

Q2

How to use fraud management as a revenue generator and competitive differentiator



Introduction

It's a given that the largest financial institutions (FIs) will have positive pay products, but smaller community FIs that can offer the same—or better—fraud management solutions will stand apart from their peers and attract more businesses and other high-volume clients. Additionally, selling positive pay to business clients creates a relatively low-investment revenue stream.

To help community FIs grow both their client base and their revenue, Q2 offers the following best practices and strategies for selling positive pay—as well as some specific benefits of their comprehensive positive pay, account reconciliation, and fraud detection solution, Centrix Exact/TMS™.

Places to learn about industry fraud:

- National Automated Clearing House Association (Nacha)
- Payments Associations (RPA)
- Federal Trade Commission (FTC) reports
- Consumer Fraud Reporting
- FBI.gov and USA.gov scam lists
- National Association for Financial Professionals (AFP®)
- Regional Associations for Financial Professionals

*See appendix for more information on these resources.

Part I: The Landscape

Understanding the fraud landscape, your customers, and the risks of neglecting positive pay

The current fraud landscape

Understanding the value of positive pay services begins with understanding the current fraud landscape. Each of us is a target for fraud—every individual, business, and financial institution. The Association of Financial Professionals (AFP) pointed out that payments fraud activity has been increasing steadily since 2013 and the percentage of organizations reporting incidents of payments fraud stands at over 70 percent in 2022. The AFP also has warned cyber criminals “are constantly innovating and devising plans to defraud organizations.”

Identifying your customer base

Identifying customers that could benefit from positive pay is simple; in our current landscape, all commercial clients are targets for fraud. That said, the following businesses could benefit significantly from—or be particularly receptive to—positive pay solutions:

- high-balance customers (\$100,000+ average balance)
- attorneys/closing agents/title companies
- attorneys using Interest on Lawyers Trust Accounts (IOLTA)
- property management companies
- businesses with numerous accounts (that typically have higher balances)
- municipalities
- school districts
- all large-volume check issuers (title or healthcare companies)
- previous victims of fraud and/or a fraud attempt

Cost justification

It's tempting to look too closely at the upfront cost of a solution and not closely enough at its benefits or value. Too often, the only question asked is, "Can we recoup the monthly fee?" Regardless of the direct monetary ROI, a more important question to ask is, "If we don't offer this service, what kinds of risk does an incident of fraud present?"

These risks include:

- **Financial risk.** Your FI may feel obligated to cover a \$10,000 fraudulent check because the victim is a high-value customer. A one-time reimbursement may not be a hardship, but at some point, the practice of covering customers' fraud losses becomes untenable.
- **Reputational risk.** In the example above, what if you tell the client that your FI will not cover this loss? Your reputation is at risk, especially if litigation ensues. But if you previously offered them positive pay, you made a good-faith attempt to equip them for this kind of situation.
- **Competitive risk.** Often, when businesses are vetting new FIs, positive pay is a required service. If your FI cannot meet this obligation, what is the cost of not being able to compete for business?

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Part II. Three Tips for Selling Positive Pay

Best practices and strategies for selling positive pay to your commercial customers

The need for and benefits of positive pay may be obvious to you, but some clients will still need convincing. The following four best practices for promoting and pricing positive pay can help you get hesitant businesses off the fence.

Sell internally first

“Selling” positive pay within your FI is the best first step to successfully selling the service externally. Get everyone from leadership on board, particularly risk and compliance officers, so that they’ll be able to educate staff effectively.

Expertise builds credibility and trust with your customers. Having a knowledgeable staff makes for more effective and thoughtful employees, who are able to act as ambassadors for your products and services.

Educate yourself about the current regulations and liabilities that exist for FIs and businesses regarding fraud losses. The rules have changed, and commercial customers must follow “reasonable commercial standards” and exercise “ordinary care” to notify their FI of a fraudulent payment on their account. Define your FI’s position on liability and make it clear to your business clients as you educate them on fraud risk and what you offer to mitigate the risk.

Over and over, Centrix has seen FIs both flourish and struggle with selling positive pay services, and it often comes down to how it’s being presented to the client. Positive pay should be presented as a value-adding service to protect the customer, and this starts with internal buy-in. Moreover, this

mindset generally starts at the top of the FI’s treasury management hierarchy and cascades downward. If executive management doesn’t understand or believe in the value, it will be unlikely that subordinates will buy in.

Educate your customers

Teach your business clients about the rapidly changing fraud landscape and the processes and tools available to protect their assets.

This includes familiarizing them with different types of scams, so they can take steps to address fraud organizationally—or seek further guidance/services from you. Don’t assume businesses understand fraud or how it’s committed; their primary concern is running their business, not ensuring secure financial and data practices.

Teach your clients about:

- stolen bank statements
- washed checks
- employee fraud
- ACH transaction fraud
- phishing/vishing/SMiShing scams

The unpleasant truth is that fraud is pervasive; even if a client has never experienced fraud themselves, odds are they know a business that has. Sharing your experiences and expertise can open a powerful dialogue.

Once they’ve been educated about the risks posed by fraud, your clients and prospects will understand the value that positive pay brings to them.

Price strategically

Knowing your market and competitors will help you know what, and how, to charge for positive pay. Shop your area to discover what competitors are charging. But remember, not all positive pay products are created equal; when pricing other FIs' offerings, be sure you're comparing apples to apples and oranges to oranges. A more comprehensive and feature-rich solution may exact a higher price but it offers greater value.

The way you structure your pricing model can also be a competitive advantage. Many larger FIs have complex pricing structures for positive pay services that make it difficult for businesses to understand exactly what they're getting and what it's worth. Offering a simpler, bundled pricing option can differentiate your institution and help you compete with larger FIs. And offering a low-volume pricing structure may help you reach a wider customer base, specifically smaller companies that typically can't afford to pay "standard" fees for positive pay services.

You may be tempted to offer positive pay for free in order to reduce your FI's exposure to risk. But remember, many clients believe "you get what you pay for" and may associate the quality of the product with its price. If your competitors are charging for positive pay and you're tacking it on for free, they may consider your service to be inferior.

Conversely, if customers balk at the cost, compare the protection that positive pay offers to business interruption insurance. Like the latter, positive pay protects their assets—but at a fraction of the price. Considering the current fraud landscape, the value of positive pay is evident—and it will likely pay for itself easily as fraud is avoided.

Centrix Exact/TMS gives you flexibility in your pricing.

IT LETS YOU:

- Create hard charges or analysis charges
- Assign per-item charges
- Charge maintenance fees

Exact/TMS can also help you automate the process of putting charges through commercial account analysis, so that earnings credits offset the fees.

Part III. Selling Security with Centrix Exact/TMS

Offer security, simplicity, and peace of mind with a comprehensive positive pay solution

Selling Security

Build client confidence by offering a variety of solutions to protect account holders' assets. Online security measures—firewalls, encryption, analytics, multifactor authentication—combined with fraud-detecting solutions like positive pay create a comprehensive security strategy that shows your commitment to protecting your clients.

Teach your customers what their security responsibilities are, while also establishing how you're meeting your own obligations through tools like positive pay. By helping them understand that it takes both of you working together to secure their business assets, you'll deepen your relationship with your customers.

Selling Centrix Exact/TMS

The success of your positive pay sales efforts depends on all the above. But having the right value-rich positive pay solution makes the task of convincing clients much easier—especially if your product is a comprehensive, productivity-focused product like Centrix Exact/TMS.

Some key selling points include:

- **Comprehensive functionality.** Centrix Exact/TMS facilitates both ACH and check positive pay. Exact/TMS also includes reverse positive pay, account reconciliation, and extensive reporting capabilities.

- **Easy file mapping.** Many FIs' check positive pay services have strict issued check file format requirements, making the process too complicated and problematic. Exact/TMS offers an internal mapping tool, making it simple for businesses to use file formats native to their accounting software.
- **Automation.** Centrix Exact/TMS offers numerous ways to automate many positive pay functions, helping businesses take advantage of cost savings and operational efficiencies.
- **Integrations and add-on modules.** Centrix Exact/TMS integrates with numerous other technologies, including:
 - Teller systems, to help your FI provide a frontline defense while processing checks.
 - Payee Match, a module that validates payee information on checks to detect fraudulent or washed checks.
 - Text messaging technology, to provide alerts to users.
 - Centrix Exact/ARS (ACH Reporting System), which provides premium ACH reporting for comprehensive treasury management.

Combining the ability to generate revenue, avoid expenses related to risk, and deepen customer engagement, this fraud management system is a comprehensive and powerful tool that benefits FIs and their commercial clients alike.

Appendix

Learn more about fraud in the financial industry:

www.Nacha.org

www.Nacha.org/members/regional-payments-associations

www.ftc.gov

consumerfraudreporting.org

www.fbi.gov/scams-and-safety/common-fraud-schemes

www.usa.gov/common-scams-frauds

www.afponline.org

www.afponline.org/about/learn-more/regional-associations



About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder—from consumer and small business to corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit Q2.com.

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