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Positive Pay Adoption: Trends, Challenges, and What Banks Are Doing About It

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Summary and Key Findings

This report examines the current state of positive pay adoption in the banking industry, focusing on its importance in combating rising check fraud rates, challenges with the technology, and financial institutions' strategies for increasing adoption. The research is based on survey data from FIs and businesses compiled by Datos Insights in Q4 2023 and the first half of 2024. The key findings from this report follow:

- **Check fraud continues to rise:** U.S. businesses experienced significant increases in fraud and fraud attacks during 2023. This resulted in large increases in check fraud-related losses for many banks in 2023 compared to 2022, with some experiencing up to 50% year-over-year increases. Combating check fraud remains a top challenge for most banks in 2024.
- **Check washing is the most prevalent form of check fraud:** Forty percent of banks ranked check washing as the most common type of check fraud their clients are experiencing. Other prevalent forms include theft, counterfeit checks, and check forgery.
- **Positive pay adoption rates are lower than desired:** Only 29% of U.S. FIs are satisfied with their current positive pay adoption rates. Low adoption keeps business and corporate customers more vulnerable than they need to be.
- **A greater focus on customer education will be critical to increasing positive pay adoption:** Only 25% of banks and credit unions feel that business and corporate customers understand the risk of payments fraud well. Providing greater education to clients about fraud and positive pay is a high priority for many FIs.
- **FIs are implementing various initiatives to boost positive pay adoption:** In addition to a greater focus on education, FIs are also planning to provide more training for salespeople, require positive pay for all fraud victims, and ask clients turning down positive pay to sign documents removing the bank from responsibility for fraud losses, to name a few.

Introduction

In an era of rapid technological advancement and digital transformation in the financial sector, the threat of payment fraud continues to loom large, particularly in the realm of business check payments. Despite the increasing prevalence of electronic payment methods, checks continue to maintain a prominent place in business transactions, regardless of business size. This persistent check usage, coupled with an alarming rise in check fraud, has led to a resurgence of interest in fraud prevention tools—especially positive pay—as a critical line of defense.

This report delves into the current landscape of positive pay adoption in the banking industry, examining the challenges faced by FIs in promoting its use, the perceptions and behaviors of business customers, and the strategies being employed to increase adoption rates. Drawing from comprehensive survey data collected by Datos Insights, this analysis aims to provide valuable insights for FIs and payment product leaders involved in shaping the future of payments and its security. By exploring the intricacies of positive pay adoption, we seek to inform FIs of a path forward for enhancing check fraud prevention in an increasingly complex financial ecosystem.

Methodology

The data and insights presented in this report are primarily derived from surveys conducted by Datos Insights in 2024 and Q4 2023. These surveys encompassed a wide range of FIs, including banks and credit unions of various sizes, as well as business end users. The research methodology included quantitative surveys and qualitative interviews with banking executives and business leaders.

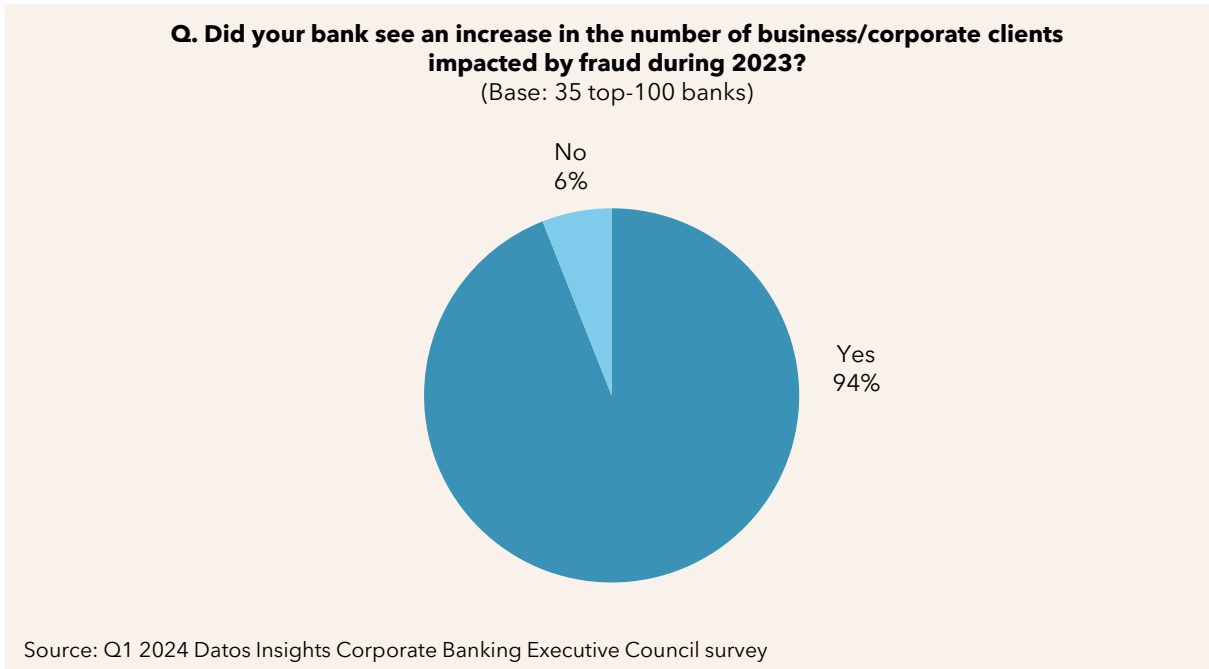
Specific Datos Insights surveys referenced include the Q1 and Q2 2024 Corporate Banking Executive Council surveys, a Q4 2023 survey of 77 U.S. FIs with asset size between US\$1 billion and US\$50 billion, and a Q4 2023 survey of 302 U.S. businesses with revenue between US\$100,000 and US\$50 million. The survey of 77 FIs has a margin of error of 9 points at a 90% level of confidence. The survey of 302 U.S. businesses has a margin of error of 6 points at a 95 % level of confidence.

The data presented offers a comprehensive view of the current state of positive pay adoption and bank initiatives around the product in the U.S.

The Market

Fraud is on the rise: 94% of bank executives state they saw an increase in the number of business/corporate clients impacted by fraud during 2023 (Figure 1).

Figure 1: Rising Impact of Fraud

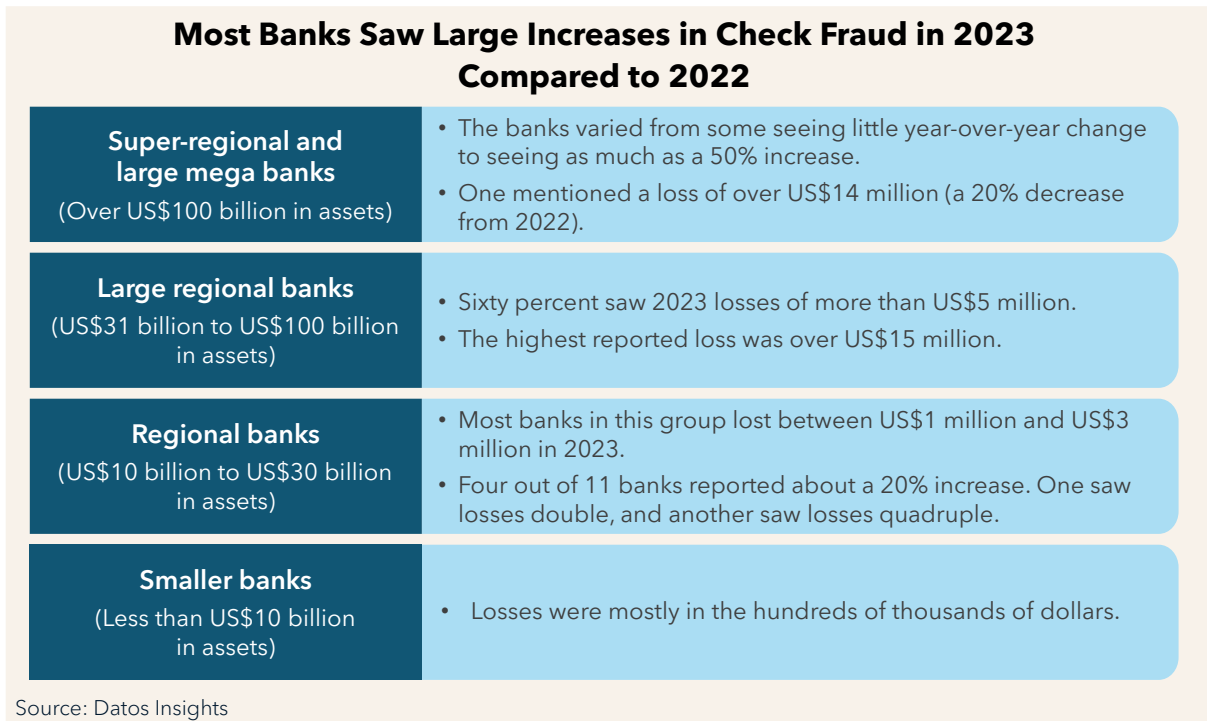


In fact, the 2024 Association for Financial Professionals (AFP) Payments Fraud and Control Survey found that 80% of organizations were victims of payments fraud attacks/attempts in 2023, representing a 15% increase over the prior year.¹ Check fraud has been the most vulnerable to fraudulent activities among the various payment types.

Not surprisingly, the amount of fraud losses varies and is often aligned with the size of the bank. Whereas the largest banks have lost several millions of dollars to business customer check losses, smaller banks with less than US\$10 billion in assets generally lost a few hundred thousand dollars (Figure 2).

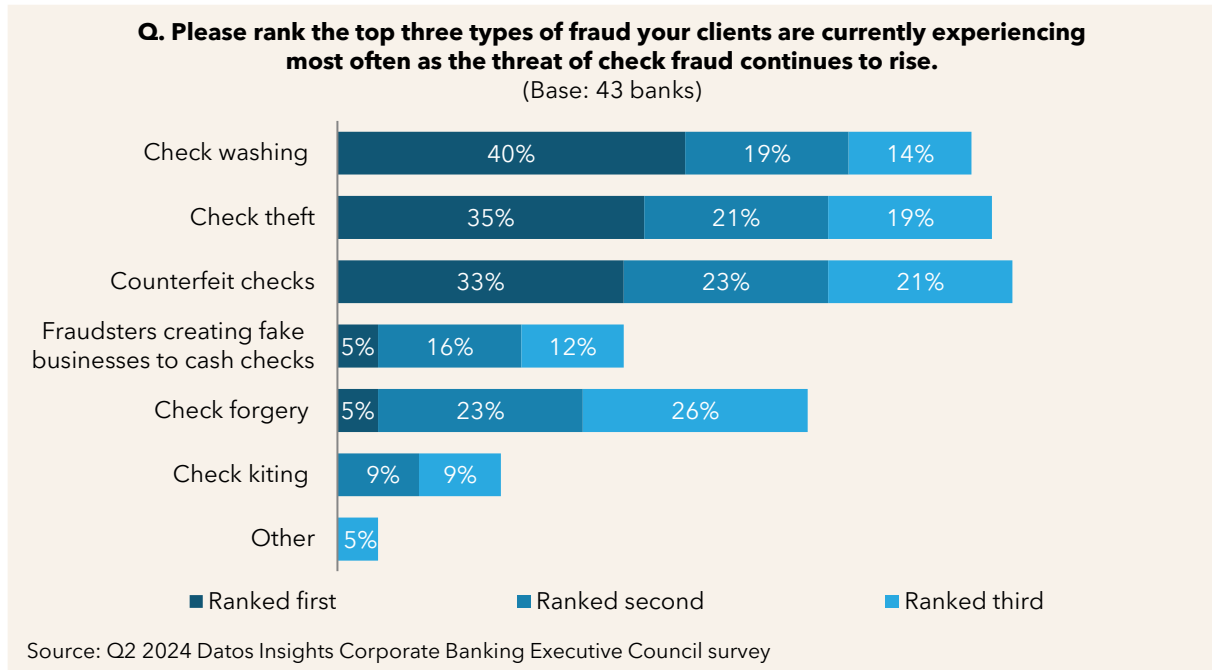
¹ "2024 AFP Payments Fraud and Control Survey Report," AFP, accessed August 5, 2024, <https://www.afponline.org/training-resources/resources/survey-research-economic-data/Details/payments-fraud>.

Figure 2: Average Fraud Losses by Bank Size



Unfortunately, fraud tactics continue to grow in sophistication. Check washing—whereby an attacker uses a solvent to remove the ink on the check where the payee’s name and dollar amount appear—is the most common type of check fraud banks are seeing. Other common types include check theft and the creation of counterfeit checks (Figure 3). One banker interviewed described finding an online site where they could buy checks belonging to one of their clients!

Figure 3: Common Types of Check Fraud

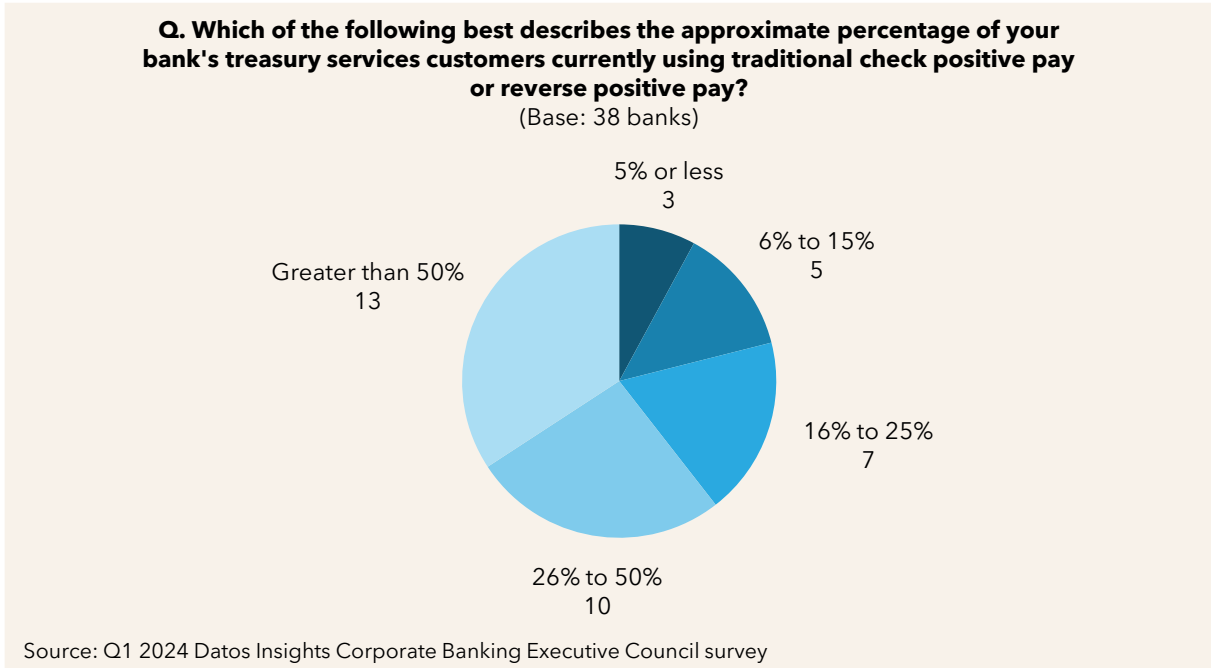


Renewed Interest in Positive Pay

Positive pay is not a new bank product but one that is enjoying renewed interest driven by rising check fraud occurrences. Of banks surveyed, 92% state it is more important than ever for business customers to protect themselves from payment fraud with positive pay.

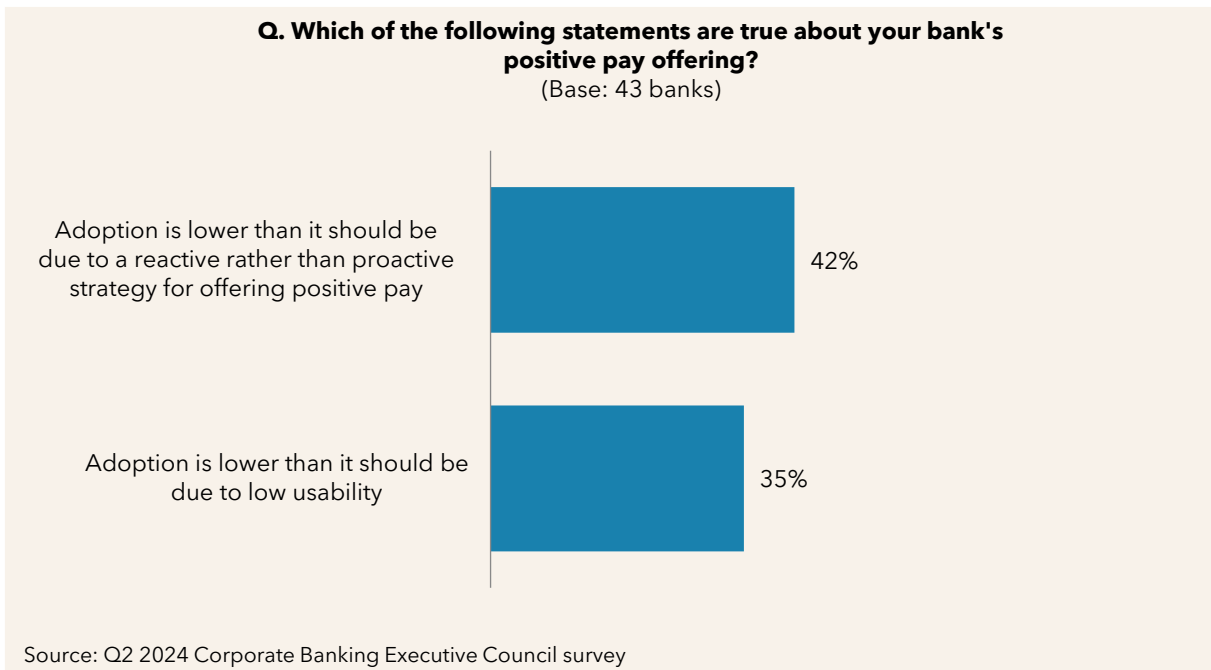
Despite its importance, product adoption, especially by those in higher-risk categories, has not been pushed heavily by FIs until recently. Thus, it is not surprising that only 29% of U.S. FIs are satisfied or very satisfied with their adoption rates. Most banks (about 65%) have less than half of their treasury services customers using positive pay, while 39% have less than 25% (Figure 4).

Figure 4: Bank Positive Pay Adoption by Treasury Services Customers



Low adoption of positive pay services stems from several factors. Primarily, 42% of banks attribute this to reactive rather than proactive strategies (Figure 5).

Figure 5: Key Reasons for Positive Pay Low Adoption



Sales teams often lack strong incentives to promote the service, typically offering it only when clients specifically request it. Alarming, many banks only mandate positive pay after a client has fallen victim to fraud. Less than 20% require it even for high-risk clients with substantial balances or payment volume. However, this trend is set to change, with 41% of banks planning to make positive pay adoption mandatory for business customers with high-risk profiles.

Another significant barrier is the usability of positive pay solutions, cited by 35% of banks as a key issue. Current systems require modernization, including more user-friendly dashboards, easier onboarding, and mobile decision-making capabilities. Crucially, they need enhanced API capabilities to facilitate easier file exchange between client end users and bank systems.

Some institutions have even suggested rebranding/renaming the service, as the term “positive pay” fails to clearly convey its function and benefits.

Small Businesses and Positive Pay

Positive pay adoption among small businesses also remains limited, with only about one-third of businesses in this customer segment implementing the fraud prevention measure. This group is the least likely to be offered positive pay, in part because many continue to be serviced by consumer platforms that lack that functionality or because they are perceived to be unwilling to pay for it.

Of small businesses aware of positive pay but not yet using it, 23% state they don't because their FIs haven't offered it to them.

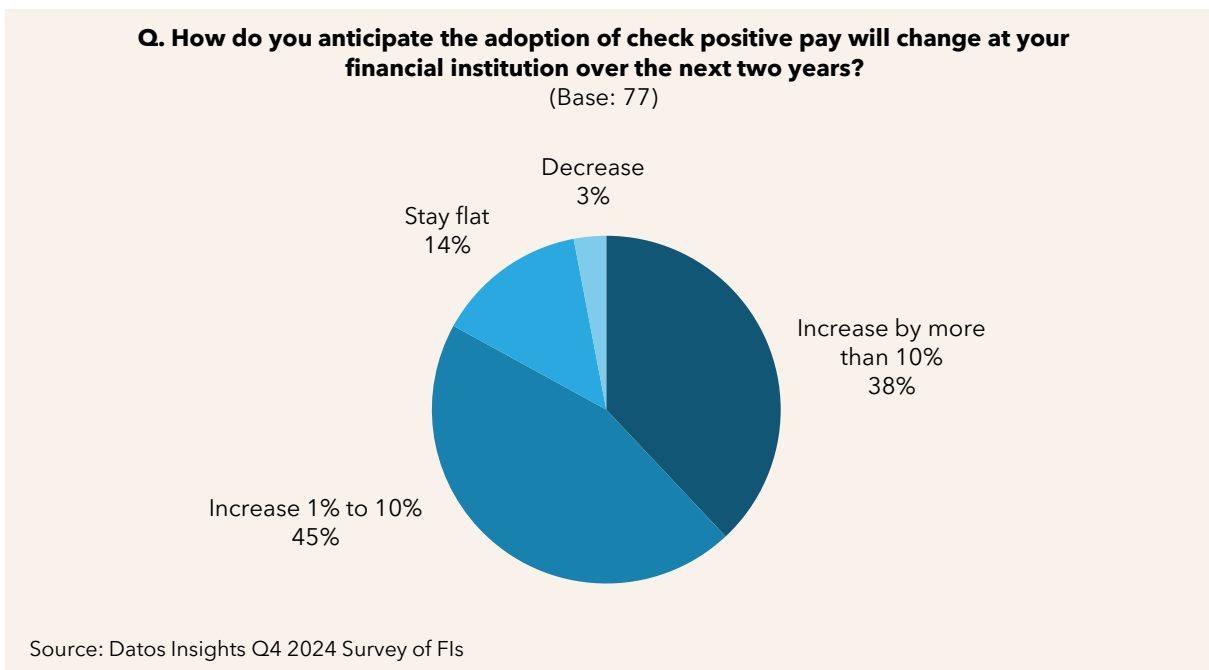
FIs are missing an opportunity by not offering these customers this product. While their check volume and dollar amounts are not as large as those of larger businesses, a large fraud incident could potentially wipe out their business. Small businesses need positive pay just as much as their larger business counterparts.

Forecasted Adoption

Fortunately, usage is growing, and adoption is on the rise. Though still in the early stages, recent FI initiatives targeting this product are driving this growth. One regional bank interviewed stated it enjoyed a 41% increase in positive pay revenue during the first half of 2024 because of a greater focus on client education and sales team training.

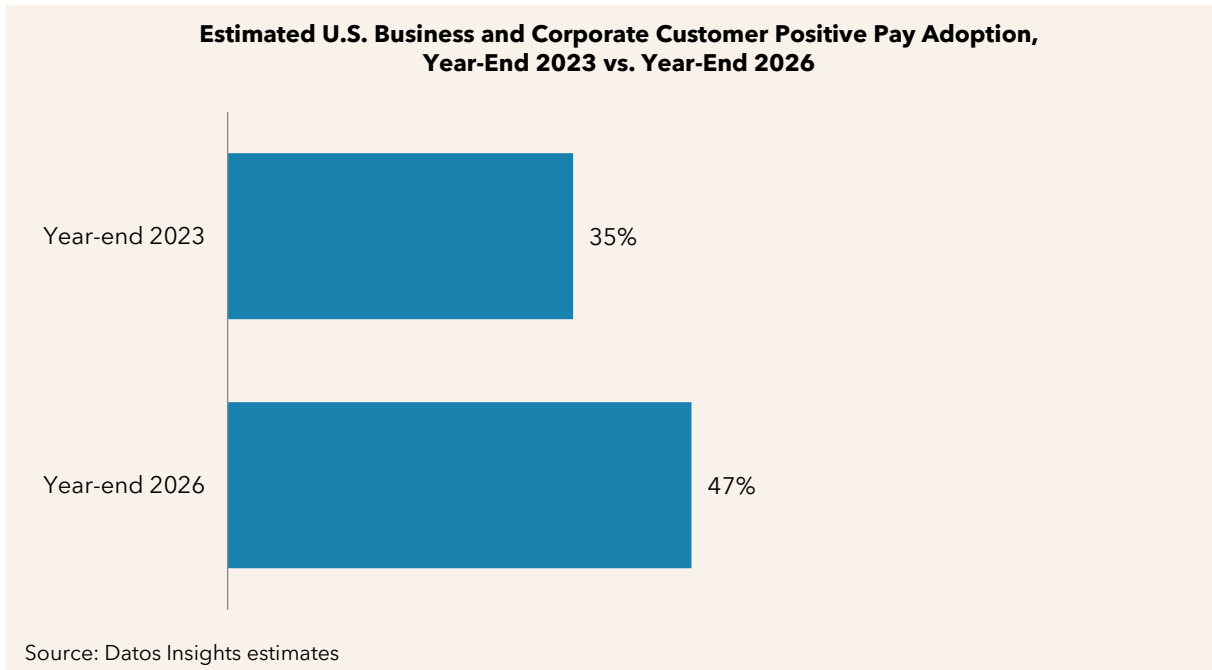
Over three-quarters of institutions expect adoption to continue to rise over the next two years (Figure 6).

Figure 6: FI Expectations for Increased Positive Pay Adoption



Datos Insights agrees with their expectations and forecasts check positive pay adoption among U.S. business and corporate customers to be heading toward 50% by year-end 2026 (Figure 7).

Figure 7: Forecasted Positive Pay Adoption Across the Industry



This significant growth will result from more proactive sales strategies, new requirements to use it, greater product awareness through education, and better product bundling.

FI Call to Action

FIs recognize the importance of growing customer adoption of positive pay to combat and protect clients against check fraud. As previously mentioned, several new initiatives have been put into place over the last few months, and several more are on their roadmaps. Not surprisingly, FIs’ priorities are similar regardless of FI size (Figure 8 and Figure 9). This section further explores what FIs should do to meet their product adoption goals.

Figure 8: Large and Midsize (Top 100) Bank Initiatives to Grow Positive Pay Adoption

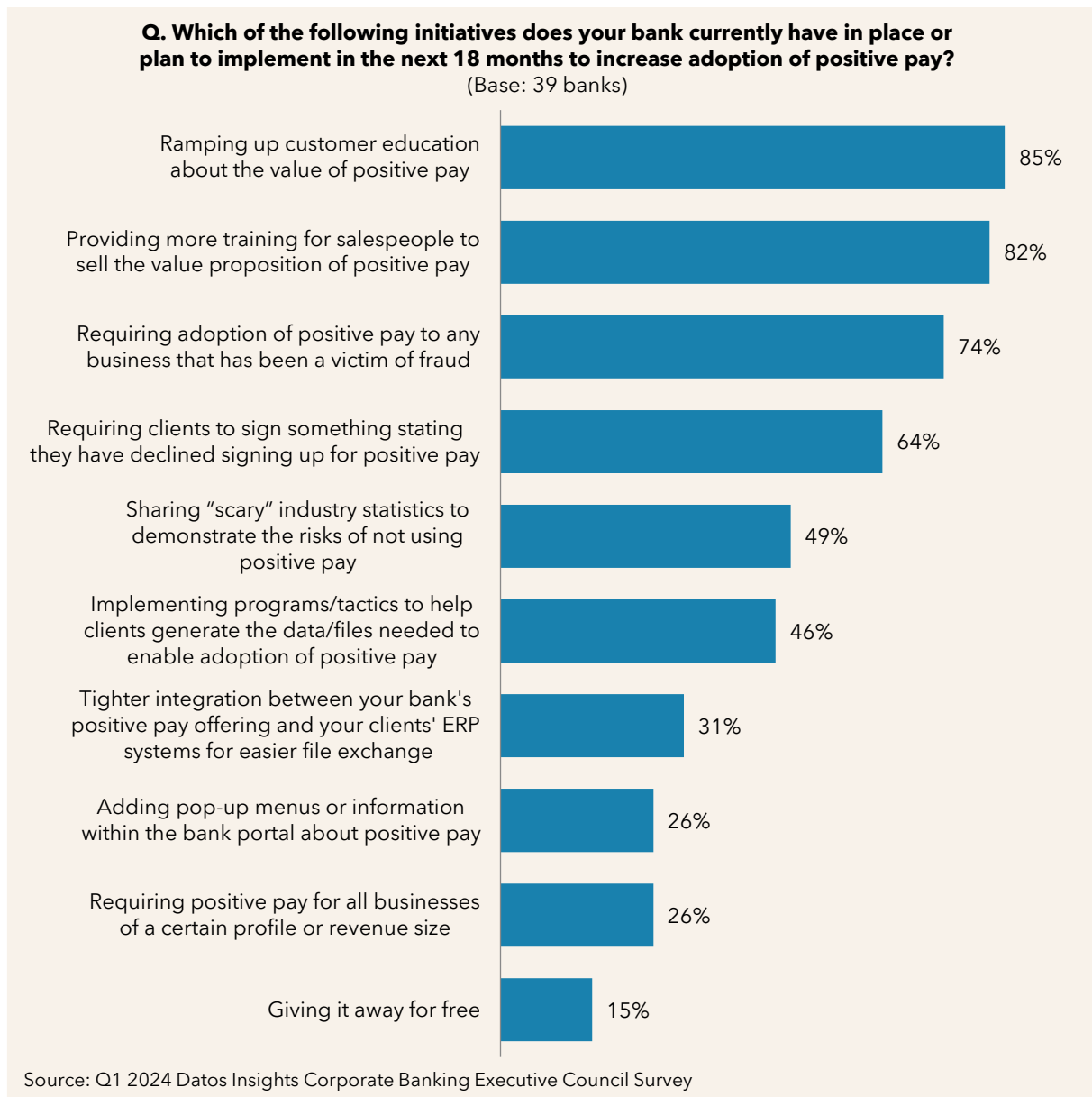
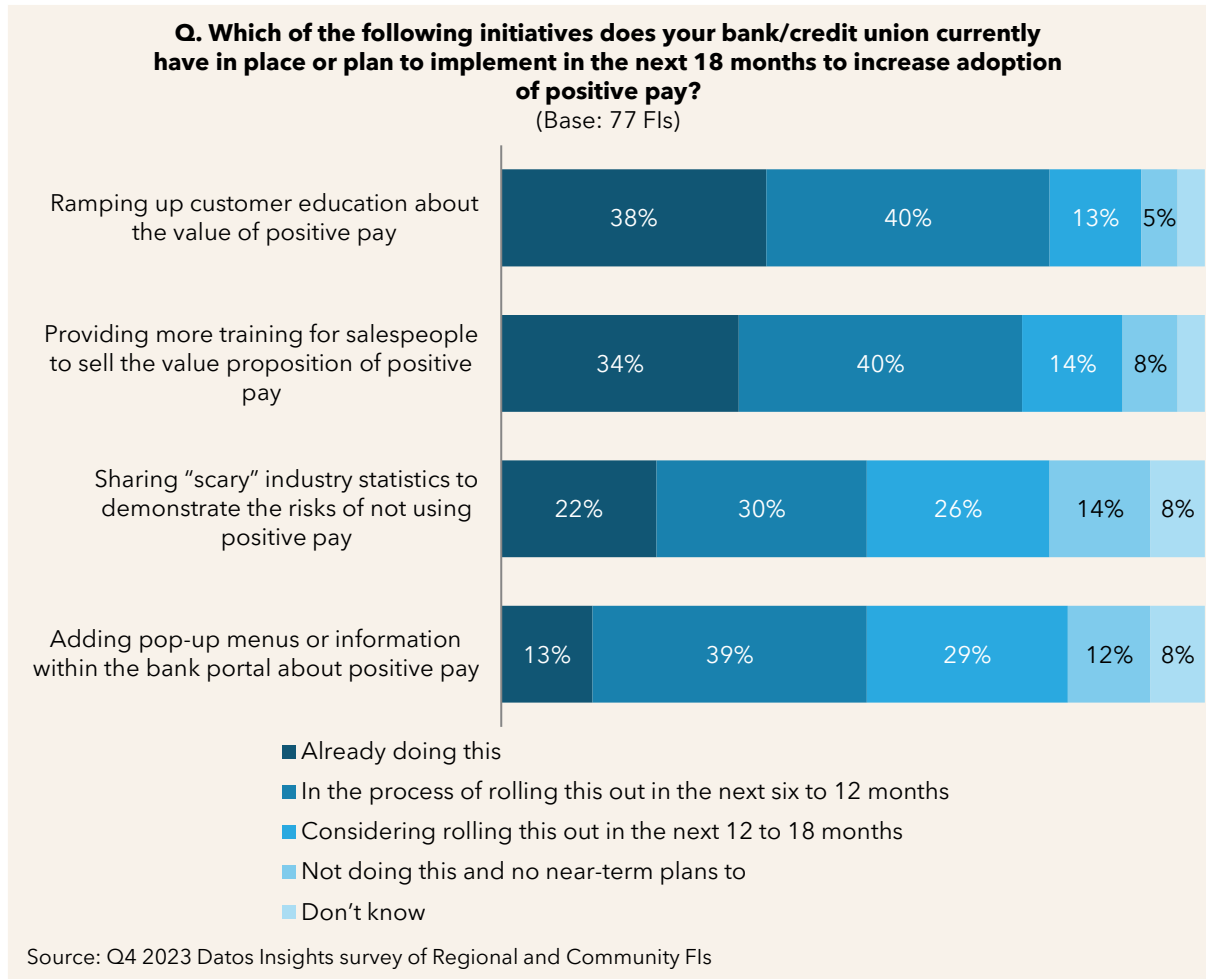


Figure 9: Regional and Community FI Priorities



Focus on Customer Education

Education is critical and a hurdle the industry must overcome to grow positive pay adoption. 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.

While education is needed across the board, the lower end of the market has the highest level of need. Almost 40% (38%) of businesses generating less than US\$50 million in annual revenue don't know what positive pay is. Further, of those familiar with it but not yet using it, 12% admit they don't fully understand what it is. Among that same group of those familiar with it but not yet using it, 17% consider this critical fraud prevention product to be a nice-to-have rather than a must-have. These businesses represent a huge opportunity for FIs with an effective client education initiative to grow positive pay adoption.

Provide Additional Training to Sales Teams

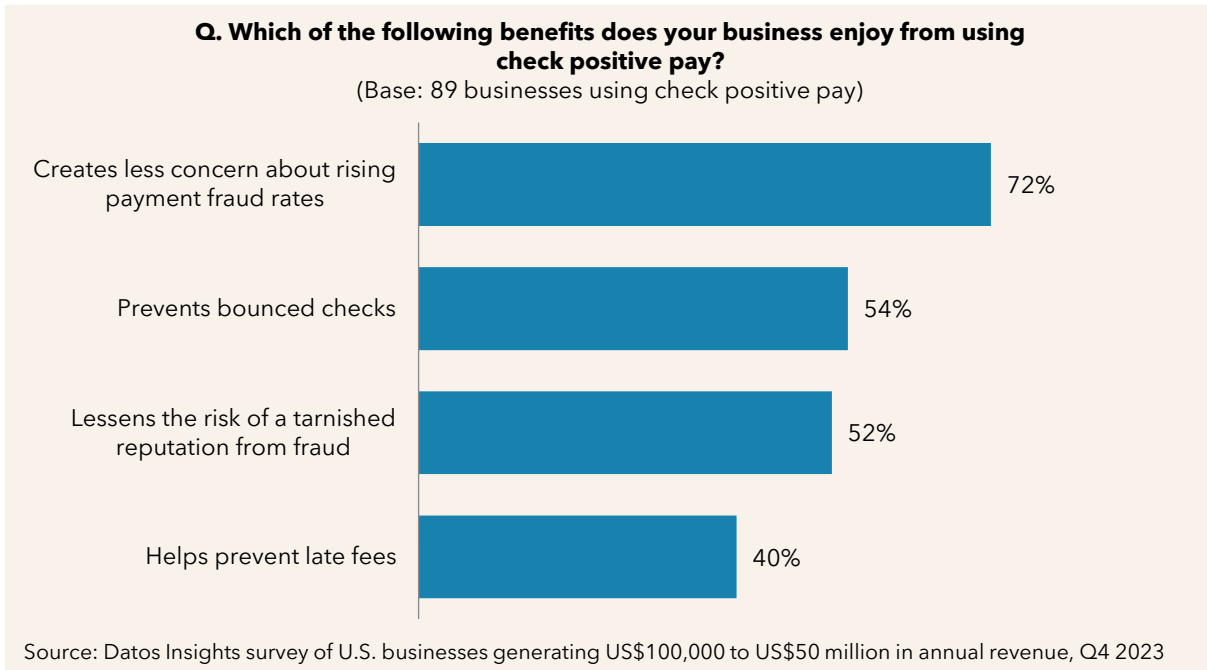
Education efforts must also be internally focused to train bank/credit union sales teams better. Cash management sales, in general, are becoming more challenging as products become more complex. Sales teams need to sell positive pay more proactively while also more clearly communicating the product value proposition. In doing so, they must take a more consultative approach to connecting customer challenges with products.

Sell It More Proactively

Among those institutions that sell it proactively, more than 80% look at the volume of check payments, whether a client is a recent fraud victim, and industry (i.e., industry groups such as property management and healthcare with high payment volume) to prioritize client targets. Fortunately, FIs realize greater focus needs to be placed on selling positive pay to clients and that a reactive approach is not working. As such, it is becoming more common to offer positive pay to all new clients during the onboarding process, with some banks beginning to require it for all new business checking clients. However, offering this product should not be part of a one-time campaign and should instead be part of everyday conversations. Some banks have embedded positive pay usage into their relationship review process with relationship managers and sales officers.

Communicate a Broader Value Proposition

As FIs train their sales teams, they should also look to broaden the value proposition communicated. While fraud prevention and minimizing fraud concerns are its primary purpose, the value positive pay delivers goes beyond that. For example, the daily exchange of check files forces businesses to more regularly and closely manage their finances rather than wait for end-of-month reconciliations. Many businesses state doing so also helps prevent bounced checks and late fees. Other cited benefits from both business end users and FIs include 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

Place More Requirements Around Positive Pay Adoption

First and foremost, clients that have already been victims of fraud should be required to adopt the product. Fortunately, many FIs already do this. Additionally, as mentioned previously, FIs must better leverage analytics to determine the clients at greatest risk of fraud and, thus, to whom they should offer positive pay services more proactively. Less than 15% of FIs currently have this practice in place, but many more plan to.

Next, once those clients are identified and offered the service, any client turning it down should be required to sign something stating they have done so. As shown in Figure 8, by mid-2025, about 65% of banks plan to have this practice in place at their institution. Among those that have already put this strategy into play, the results have been positive. Rather than clients getting upset and leaving the bank, this action has instead led to higher adoption of the service. It is important to note that bank methods for achieving this vary. While some have a dedicated document for signature, others have made it part of their master services agreements.

Make Positive Pay Easier to Use

Banks need to take a step back to examine their current positive pay offerings to review ease of use and ensure they offer the type of functionality and experience clients need and expect.

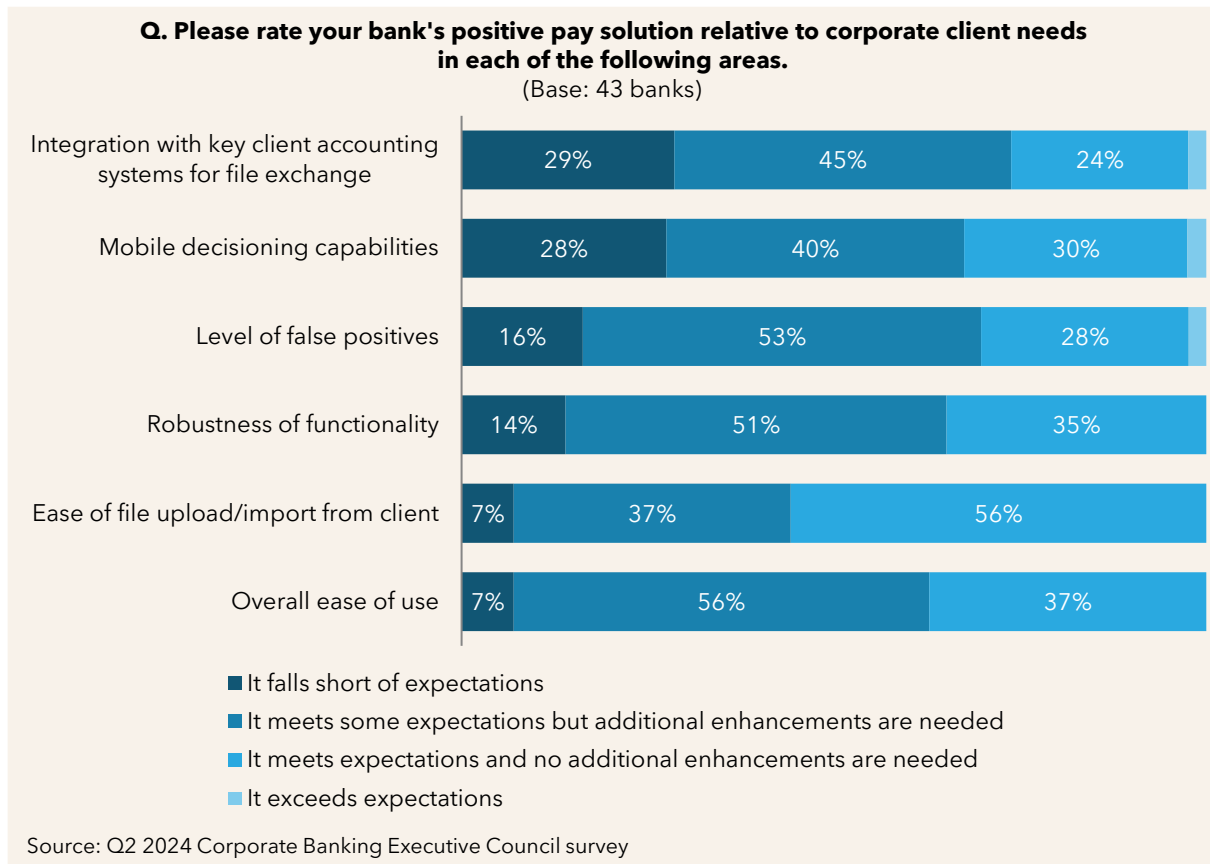
Two of the most common areas wherein bank offerings fall short are integration with accounting/enterprise resource planning systems and ease of file submission. Traditional check positive pay requires the business user to provide a daily file or document with details of every check it has issued that day to the bank or credit union. The bank/credit union compares the file with the checks presented for payment and looks for discrepancies. Delivery/submission of the issue file and its data is a time-consuming and manual process for the client when integration or strong API capabilities are lacking. It creates unnecessary friction. For smaller businesses, the process may even be impossible or too labor-intensive to justify usage, causing some to be unable or unwilling to use the service.

Fifty-one percent of businesses using positive pay find the process of creating and sending an issue file to be challenging; an additional 7% find it very challenging.

Other businesses struggle with file formats. A few banks have created internal teams to advise clients on how to get their data into the files to make it easier for them to adopt fraud prevention services.

Banks recognize the shortcomings of their offerings, with most either admitting their offerings fall short of client expectations or require enhancements (Figure 11). Many are hoping to close the gaps between where they are and where they need to be by working more closely with their positive pay providers, building capabilities internally, and implementing new processes.

Figure 11: Bank Ratings of Their Positive Pay Offerings



Integration and file exchange are not the only areas in which banks are falling short. These are some of the other improvements FIs would like to see to their positive pay offerings to better align with customer needs:

- The ability to make pay or no-pay decisions from a mobile device:** While many FIs offer clients this convenience, not all of them do.
- Lower frequency of false positives:** Once an issue file is submitted and the FI identifies discrepancies, the information is sent back to the client to determine whether a payment should be made. While this step is critical to stopping fraudulent payments from being made, the review process can be time-consuming if many nonfraudulent items are presented. A high level of false positives leads to poor customer experiences. Some banks are dealing with this by “scrubbing” all the data before presenting it to clients, but this may not be scalable for a large client base. This area would benefit from greater use of artificial intelligence or perhaps more robust rules/confidence scoring capabilities enabling the client to approve all payments below a designated

dollar amount automatically so that more attention can be placed on the higher-dollar ones.

- **Stronger imaging capabilities:** This will better position the FI to catch fraudulent or washed checks while also reducing the number of false positives.
- **Better check printing:** Poor quality checks can also lead to false positives. Some banks have put together very specific guidelines for clients on how they need to format their checks. In some cases, they are even reaching out to check vendors and having them create checks that the FI can then turn around and sell to clients to ensure they meet all the requirements to process through the FI's system.

Another more user-friendly alternative to traditional check positive pay that many banks and credit unions are not taking advantage of is reverse positive pay. Less than one-third of FIs offer it. This version of positive pay puts more of the burden on the FI to provide the list of checks for the business to sign off on (thus eliminating the need for the customer to create an issue file). It is an option for those businesses unable to create issue files. In fact, several banks, especially smaller ones servicing primarily small businesses, are now rethinking their positive pay strategy and placing more emphasis on reverse positive pay for those customers, with some even considering offering reverse positive pay for free.

Current end-user adoption of reverse positive pay is only about 17%, but 59% of businesses surveyed by Datos Insights that are not yet using reverse positive pay expressed interest in learning more about it. One point worth noting, however, is a word of caution from banks that reverse positive pay may give clients a false sense of security as some may not realize they must review the checks and let the bank know what they want to return.

Build-in More Analytics

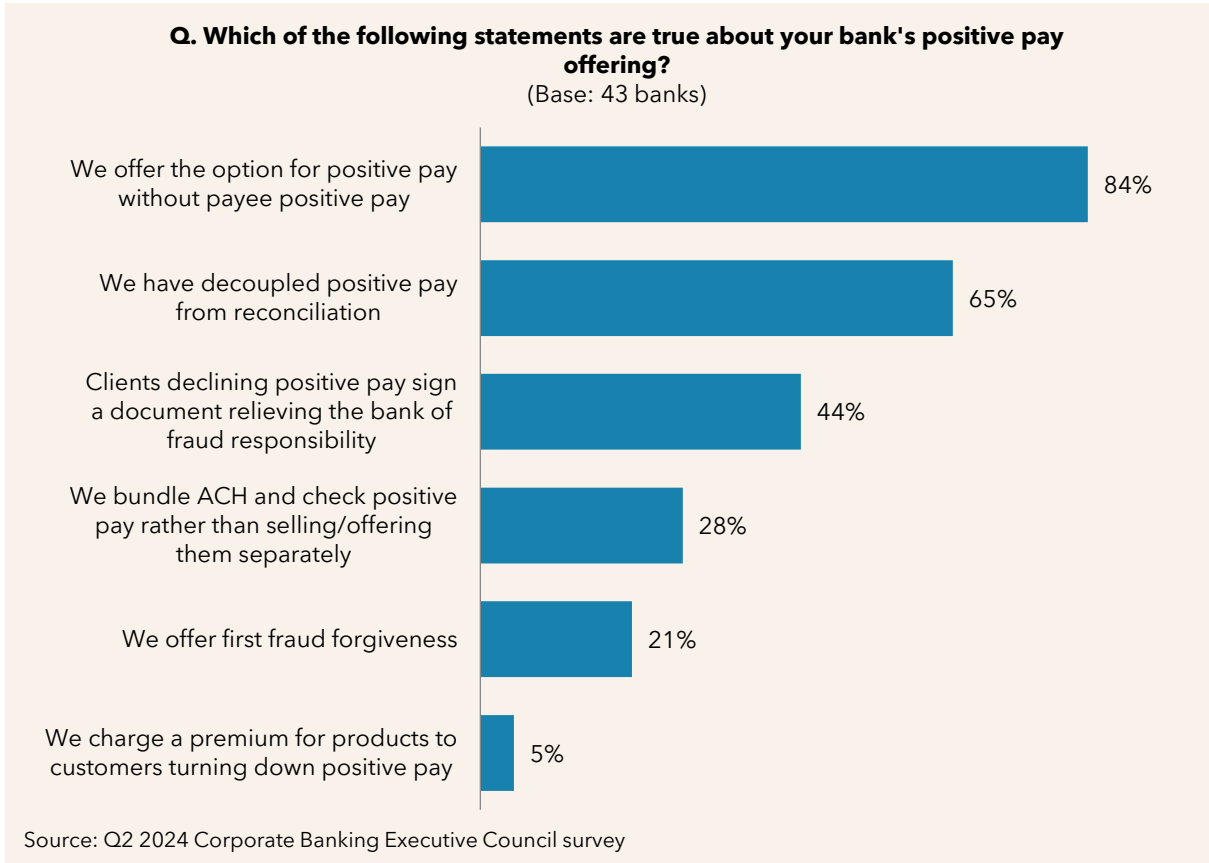
Positive pay technology offers several opportunities for the greater incorporation of analytics and artificial intelligence. While many of these capabilities are not yet commonly a part of these solutions, bankers have several ideas where they could be embedded. One idea is the incorporation of learning capabilities to potentially reduce the number of false positives. Another is customer-facing analytics to demonstrate product value, for example, providing an end user with a statistic of the dollar amount of fraud they prevented the last month because of positive pay. Another idea is letting them know how low their exception rate actually is (even though it may feel as though they are logging a ton of decisions each day). These types of statistics keep value top of mind for clients.

Consider New Product Bundles for Positive Pay

As FIs look to offer positive pay more proactively and grow overall adoption of the product, they should consider bundling it with other similar/adjacent products, such as payee positive pay and ACH positive pay. Less than 15% of large and midsize banks automatically bundle positive pay with payee positive pay. Payee positive pay adds a payee's name to the check. It lessens vulnerability to fraud and is a capability highly desired by business end users. Of businesses surveyed that are already using check positive pay, 57% stated they would be likely to use or consider using payee positive pay if their bank or credit union offered it to them. Recent conversations infer that it is becoming common bank sentiment that the two should be offered together and that positive pay on its own is not strong enough.

Another bank bundling strategy that has been adopted by about 28% of large and midsize banks is to offer check positive pay with ACH positive pay. Bankers are finding that once a client sees the value of one (or check or ACH positive pay), they are also likely to be willing to adopt the other. Further, many technology providers offer both products, enabling an integrated and similar user experience that most clients desire (Figure 12).

Figure 12: Bank Positive Pay Offerings



Finally, while this strategy is more quickly being adopted by regional and smaller banks as opposed to the largest, a growing number of banks are considering or have already begun making positive pay a required part of all new business/commercial checking relationships.

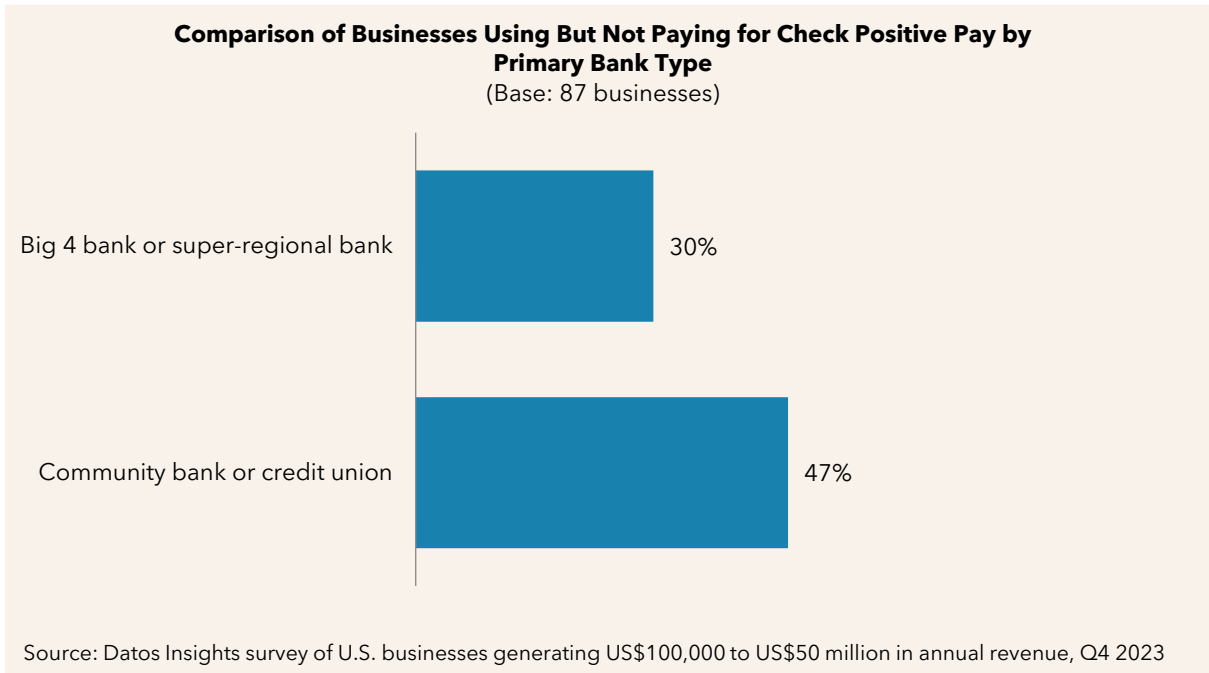
Pricing Positive Pay

FIs are often looking to grow revenue or to find new sources for it. The value proposition for positive pay is one that FIs can and should be charging for. Growing positive pay adoption in and of itself will lead to additional revenue for FIs, deepen client relationships, and better position an FI to cross-sell other products.

Additionally, those already offering it also have the potential to grow additional revenue from those users, as many are leaving money on the table. More than 30% of institutions do not charge for positive pay. Community institutions, in particular, show a high tendency to do this, especially when offering the product to clients at the lower end of the market. As such, 47% of check positive pay users generating US\$100,000 to US\$50 million in

annual revenue, naming a community bank or credit union as their primary FIs, do not pay for the service (Figure 13).

Figure 13: Community FIs Are Less Likely to Charge for Check Positive Pay



These institutions must recognize that business will not be lost if they begin to charge for it. In fact, among businesses of that size currently using positive pay but not paying for it, 61% would be willing to! Pricing is far more common for the upper-middle market and large corporate customers.

When pricing positive pay, many FIs have different pricing models based on the client type. While a fixed monthly fee is the most common, many institutions also price based on the volume of check payments issued.

Conclusion

- Opportunities exist for FIs with the right strategy and product offerings to grow positive pay adoption. Positive pay likely won't help an FI attract new clients, but it will help it deepen existing relationships and increase fee-based revenue.
- Reactive rather than proactive sales strategies are largely to blame for low positive pay adoption, coupled with most businesses not fully understanding the serious threat check fraud presents to their business.
- FIs must focus on educating the market about payment fraud and the broad value proposition positive pay offers even beyond fraud prevention. A clear value proposition will help institutions sell the product.
- Technology providers must assist FIs by investing in and enhancing their products to make using positive pay easier, such as through tighter integration with accounting systems and easier file upload. FIs should also 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, training, and how the product is offered can have an immediate impact and better protect FIs and their clients from the rising threat of check fraud.

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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