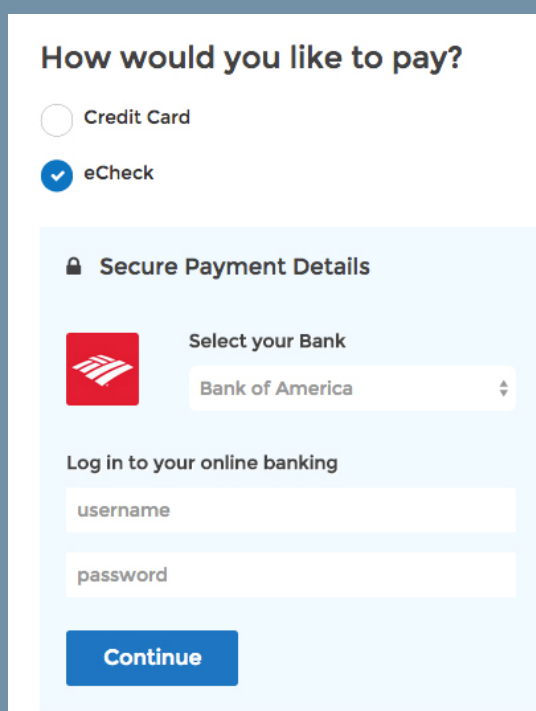
Instant Funds Verification

In a great leap forward from the world of paper checks, eChecks provide instant funds verification on the source bank account, so you can confidently accept the payment and deliver your product or service. The eCheck will even be screened against a database of bad checks and other risk indicators, a process that takes only seconds and protects merchants from fraudulent purchases. Merchants can rest easy knowing that eCheck transactions are highly unlikely to be reversed, because they were verified in advance.

Established Legal Protections

The eCheck framework is further protected by the long-established legal structure around checks. Because eCheck payments are initiated by the customer, they show a clear authorization and intent to pay instantly, therefore dramatically reducing the refund and chargeback requests commonly associated with credit card charges. Consumers can also rest assured that their eCheck transactions are protected under the U.S. Federal Reserve "Regulation E," which governs electronic funds transfers. Regulation E limits the liability of consumers in the event of fraudulent transactions and establishes timeframes for dispute resolution.

Advanced eCheck Features

Not all eCheck implementations are the same. As you evaluate eCheck payment providers, you may want to consider some of these advanced capabilities and how they could improve your business.

PayStand's checkout enables eCheck with bank login

Online Banking Login

This innovative feature, which adds a great deal of security to eCheck transactions. As we discussed above ("Is Accepting eChecks Online Secure"), allowing users to authorize an eCheck by entering their online banking login alleviates the need to expose their routing and account number. It's also more convenient for users—whereas most people need to refer to a physical check to input their routing and account number, almost everyone knows their online banking login by heart.

Recurring Payments

Businesses with recurring revenue models can enable their customers to pay by eCheck on an automated monthly or annual basis. Property managers can modernize their systems and appeal to younger renters by accepting recurring monthly eChecks, eliminating delays due to mail delays and general forgetfulness. Nonprofits who have never taken an online donation can skip to the head of the line and start taking eChecks, avoiding the costly credit card fees that have hobbled online fundraising.

Discounting at Checkout

With eCheck it is possible to offer a discount to the customer at checkout, providing an incentive to use that method over higher fee credit cards. This can be accomplished either by surcharging the credit card fees to the total (a practice largely believed to be illegal, but in fact just discouraged by—guess who—the credit card industry), or by applying a percentage discount to eCheck payments. As we saw in the chart on page 7, the cost savings that accumulate with eCheck transactions make it well worth merchants' while to steer customers to that method.

Mobile Photo Check Capture

Customers of larger banks may have tried this new technology for deposits, and now a few eCheck processors are integrating it to turn paper checks into eChecks. Merchants can now take a photo of a check with their smartphone, perform instant funds verification and deposit it to their bank account within 48 hours, all without getting up from their chair.

Support for new business models

eCheck is highly optimized for online transactions and integrations with Web-based systems, so it holds a lot of promise for

Merchants can now use their smartphones
to turn paper checks into eChecks

companies trying to disrupt old ways of doing things. Entire markets such as real estate and health care could see their payment processing systems transformed by integrating eCheck. One of the limitations of the ACH system has been restrictions on the amount of data that can be attached to the digital record of each transaction. eCheck was designed to allow unlimited, yet structured data, such that each eCheck can carry a wealth of information about the parties' identities and context around the transaction. The next few years will likely see a new wave of innovation around eCheck as technology providers discover all its possibilities.

Getting Started with eCheck

A number of payment processors have begun to offer eCheck payment processing. As you evaluate the options, here are a few questions to be sure to ask eCheck services:

- What is the per-transaction fee for each eCheck? What are the up-front and ongoing costs for your service?

- Do you only provide eCheck processing, or do you also offer credit card processing?

- Can I offer my customers discounts or recurring payments using eCheck?

- Do you offer a mobile app so I can process paper checks as eChecks?

- Do you offer an API so I can customize or brand your eCheck service?