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# The Opportunity Your FI Is Missing by Not Effectively Selling Positive Pay

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# Introduction

Fraud continues to plague the payments landscape as fraudsters get smarter and financial institutions and their technology partners fight to keep up. Business payments, especially check and ACH payments, which dominate the sector, are especially vulnerable due to their high volume and often substantial dollar amounts. While new fraud prevention tools continue to be developed, those already in place, such as positive pay, still play an important role. In fact, more than 90% of U.S. banks and credit unions believe it is more important than ever for business customers to protect themselves from payment fraud with positive pay.

This white paper, commissioned by Q2 but independently authored by Datos Insights, highlights financial institution strategies for positive pay and incorporates feedback from business end users to understand positive pay's usage and perceived value proposition. This research reveals the opportunity regional and community FIs are missing by not effectively selling and charging for this important product. Positive pay adoption levels at institutions across the industry are not where they should be. Far too many institutions feel this valuable tool must be given away despite this research, which shows that businesses are willing to pay for it.

## Methodology

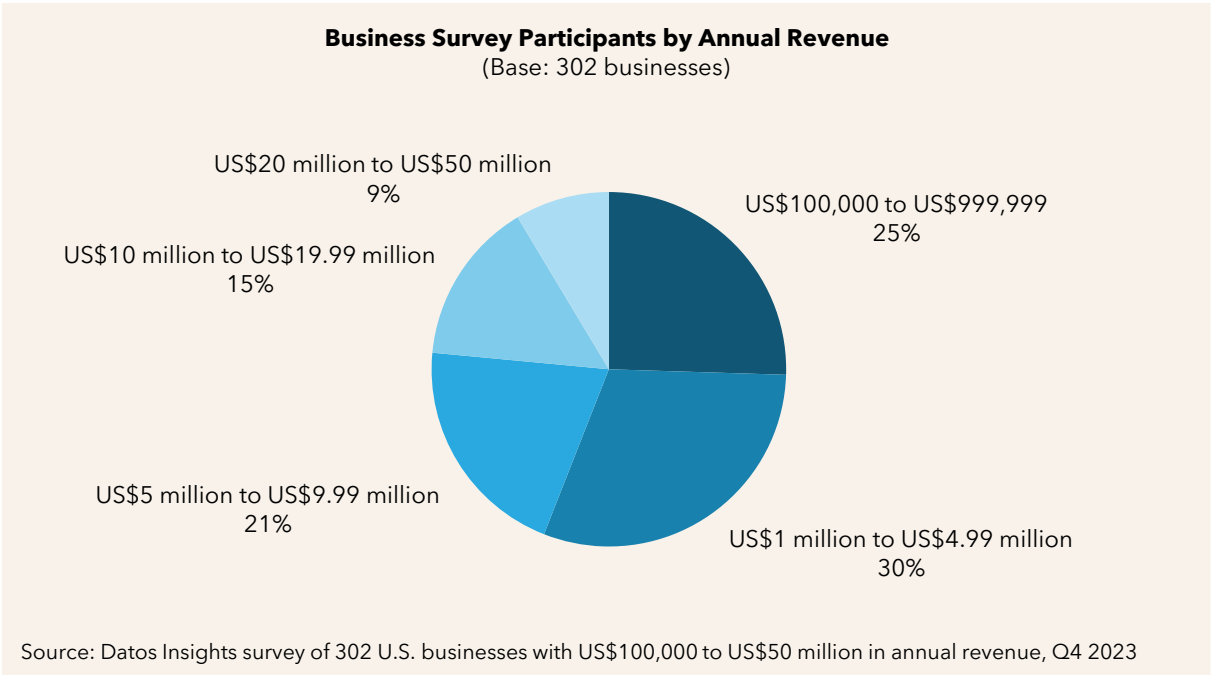
This paper is based primarily on the results of two Q4 2023 Datos Insights surveys. The first is a survey of 77 U.S.-based FIs with up to US\$50 billion assets that serve business customers. Approximately two-thirds of the participants are banks, with the remaining one-third being credit unions. All survey participants are at least somewhat knowledgeable about their institution's cash management and payment products and strategy. Seventy-five percent of this survey's participants have between US\$1 billion and US\$10 billion in assets, a group identified as largely not maximizing the full potential of positive pay with its client base from an adoption and revenue standpoint.

The second survey is of 302 U.S.-based businesses generating between US\$100,000 and US\$50 million in annual revenue. This revenue range was selected because it represents a group that would greatly benefit from positive pay despite only about 35% having adopted it. Of businesses surveyed, 91% consider a bank to be their primary FI, and all are familiar with their company's finance, banking, and payment operations, methods, and processes.

This paper’s content also leverages Datos Insights’ library of research across banks’ and credit unions’ business offerings and strategies, along with the author’s extensive knowledge of the market.

Figure 1 breaks down business survey participants by their annual revenue.

**Figure 1: Business Survey Participants by Annual Revenue**

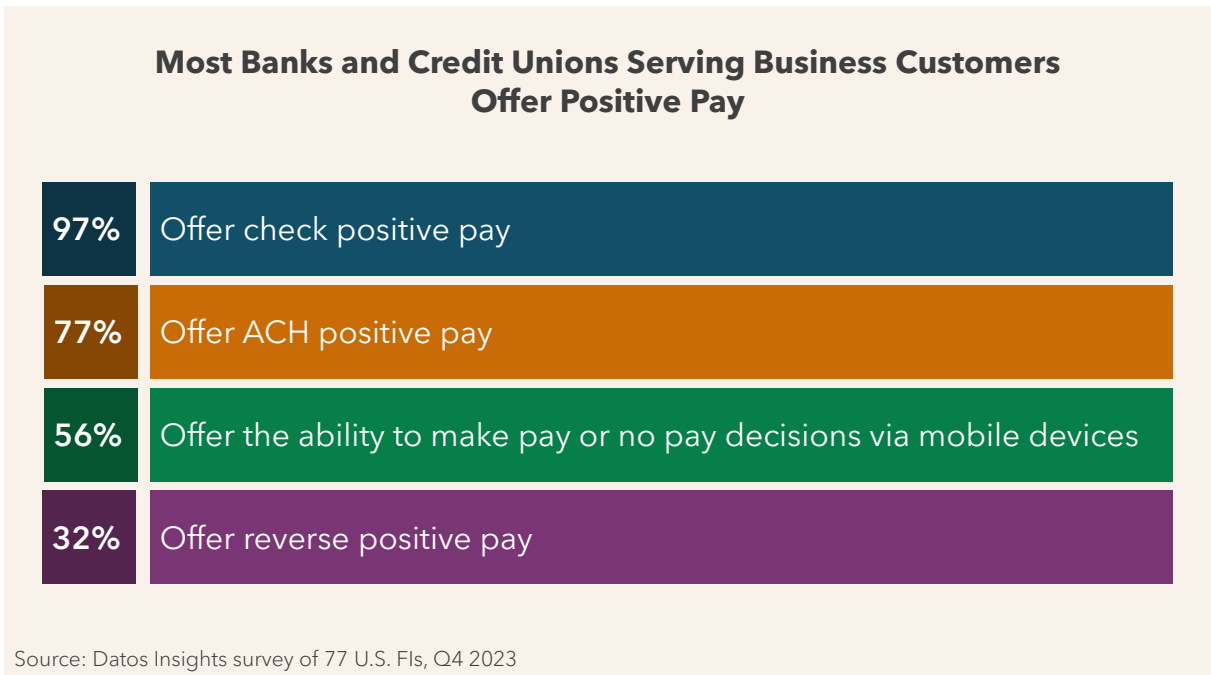


# Marketplace

Positive pay is not new, but it is a product that most FIs, especially smaller ones, are not seeing the greatest return from. However, there is some good news for positive pay. First, recently implemented FI initiatives to educate customers about the product are paying off, as 60% of businesses surveyed are at least somewhat familiar with traditional check positive pay and slightly more familiar with ACH positive pay (75%).

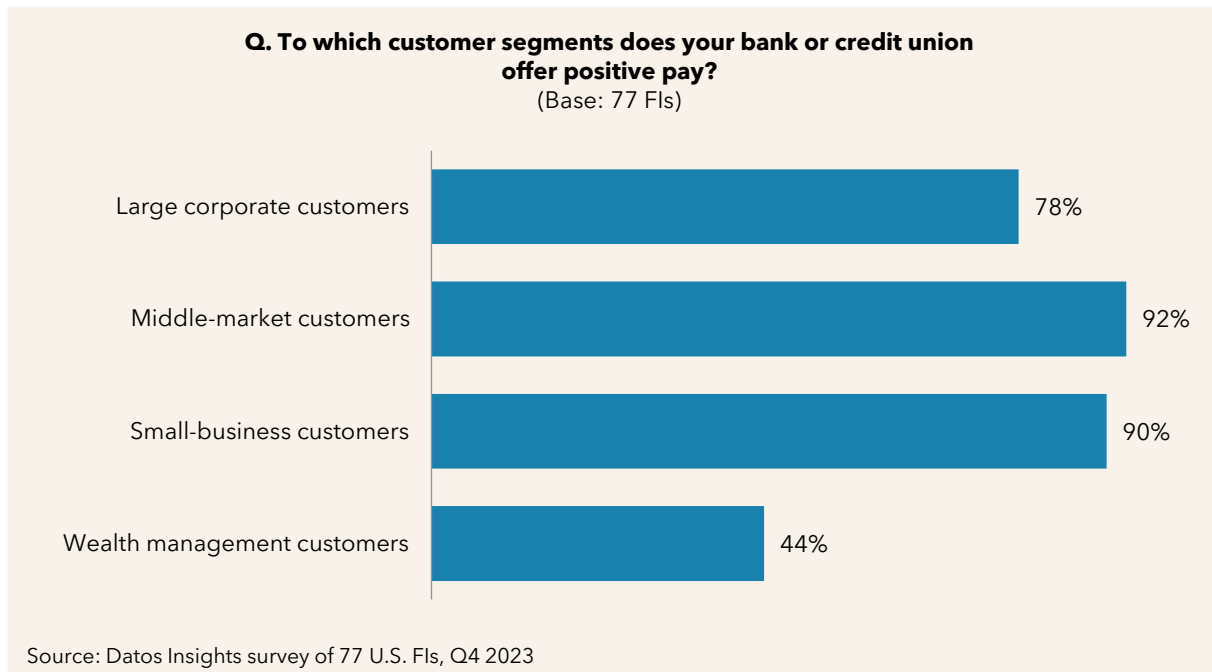
Additionally, positive pay availability across banks and credit unions is widespread. Not surprisingly, traditional check positive pay, which was offered to the market first, has the greatest footprint, with 97% of regional and community FIs offering it, compared to ACH (77%) and reverse positive pay (32%; Figure 2).

Figure 2: Positive Pay Penetration in FIs



Further, among those institutions providing positive pay, most offer it across their business customer base (Figure 3). Availability for corporate customers is slightly lower than for middle market and small businesses due to this study’s focus on regional and community institutions. These institutions tend to serve small and midsize companies primarily.

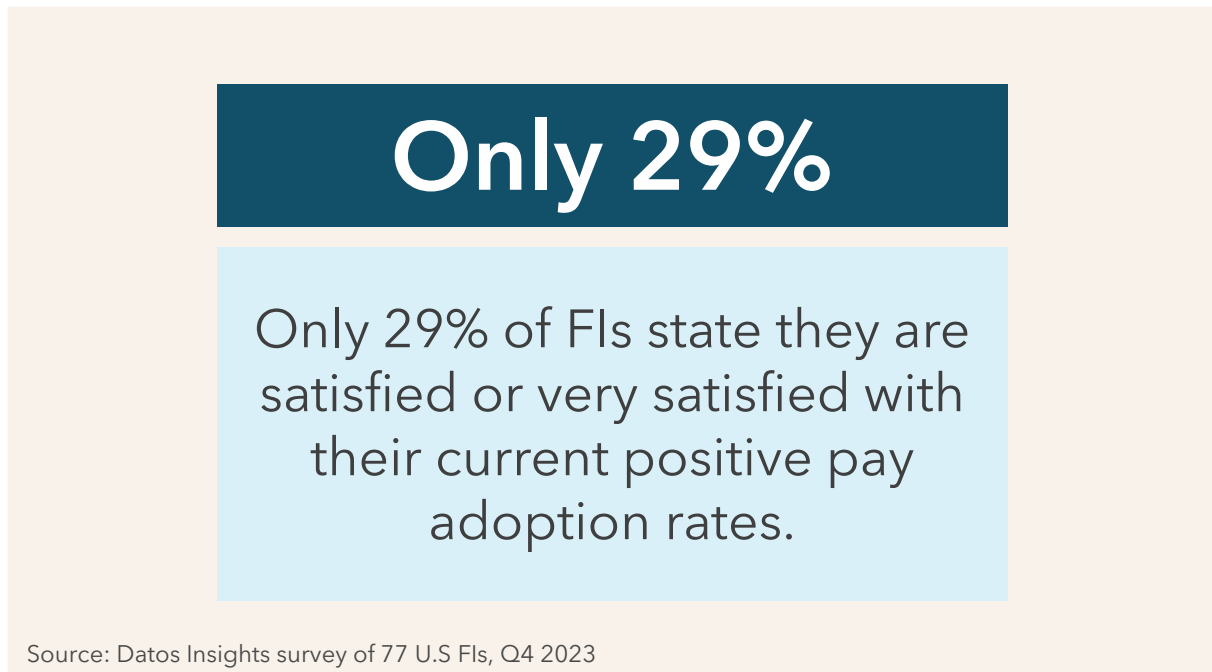
Figure 3: Small and Regional Bank Target Markets for Positive Pay



## Positive Pay Adoption

The adoption of positive pay across the industry is only about 35%, despite it being a product that should have broad appeal. Thus, it is no surprise that only 29% of FIs state they are satisfied or very satisfied with their current positive pay adoption rate (Figure 4).

**Figure 4: FI Satisfaction With Positive Pay Adoption Rate**

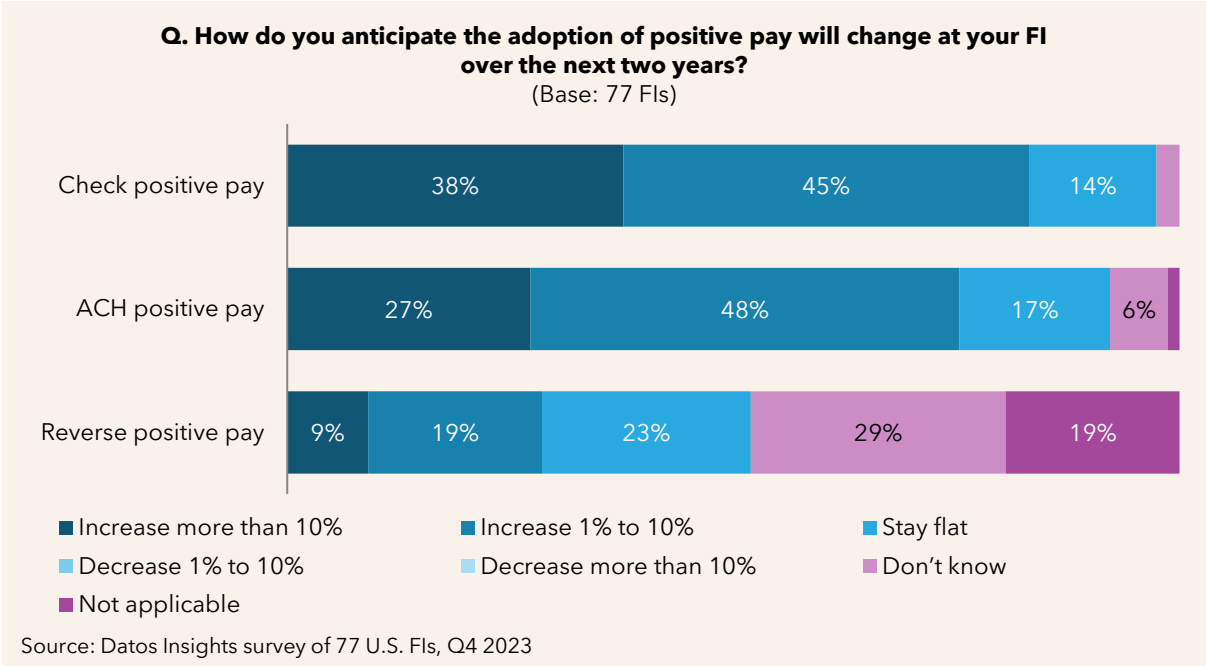


A great deal of positive pay adoption variance exists across FIs, depending on their size. Adoption is highest among large corporate and middle market customers—traditionally, the main targets for this product. Check positive pay enjoys the highest adoption across that customer segment; more than a third (34%) of FIs see adoption rates between 26% and 50%, and an additional 10% achieve customer adoption rates over 50%. ACH positive pay adoption by middle market and large corporations is lower. Eighty-three percent of banks and credit unions surveyed report adoption levels below 25%, and 25% report it is 5% or less.

Small-business adoption of both check and ACH positive pay is even lower. Historically, this customer segment has not been the primary target market for this product, and there has been less focus on educating them about it. Among FIs surveyed offering check and/or ACH positive pay to their small-business customers, only about 15% have achieved adoption levels of greater than 25%.

The good news is that usage is growing, and adoption is on the rise. More than 40% of FIs surveyed have seen a 1% to 10% increase in check and ACH positive pay adoption over the past two years, and three-quarters expect adoption to continue to rise over the next two (Figure 5). Many FIs now offer check and ACH positive pay as a bundle to encourage the adoption of both.

Figure 5: Forecasted Increase in Positive Pay Adoption



## FI Call to Action

FIs have good reason to be optimistic about the potential for positive pay. Many are now reevaluating their product offering strategies and looking for ways to grow adoption. Those implementing the right strategies have much to gain by doing so. Of businesses familiar with positive pay but not yet using it, 44% report that they will probably consider using check and ACH positive pay in the next 18 months, and another 42% say they definitely will.

There are six essential calls to action for FIs to grow positive pay adoption and revenue:

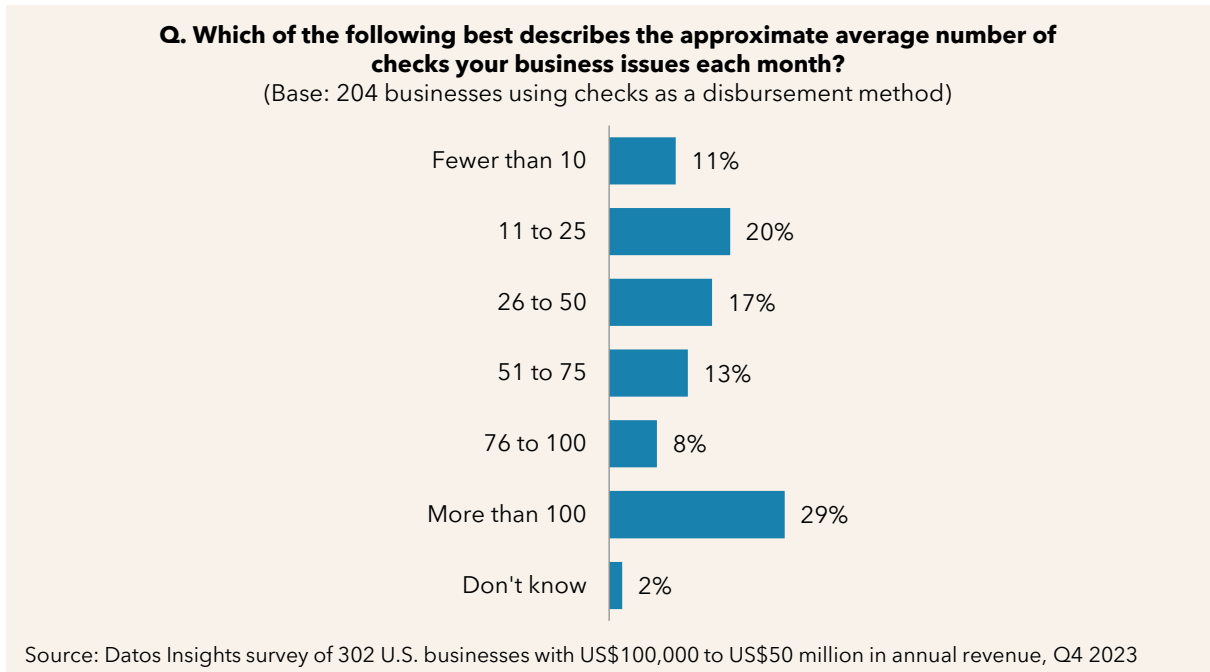
- Roll out check and ACH positive pay if your FI hasn't already done so.
- Sell positive pay more proactively.
- Focus on education.
- Communicate a broader value proposition.
- Make positive pay easier to use.
- Don't leave money on the table.

## Make Sure Your FI Has Rolled Out Check and ACH Positive Pay

Most FIs have already rolled out positive pay. Those that have not must do so quickly, as offering this capability is now table stakes to remaining competitive in the payments space. Not providing it is also a disservice to customers and members. While check volume is declining, about 80% of surveyed businesses use paper checks for some of their payments. Of businesses surveyed, 50% of those writing checks send more than 50 checks per month (Figure 6). Checks are not going away anytime soon, so FIs need to ensure they are safeguarded from fraud.

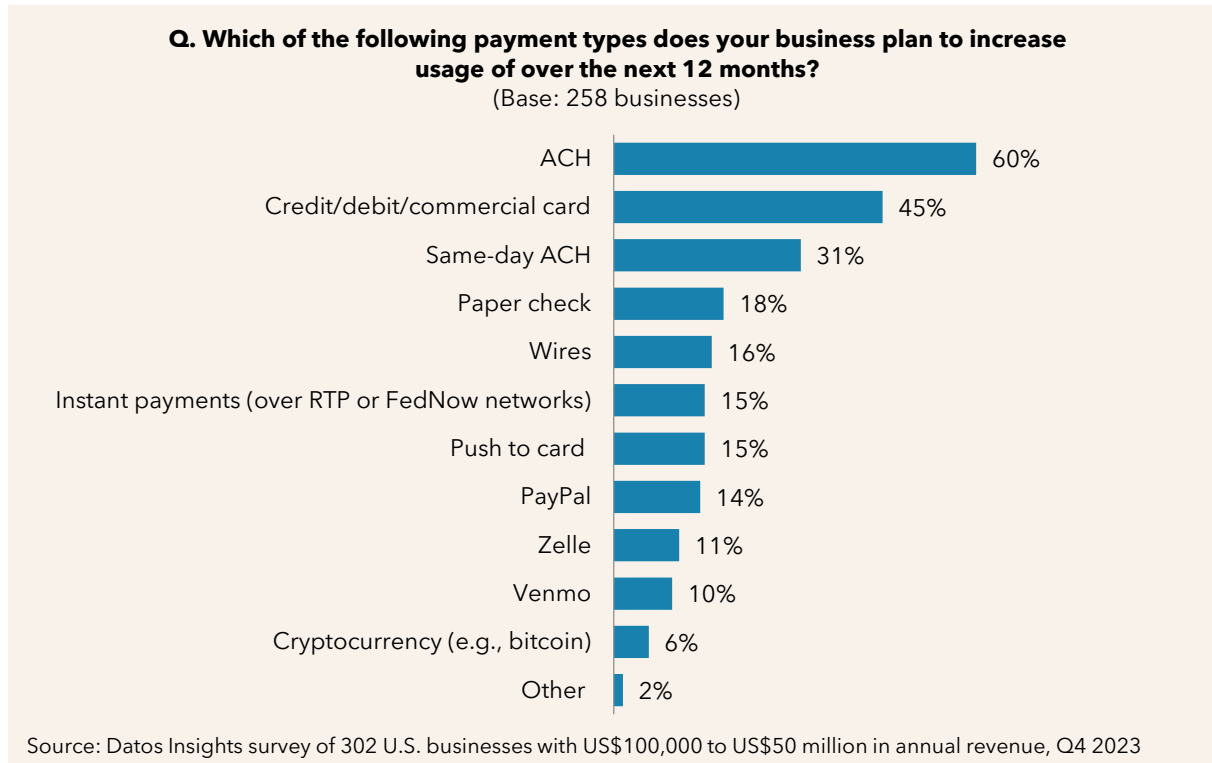


**Figure 6: Average Number of Checks Issued Per Month**



Check volume is declining, and electronic payments are growing, particularly ACH. Those gains are expected to continue: 60% of businesses surveyed plan to increase their usage of ACH payments over the next 12 months, and 31% plan to increase their use of same-day ACH (Figure 7). Further, 41% of businesses using ACH make more than 50 ACH payments each month.

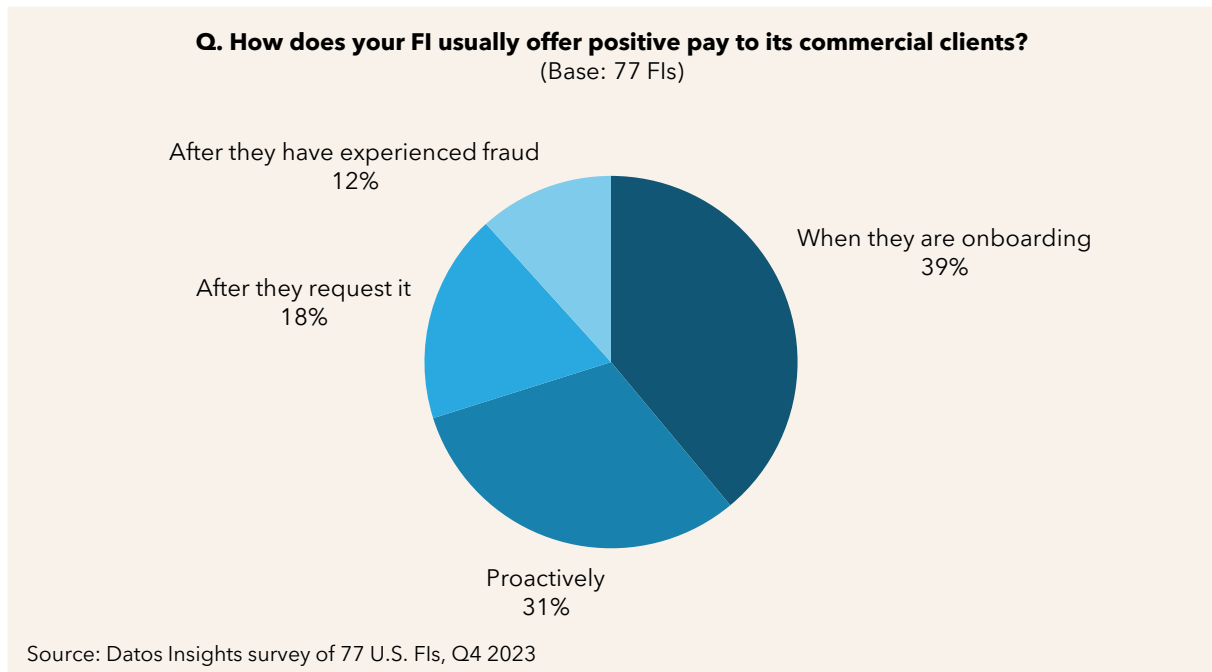
The high volume of check and ACH payments needs to be protected, especially in an environment of rising payment fraud. As such, FIs should not only provide positive pay products but also ensure that customers or members are offered both check and ACH positive pay products.

**Figure 7: Payment Types Expected to See Increased Usage**

## Sell Positive Pay More Proactively

Most banks sell positive pay reactively. Of banks surveyed, 18% admit they mainly sell positive pay to clients who ask for it, while another 12% mostly do so after a client is a victim of fraud (Figure 8). This approach negatively impacts institutions' potential to sell this product. In fact, 23% of businesses familiar with positive pay that are not yet using it state they don't use it because their FI hasn't offered it to them!

Fortunately, FIs realize greater focus needs to be placed on selling positive pay to clients and that a reactive approach is not working. Thirty-one percent of regional and small banks take a proactive approach to selling positive pay, and 39% offer it at onboarding (Figure 8). Among institutions selling positive pay, more than 80% prioritize client targets by looking at a client's check or ACH payments volume, whether they were a recent fraud victim, and industry (i.e., industry groups such as property management and healthcare with high payment volume).

**Figure 8: How FIs Offer Positive Pay**

A growing number of FIs are also having internal conversations regarding the benefits of requiring clients to adopt positive pay. Approximately 10% of FIs already do so, 41% plan to require businesses of a certain size or profile to adopt it, and another 47% state they are considering it.

A business recently being a victim of fraud is also a strong reason to require adoption. While only 12% of institutions state that their most common driver for offering positive pay is a recent fraud incident, 69% state they require customers who have been victims of fraud to adopt it.

However, not all institutions favor requiring positive pay adoption, regardless of the client's profile. As an alternative, some institutions are asking clients who decline positive pay to sign a document stating the product was offered and refused. Doing so shifts responsibility away from the FI in the event of fraud. Several banks have stated this has been an effective way of getting some customers to adopt the service.

## Focus on Education

Customer education is a critical hurdle the industry must overcome to grow positive pay adoption. There are three primary components to the needed education. First, FIs must educate their customers about the threat of payment fraud. Only 25% of banks and credit

unions surveyed feel the risk of payments fraud is well understood among business customers.

This is especially evident when comparing customer concern about fraud to actual fraud statistics. Only 34% of businesses describe themselves as extremely concerned or very concerned about fraud, and 62% describe themselves as confident or very confident that their business is aware of and catching all or most of the payment fraud taking place. Results from the 2023 AFP Payments Fraud and Control survey indicate that this confidence may be misplaced:

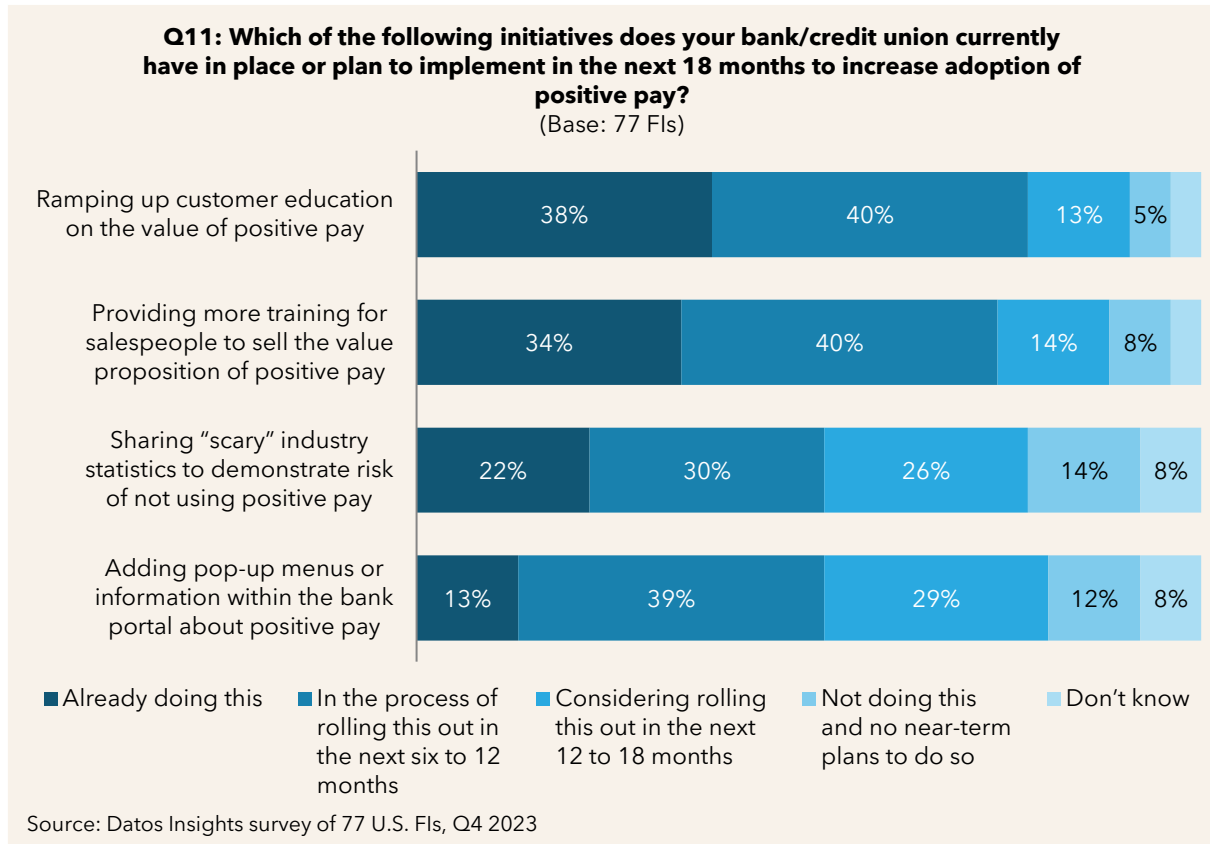
"65% of organizations were victims of payments fraud attacks/attempts in 2022. Checks continue to be the payment method most vulnerable to fraud, with 63% of respondents reporting their organizations faced fraud activity via checks."

Next, FIs need to do a better job of communicating positive pay's value proposition and educating clients on what it is. Almost 40% of businesses don't know what positive pay is, and of those familiar with it but not yet using it, 12% admit they don't fully understand it. In that same group—those familiar with but not yet using positive pay—17% consider this critical fraud prevention product nice-to-have rather than a must-have. These businesses represent a huge opportunity for FIs with an effective client education initiative to grow adoption.

Finally, additional training is needed for bank and credit union sales teams. Cash management sales, in general, are becoming more challenging as products become increasingly complex. Sales teams need to clearly communicate product value propositions and take a more consultative approach to connecting customer challenges with products.

Fortunately, many of these education-related initiatives are already underway or being planned at most regional and small FIs (Figure 9).

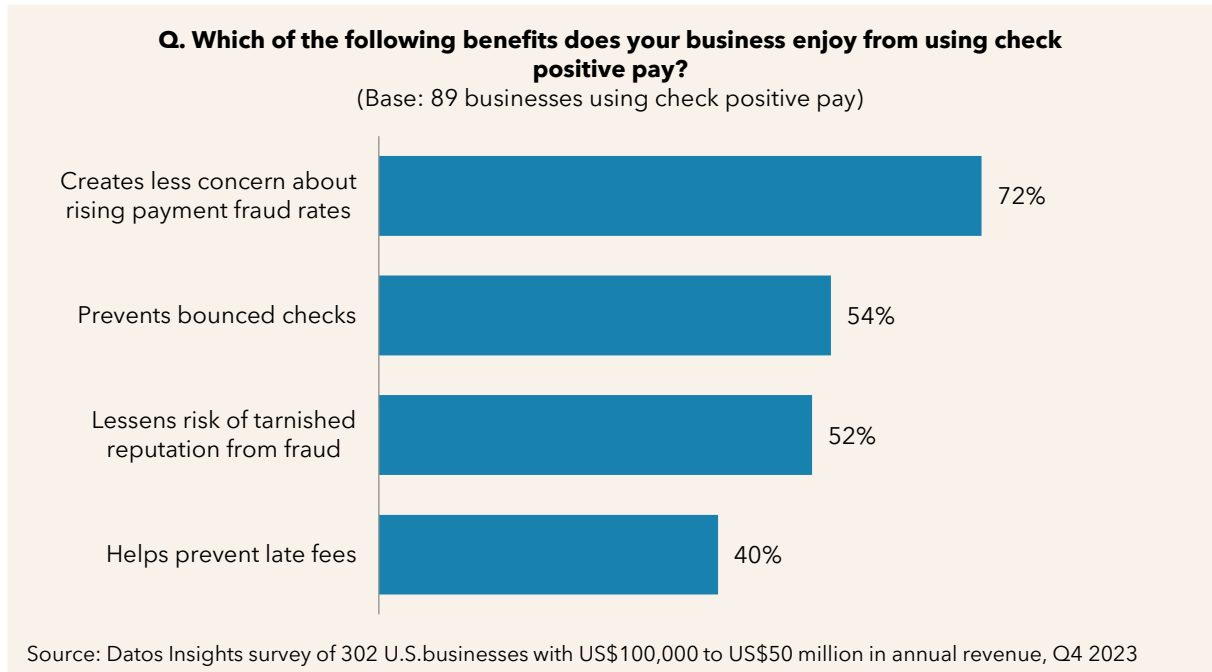
**Figure 9: Planned Education-Focused Initiatives to Grow Adoption**



## Communicate a Broader Value Proposition

As FIs train their sales teams, they should also broaden the value proposition of positive pay. Preventing fraud and minimizing fraud concerns are the primary purposes of positive pay, but it delivers value beyond that. For example, the daily exchange of check files in positive pay forces businesses to manage their finances more regularly and closely rather than wait for end-of-month reconciliations. Many businesses state this helps prevent bounced checks and late fees.

Business end users and FIs cite other positive pay benefits, too, including real-time monitoring, automation of a manual process for greater accuracy and efficiency, simplified reconciliation processes, and greater control over the overall payment process (Figure 10).

**Figure 10: Perceived Benefits of Positive Pay**

Additionally, FIs can enhance their positive pay offerings by adding payee positive pay, an optional service when using check positive pay that adds a payee's name onto the check. Of businesses surveyed, 62% stated they would be likely to use or consider using payee positive pay if their bank or credit union offered it to them.

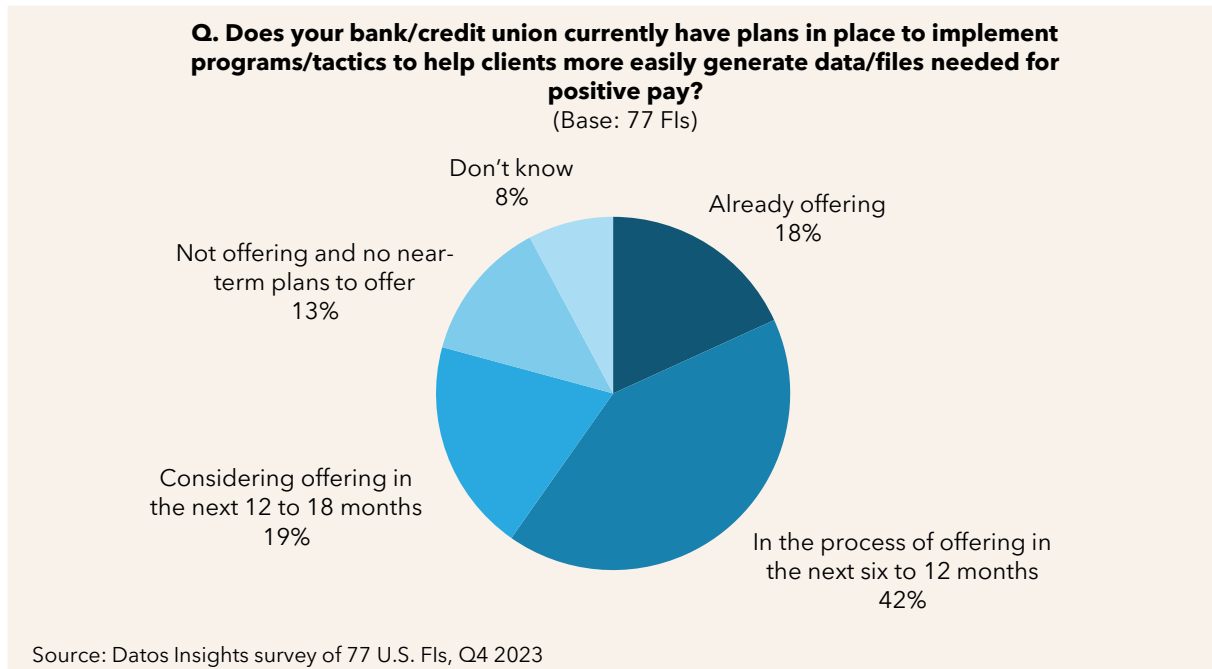
## Make Positive Pay Easier to Use

Traditional check positive pay requires the business user to provide a daily file or document with details of every check issued that day to the bank or credit union. The bank/credit union compares the file with the checks presented for payment and looks for discrepancies. While the process seems straightforward, compiling the file can be challenging, especially for small businesses.

Fifty-one percent of businesses using positive pay find this process challenging; an additional 7% find it very challenging. An inability to create the file is often a reason businesses do not adopt the product. Fortunately, FIs increasingly recognize this and have been looking for ways to make positive pay easier to use. Some FIs assist with the file creation for their customers, but this is not scalable. Others are working with their technology providers to create tighter integration with their clients' accounting systems to load issued checks automatically. This would significantly improve the process.

As Figure 11 shows, 18% of institutions surveyed already have plans in place to help clients more easily generate files needed for positive pay, and an additional 42% plan to roll something out in the next six to 12 months.

**Figure 11: FI Plans to Make Positive Pay Easier to Use**



Another option that many banks and credit unions are not taking advantage of is reverse positive pay; less than one-third of regional and community FIs offer it. This version of positive pay puts the burden on the FI, which provides the list of checks for the business to sign off on. This is a compelling option for businesses unable to create files. In fact, several banks, especially smaller ones servicing primarily small businesses, are rethinking their positive pay strategies to emphasize reverse positive pay for those customers. While current end-user adoption of reverse positive pay is only about 17%, 59% of those not yet using reverse positive pay expressed interest in learning more about it.

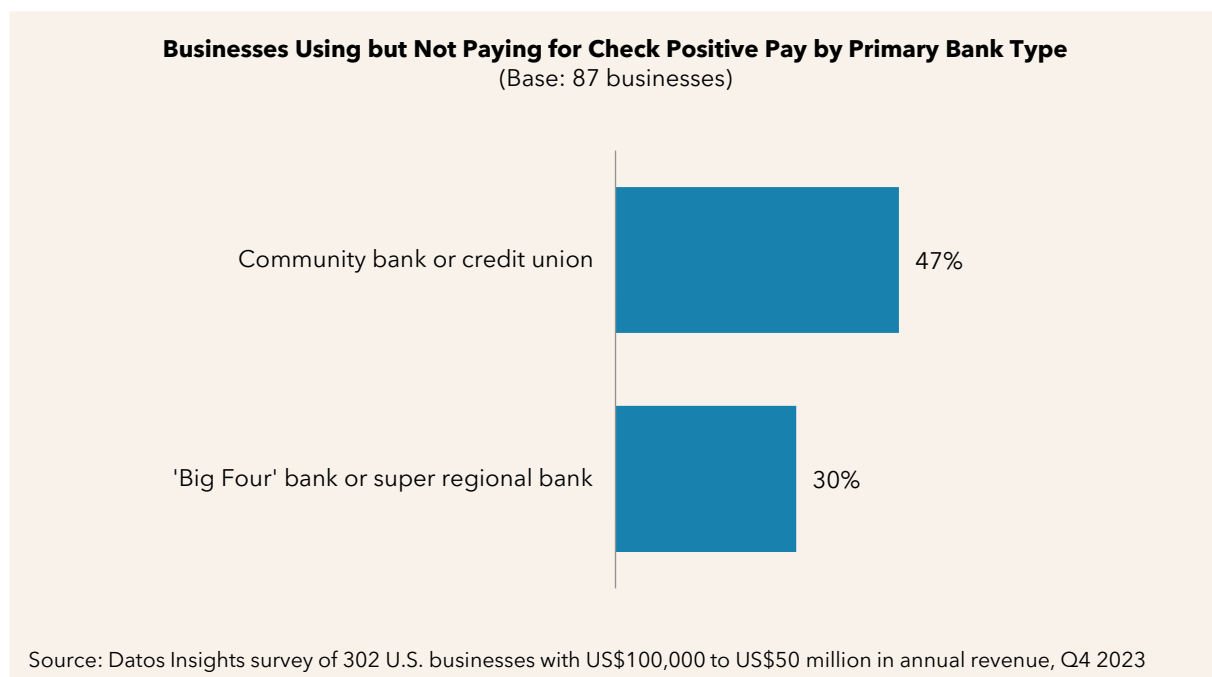
Finally, FIs may want to consider leveraging a single technology partner for all their positive pay offerings (i.e., rather than one vendor for check positive pay and another for ACH). This can help the end-user client become more familiar with one system, streamlining their experience.

## Don't Leave Money on the Table

FIs are often looking to find or grow revenue streams, and one path to increased revenue is charging for positive pay services. FIs can and should be charging for positive pay, which has a compelling value proposition for clients. Growing positive pay adoption in and of itself will lead to additional revenue for FIs. Additionally, those already offering positive pay also have room for growth, as many are leaving money on the table.

More than 30% of institutions do not charge for positive pay. Community institutions, in particular, tend not to charge for positive pay. As a result, 47% of check positive pay users that named a community bank or credit union as their primary FI do not pay for the service (Figure 12). These institutions must recognize that business will not be lost if they begin to charge for positive pay. In fact, among businesses currently using positive pay for free, 61% would be willing to pay for it!

**Figure 12: Community FIs Are Less Likely to Charge for Check Positive Pay**



Some institutions are considering making positive pay part of a larger business banking or cash management bundle, but the majority (51%) charge a fixed monthly fee. Fifty-four percent of banks charge business customers a fixed fee between US\$26 and US\$50 per month, with an additional 39% charging up to US\$100. Fixed fees are often charged per account. Those institutions not charging a fixed fee often charge based on the volume of checks/ACH payments issued, but they represent only about one-quarter of FIs.



Some FIs are leaving money on the table by not charging customers and members for positive pay, and they are also missing out by limiting their target markets. The number of businesses that would benefit from positive pay far exceeds the number using it. This is an area in which vendor partners can help. For example, vendor partners can help FIs proactively identify higher-risk customers not utilizing positive pay based on key indicators such as transaction volume and dollar amounts.

## Conclusion

- While positive pay is widely offered to business customers, adoption is far from reaching its potential.
- Low adoption and more than 30% of FIs giving the product away for free leaves money on the table, preventing FIs from enjoying a full return on their positive pay investment.
- Reactive, rather than proactive, sales strategies are largely to blame for low adoption, coupled with most businesses not fully understanding the serious likelihood of fraud.
- FIs must focus on educating the market about fraud and the broad value proposition positive pay offers, even beyond fraud prevention. A clear value proposition will better position institutions to sell the product.
- Technology providers must help make using positive pay easier through tighter integration with accounting systems. At the same time, FIs should consider offering reverse positive pay as an alternative to businesses unable to create check files.
- The problem of under-adoption will not correct itself overnight. However, small changes to strategy, product communication, and pricing models can have an immediate impact, delivering much-needed new revenue streams to FIs.

## About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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