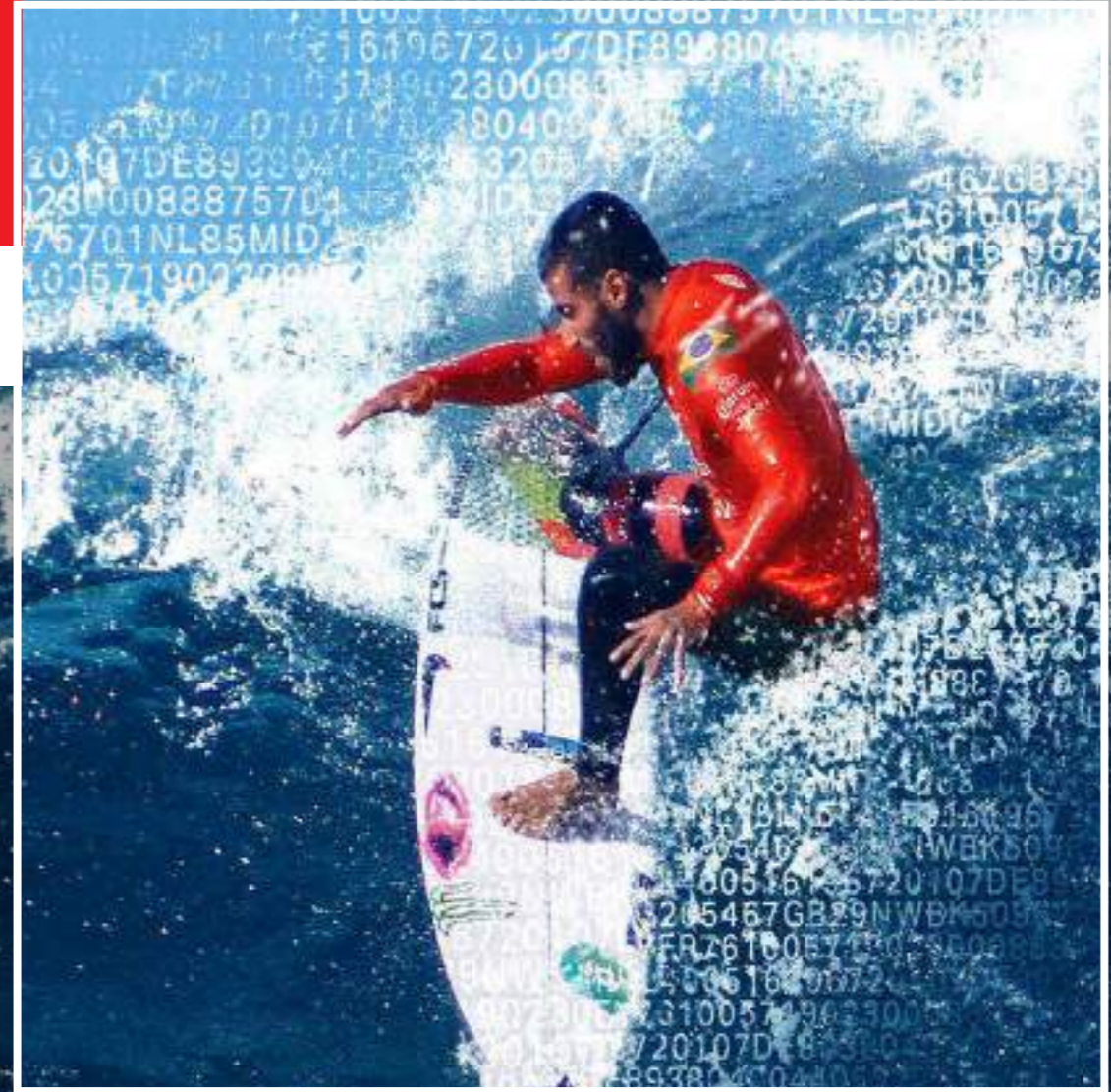


True cost of failed payments

2021 global research study



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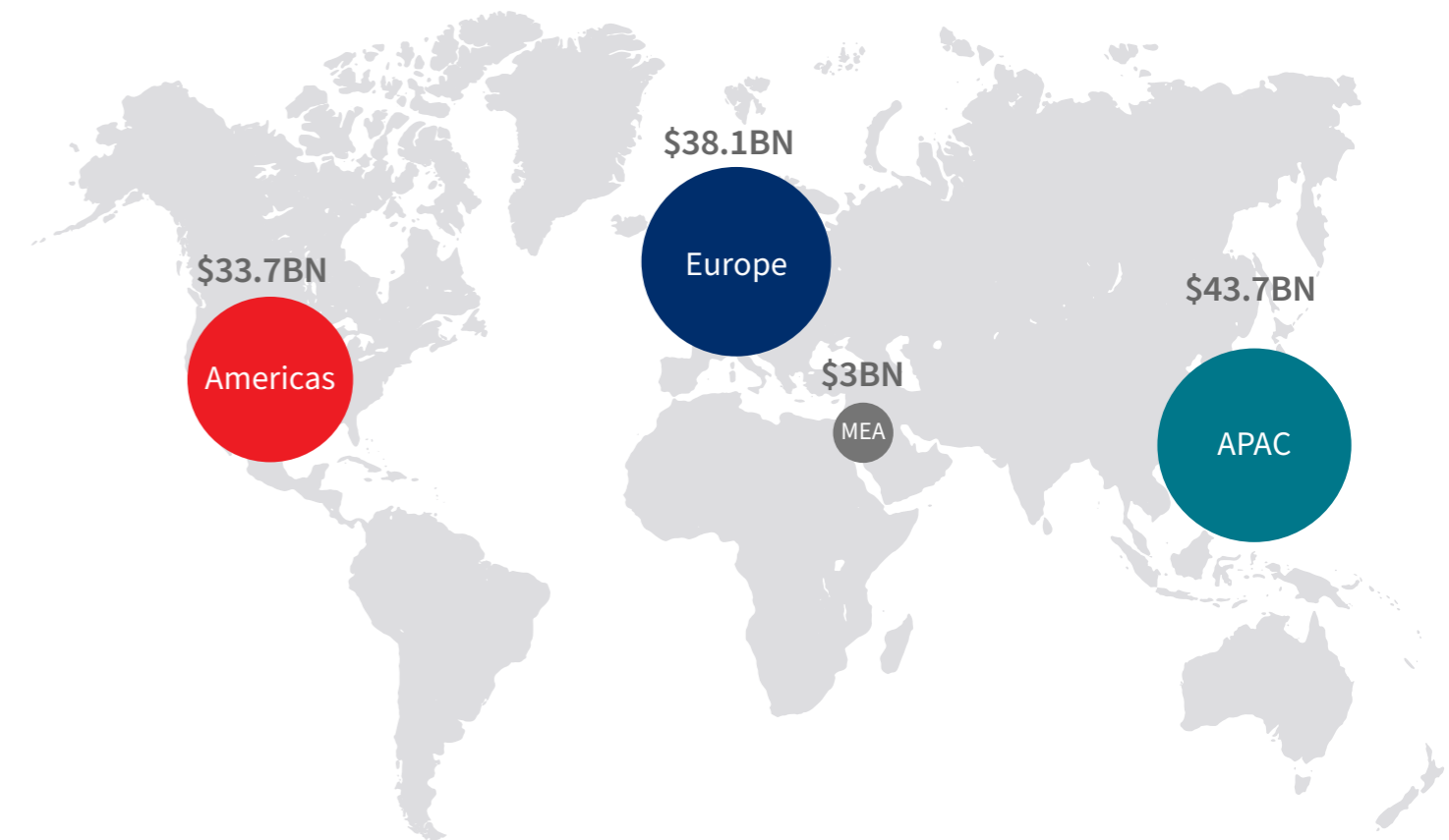
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Executive summary

U.S. \$118.5 billion. That is how much failed payments are estimated to cost the global economy each year. The daunting figure was compiled from a recent study by LexisNexis® Risk Solutions, based on survey responses from 240 organisations across the banking, financial, fintech and corporate landscape.

Participants represented organisations of all sizes and geographies in both advanced and emerging economies, with the greatest number of responses from Europe (41%) and North America (31%) followed by Asia-Pacific (APAC) (16%), Middle East and Africa (MEA) (8%), and Latin America (LATAM) (4%).



Failed payments are estimated to cost the global economy \$118.5 billion each year.



To evaluate the scale of payment failures in bank transactions and determine the real cost of this challenge to the industry, the survey considered four elements:

- The average cost an organisation incurs from failed payments, which are payments that are rejected by a correspondent bank or intermediary bank and require repair and resubmission
- The average cost of labour per organisation for repairing a failed payment
- The cost of lost customers due to failed payments
- The estimated universe of banks and other
- Organisations processing payments

Looking at the data from a high level, three key themes emerged as a result of the findings:

1) Customer experience matters

Organisations reported that failed payments have a significant impact on customer retention, with 60% of respondents indicating a loss of customers as a result of failed

payments. In organisations with over 20,000 failed payments per day, up to 80% of organisations report losing customers as a result. This reflects the fierce competition in payment services and how little room there is for error. Customer satisfaction cannot be taken for granted; it is crucial to maintaining the business relationship. Payment accuracy is a strong component of customer retention as it impacts speed, cost, failure rate, and overall customer satisfaction.

2) There is a tipping point

The general acceptance that failed payments are just ‘the cost of doing business,’ is true only to an extent. Although nearly all respondents with payment failure rates of more than 1% said they were unhappy with the failure rate, fewer than half are actively trying to mitigate the issue. However, the survey found that a failed payment rate of 5% or higher appears to be the tipping point that compels eight out of ten organisations to take action.

3) Validation process makes a difference

While account numbers (IBAN and non-IBAN) result in one-third of payment

failures, this can vary considerably depending on how payments data is accessed (e.g., lookup tool, APIs, etc.). In spite of available technology, many payment elements are still validated manually. The more manual the process, the greater the chance of error. Yet, manual processes are a fact of life for organisations of all sizes.

The True Cost of Failed Payments report highlights the results of the LexisNexis® industry survey, which was conducted in early 2021. The report provides an overview of the payments landscape, explores the key themes that emerged from the survey, and provides insight on the various elements that have an impact on failed payments.

It is our hope that payments professionals will use the data and findings in the report to benchmark operations against the market and to implement necessary changes in their payments processing.



Introduction

A failed payment is a payment that is rejected by a beneficiary bank or an intermediary bank in the payment flow. Payments can fail for several reasons, including inaccurate or incomplete information, data entry issues due to human error, or poor reference data and validation tools. Regardless of the reason, failed payments cost the economy an estimated \$118.5 billion per year in fees, labour and lost business, making it a global issue for organisations and their customers.

At the same time, since it can take up to ten days for a bank to decline to settle a payment, a large amount of liquidity is trapped on a daily basis in the banking system as a result of failed payments.

Although the scale and scope of failed payments on a worldwide basis is huge, it is not consistent across geographies. Looking into granular details exposes significant differences into the elements that make up the total cost.

While bank fees account for a sizeable cost of failed payments throughout the world, in Europe, however, only 58% of

the \$38 billion cost of failed payments is attributed to fees. Compare that with MEA where fees represent a hefty 75% of the total \$3 billion cost. The difference between these two regions has less to do with the fees themselves, which are fairly consistent across the world.

It is more a function of higher headcount and salaries in Europe, which take a bigger bite out of the total cost, tamping down the overall impact of fees. At 34%, total spend for labour in Europe is more than double what it is in MEA where labour represents 17% of total costs. In Europe, organisations tend to have larger, higher paid teams whereas with a few exceptions(e.g., United Arab Emirates), salaries in most MEA countries tend to be lower, contributing to the lower relative total cost of labour.

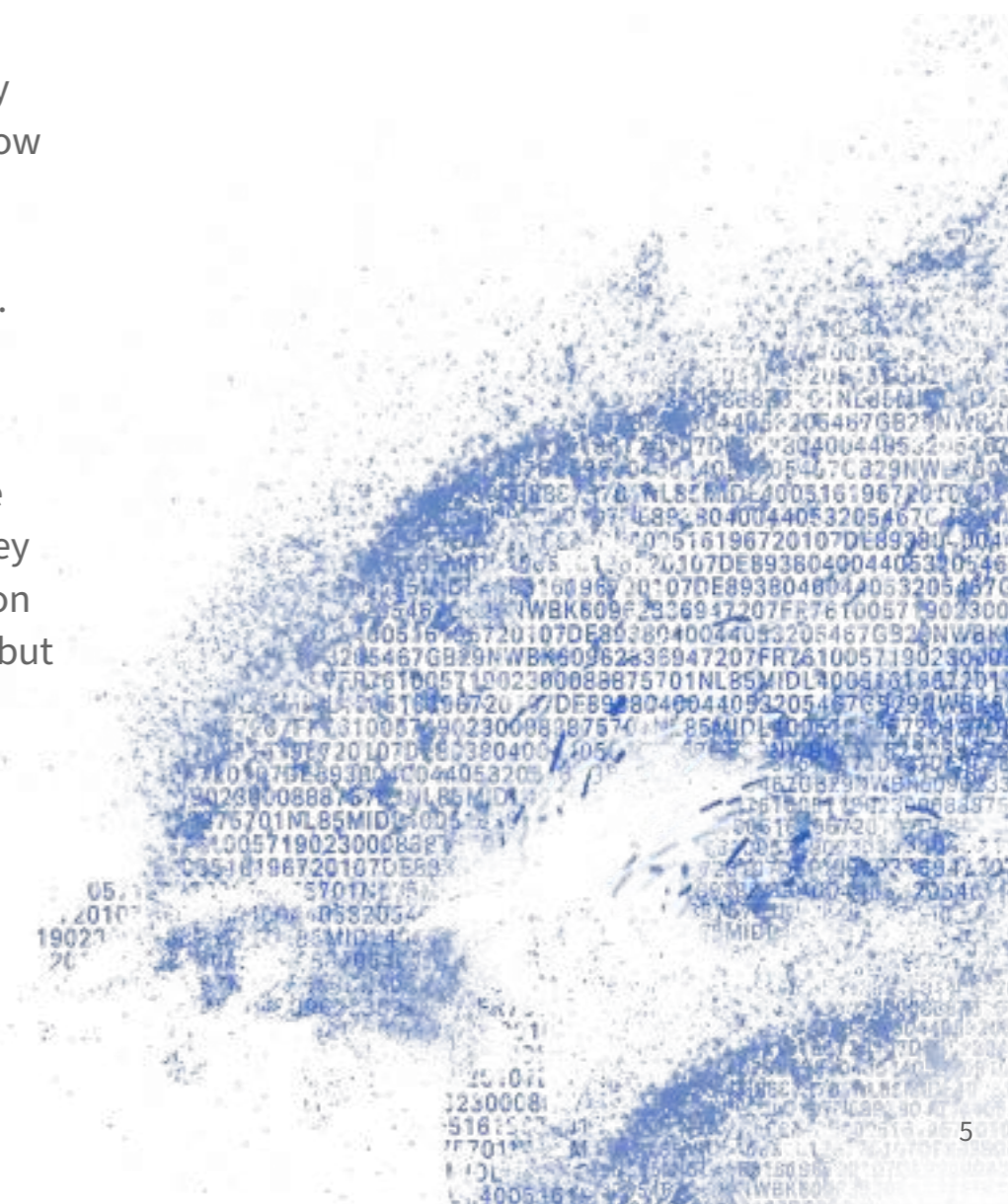
The cost for labour in APAC and the Americas represents 29% and 27% of total costs, respectively, in those regions. Customer attrition, on the other hand, remains nearly the same at 8-10% across regions.

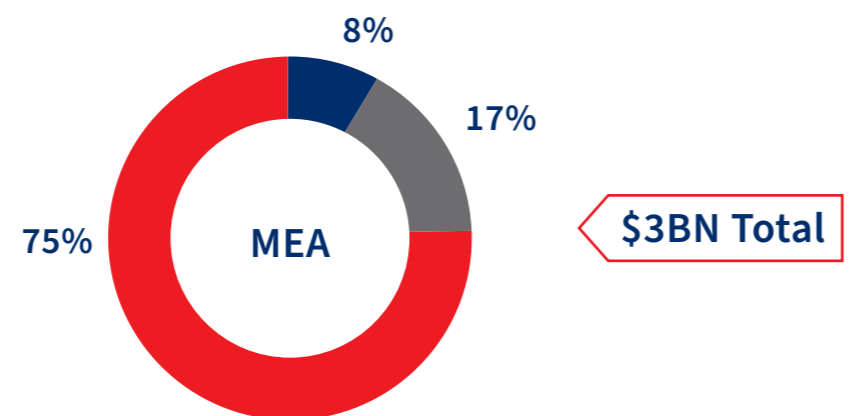
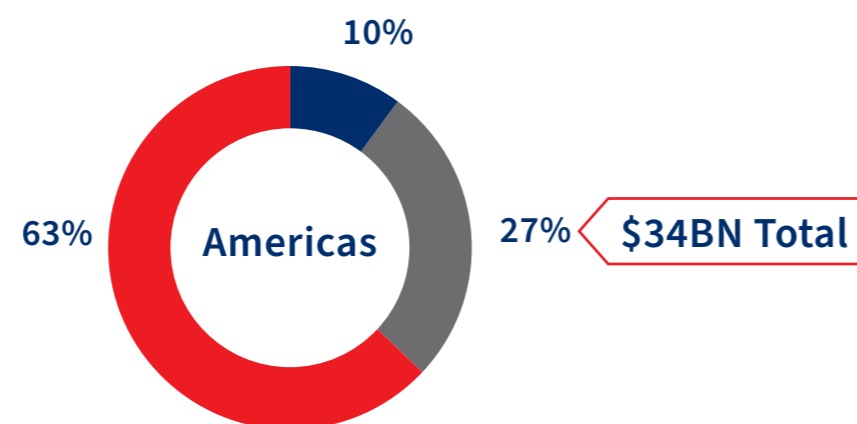
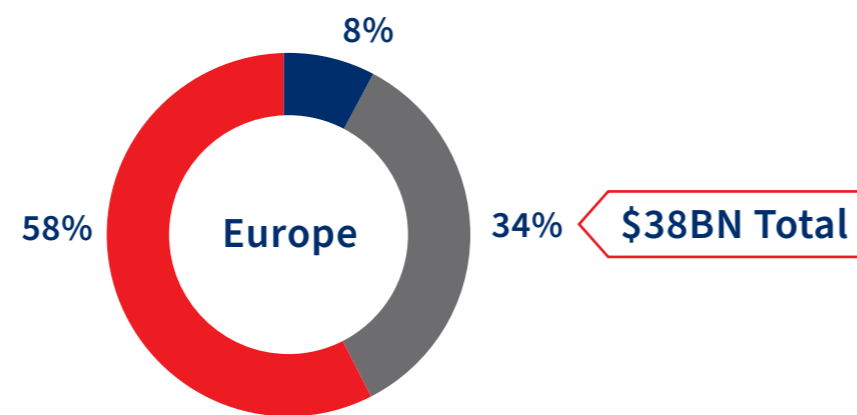
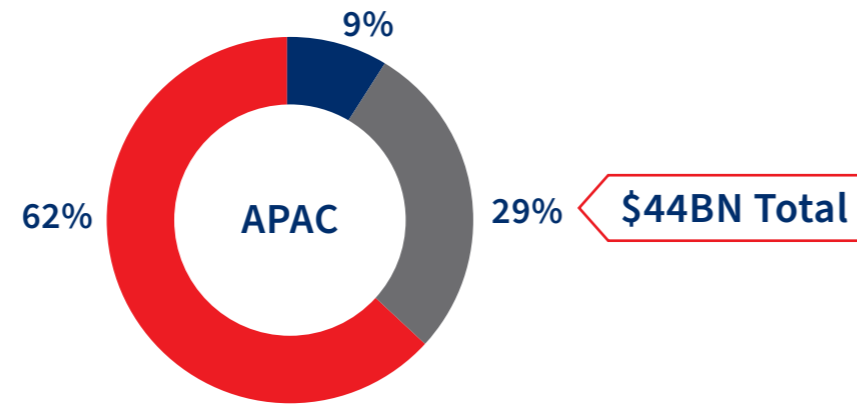
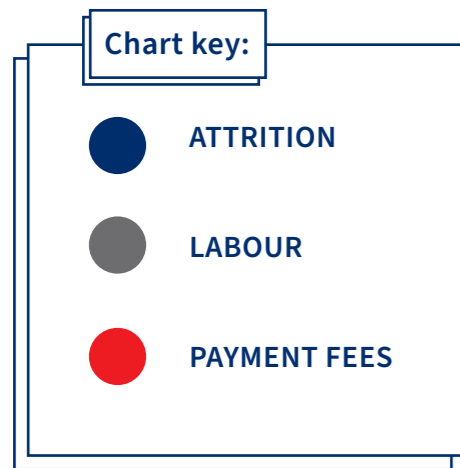
While organisations are well aware that there is a cost to failed payments, most do not grasp the full impact both financially and from a customer retention standpoint.

Fees, labour and other financial costs that go into repairing a rejected payment are somewhat more easily measurable than the less tangible, but equally impactful cost of customer churn as a result of a poor experience.

The cost of failed payments varies significantly by organisation type. The average bank spent just over \$360,000 in 2020 on failed payments (including fees, labour and cost related to customer attrition) whereas the average non-bank financial institution (NBFI) spent almost \$220,000. Averages also vary significantly by size of organisation, ranging from below \$40,000 for companies with revenue of less than \$10 million to more than \$20 million for the largest banks in the world. Corporates spent somewhat less, with averages of just over \$200,000.

The following three themes highlight the key findings that emerged from the survey results. Their impact might differ based on the size and location of an organisation, but they nonetheless reflect the overarching challenges faced by today's payments professionals and their organisations.





The average bank spends over **\$360,000** on failed payments, the average NBFI spends almost **\$220,000**, and the average corporate spends over **\$200,000**.



Theme 1 – Customer experience matters

Survey respondents indicated that failed payments have some or a severe impact on staff workload and customer experience, and to a lesser extent, the loss of customers. Yet, ‘the lesser extent’ still translates into nearly 60% of organisations reporting an impact on customer retention. In organisations with

over 20,000 failed payments per day, the impact is even greater – with 80% of these organisations reporting customer loss.

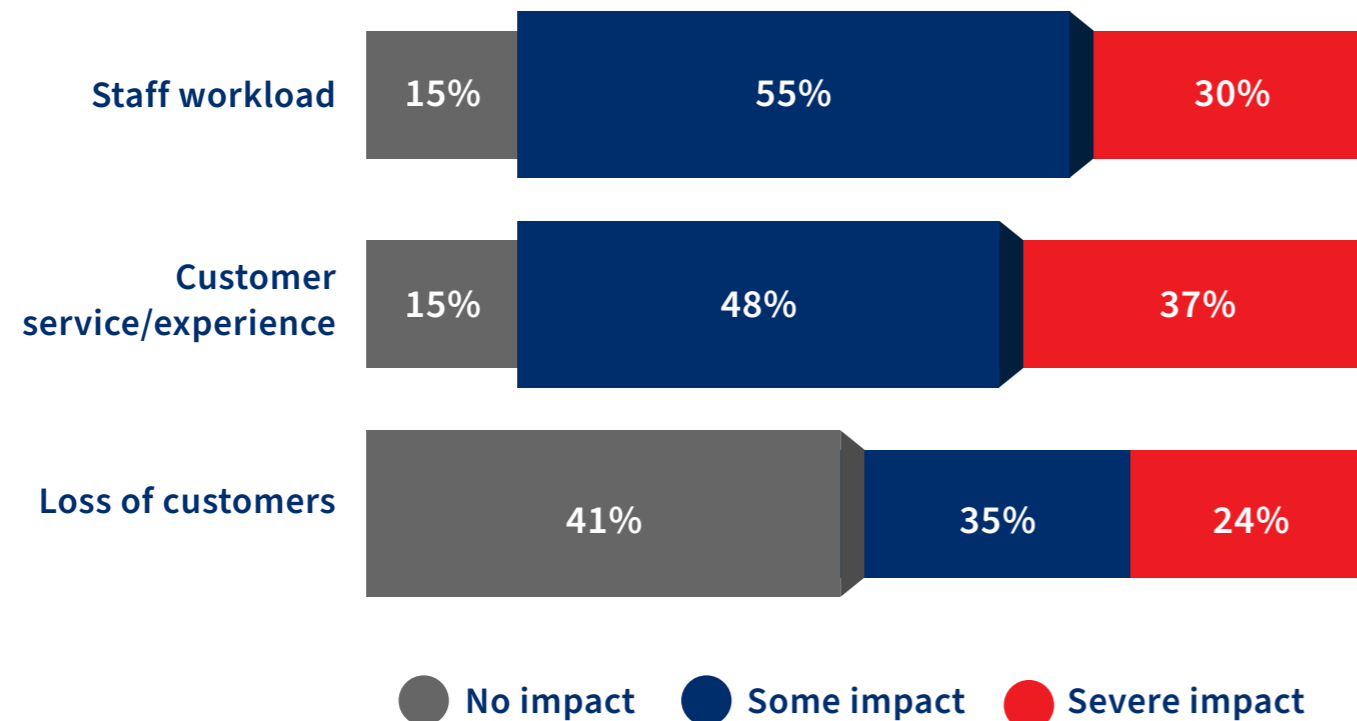
Failed payments have the biggest impact on customer service with 37% of organisations reporting a severe

impact >20K 20% and nearly 50% indicating some impact.

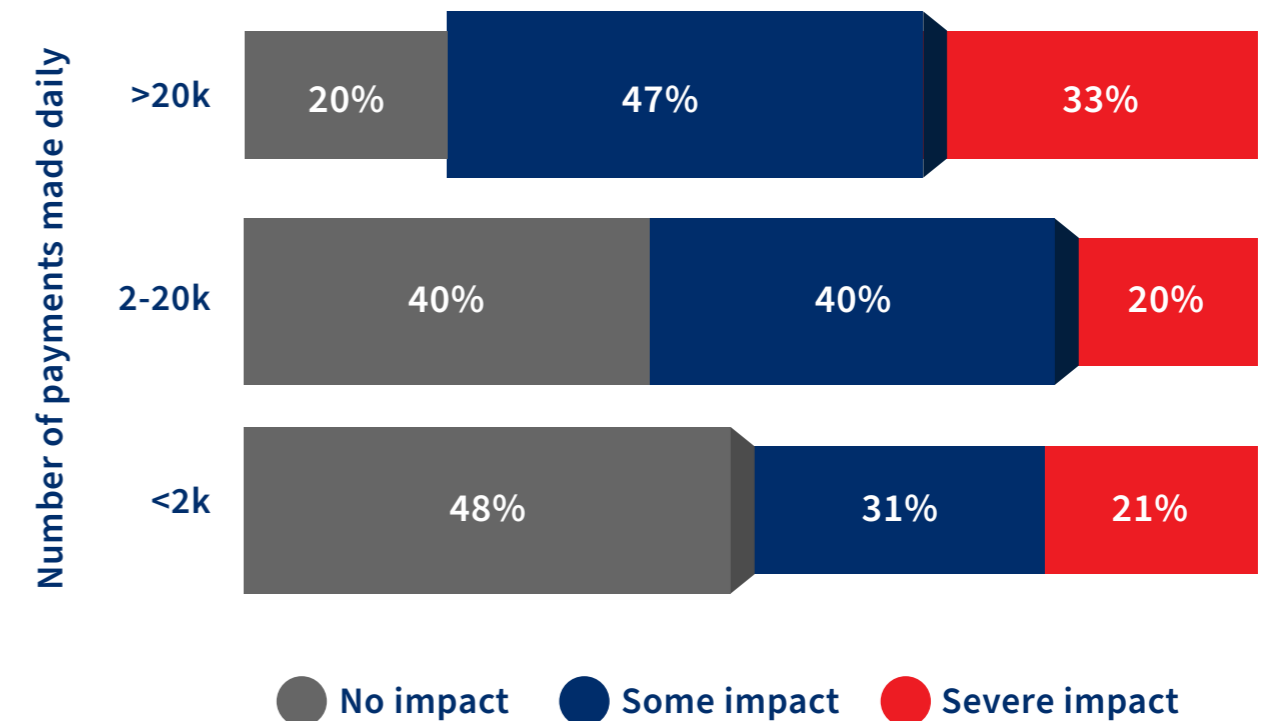
Failed payments also have a significant impact on loss of customers in two thirds of organisations that have more than 20,000 failed payments a day. As the number of payments decreases,

so does customer loss such that 48% of organisations with under 2,000 failed payments per day indicate that failed payments have no impact whatsoever on the loss of customers.

Impact of broken or failed payments on organisations



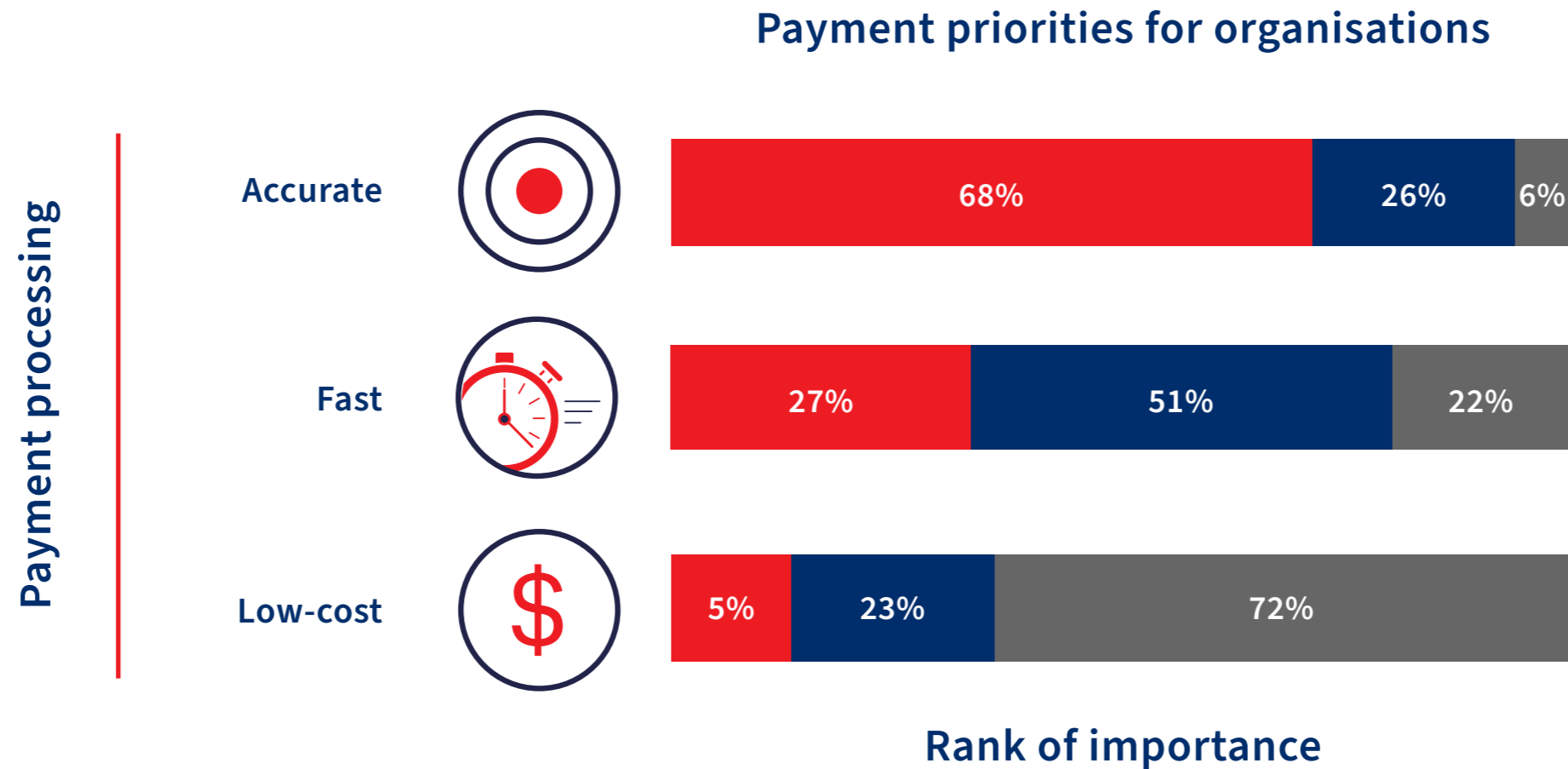
Impact on loss of customers by number of daily payments



Theme 1 – Customer experience matters

Accuracy – or the lack thereof – is a contributing factor to customer loss because it also negatively impacts speed and cost, so it is not surprising that 68% of organisations rated accuracy of payments processing as their number one priority. Speed was a strong second-place finisher. Cost was far and away the least critical priority compared with accuracy and speed.

Fierce competition in payment services leaves little room for error. Unhappy customers will sever the relationship and find another provider. Customer satisfaction cannot be taken for granted; it is crucial to maintaining the business relationship. Unfortunately – and somewhat surprisingly – almost half the organisations surveyed were unsure how much losing customers through failed payments costs their organisation.



Theme 2 – There is a tipping point for action

It appears there is general acceptance in the industry that a certain number of failed payments are just ‘the cost of doing business.’ Looking across a wide spectrum of payment volumes from fewer than 500 payments per day to over one million, most organisations report a payment failure rate of 5% or less. However, almost a fifth (18%) report a failure rate of 5-10%.

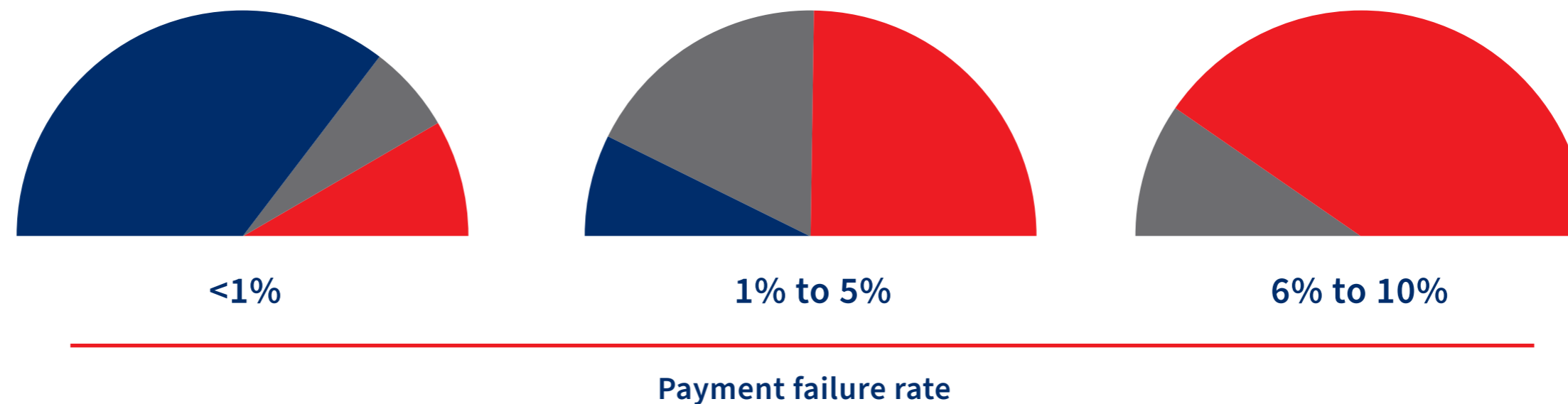
The study also found that smaller organisations tend to have higher payment failure rates – as high as 5% on average in mature markets (notably in North America and Europe). This might be attributed to fewer resources, budget constraints, or lack of appropriate technology.

Some 90% of organisations that see more than 1% of their payments fail are unhappy with this rate, compared to 30% of respondents who report a 1% or lower failure rate. Despite this dissatisfaction, almost 40% of organisations with a 1-5% payment failure rate are not actively implementing changes. The tipping point for action appears to be when failed payments hit 5% or more – then eight in ten organisations indicate they are actively implementing changes to address the issue.

Chart key:

- Happy with the rate: no improvement needed
- Not satisfied with the rate but have no plan on implimenting changes
- Actively implementing changes to improve this rate

Satisfaction with failed payment rate



Theme 2 – There is a tipping point for action

Nearly half of both large and small organisations are making some changes to improve their failure rates. Interestingly enough, mid-sized organisations that make 10,000 – 100,000 payments per day are least likely to take action, with 44% reporting that they are not satisfied but also not planning to make changes to improve payment failure rates. At 33%, small organisations appear to be the most satisfied with their current payment failure rates and have no plans for improvement.

However, small companies seem to be the most aggressive in their willingness to make changes when the rate hits the 5% tipping point.

Whereas only 10% of those who spend less than \$50,000 per year on failed payments are implementing changes, this jumps to over half for those spending more than \$50,000 per year. Also, 65% of those spending less than \$50,000 and 16% of those spending more than 50,000 are happy with their failure rates. The trend is very similar across the board for those with over a \$50,000 spend.

Satisfaction with failed payment rate by spend

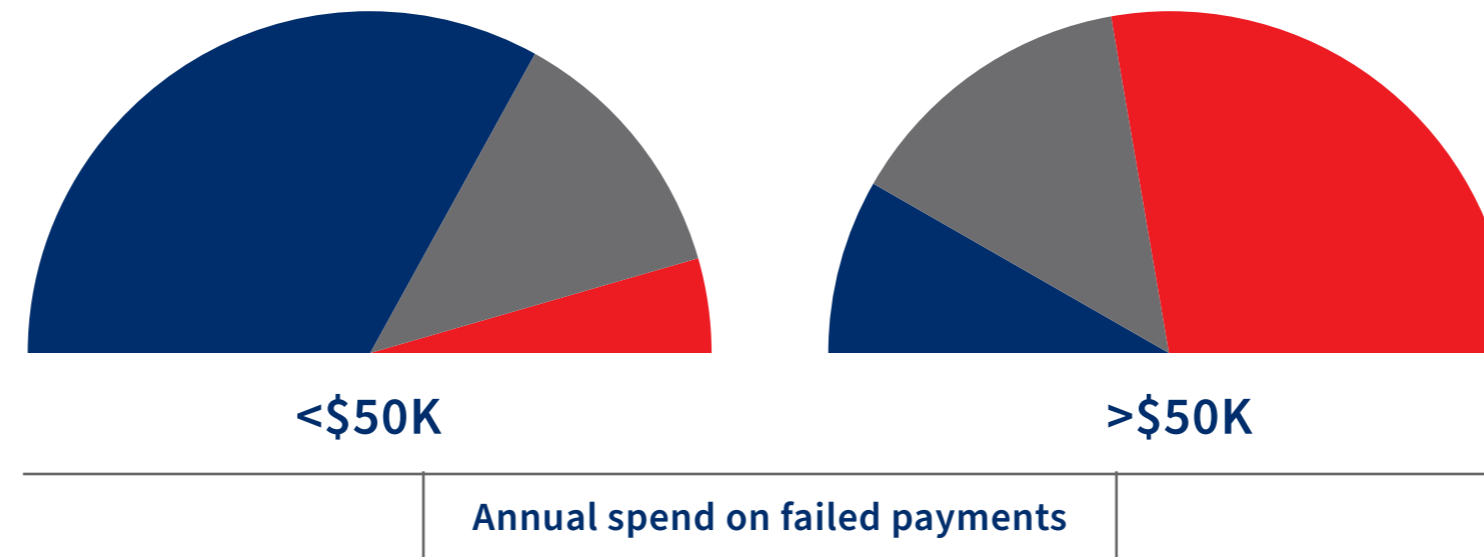
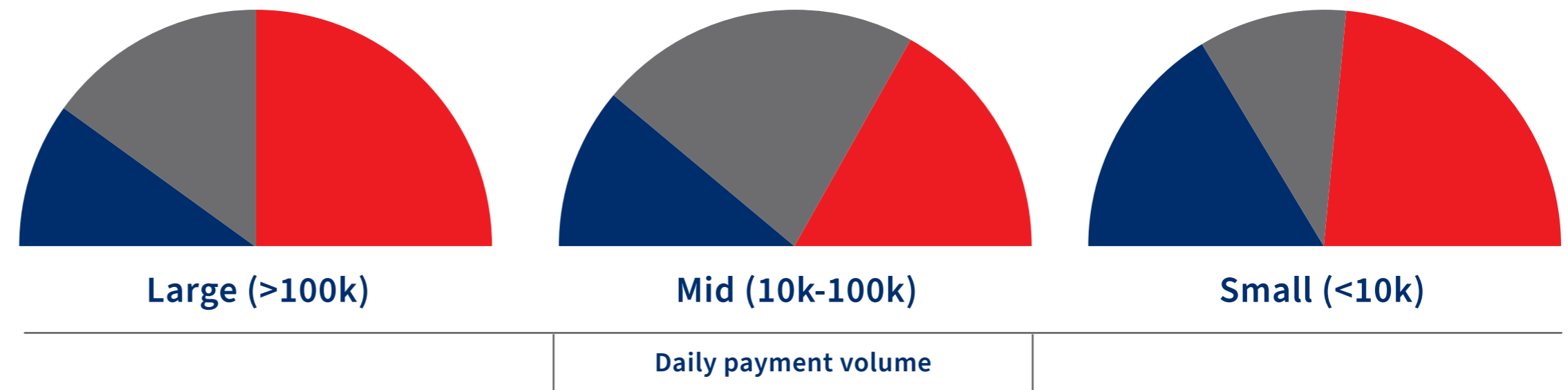


Chart key:

- Happy with the rate: no improvement needed
- Not satisfied with the rate but have no plan on implementing changes
- Actively implementing changes to improve this rate

Satisfaction with failed payment rate by payment volume



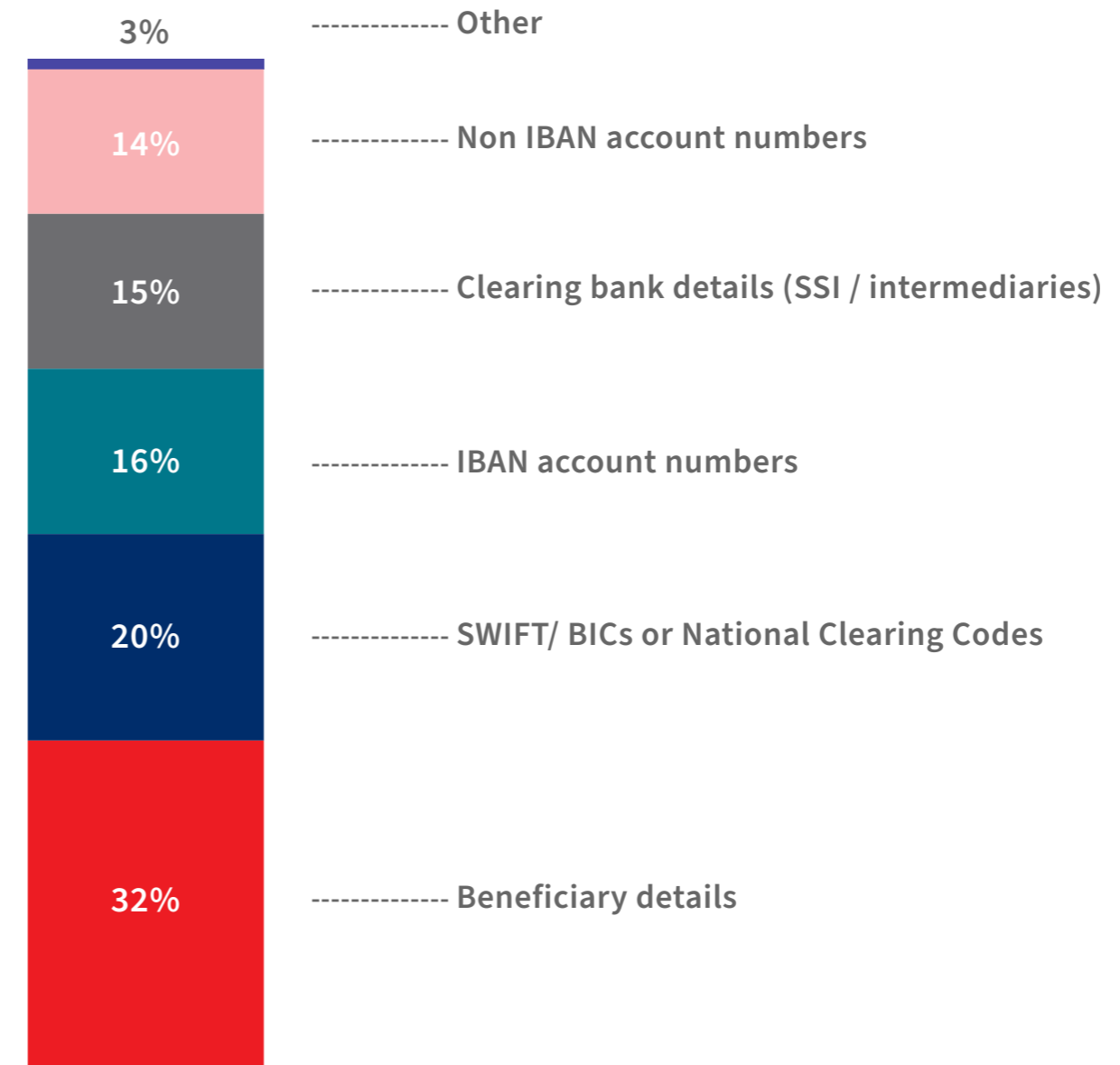
Theme 3 – Validation process makes a difference

Account numbers (IBAN and non-IBAN) comprise almost one-third of all payment failures, and beneficiary details comprise another third. Taking a more granular look indicates that reasons for payment failures can vary considerably depending on how payments data is accessed and the type of organisation. Online lookup using a reference tool is overwhelmingly the most popular method for corporates (80%) and is also used by traditional banks (44%), particularly mid-sized institutions. NBFIs and fintechs lean more heavily to using APIs or web services.

This difference in accessing information is not surprising. Banks and corporates tend to have legacy technology and are slower to change, whereas fintechs and non-banks are typically younger organisations built on modern technology, which lends itself to APIs and web-based solutions.

Account numbers account for one-third of payment failures, and beneficiary details account for another third.

How often each type of payment information leads to a payment delay or failure

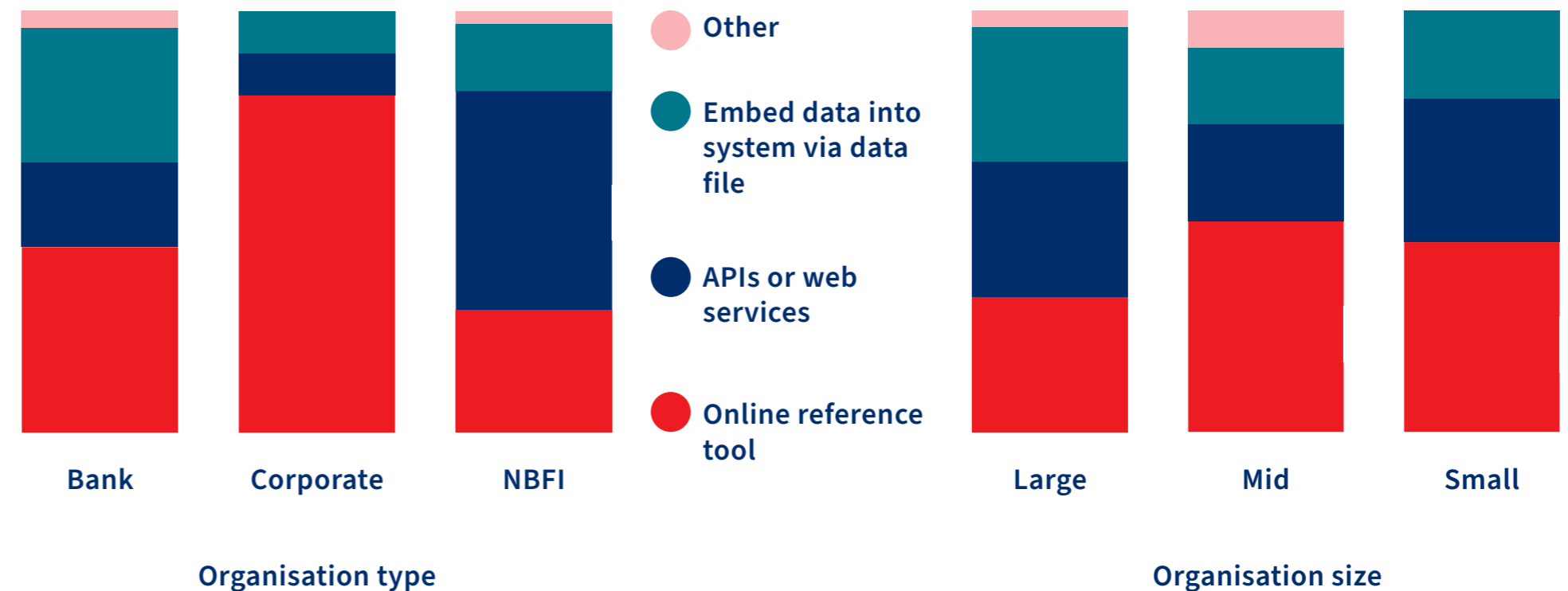


Theme 3 – Validation process makes a difference

Some methods to access data are more efficient than others. For example, look-up tools are not suitable for validating high volumes of payments data as the manual intervention would lengthen the payment cycle and cause operational loss. Automated solutions are more flexible since they can be scaled as businesses grow.

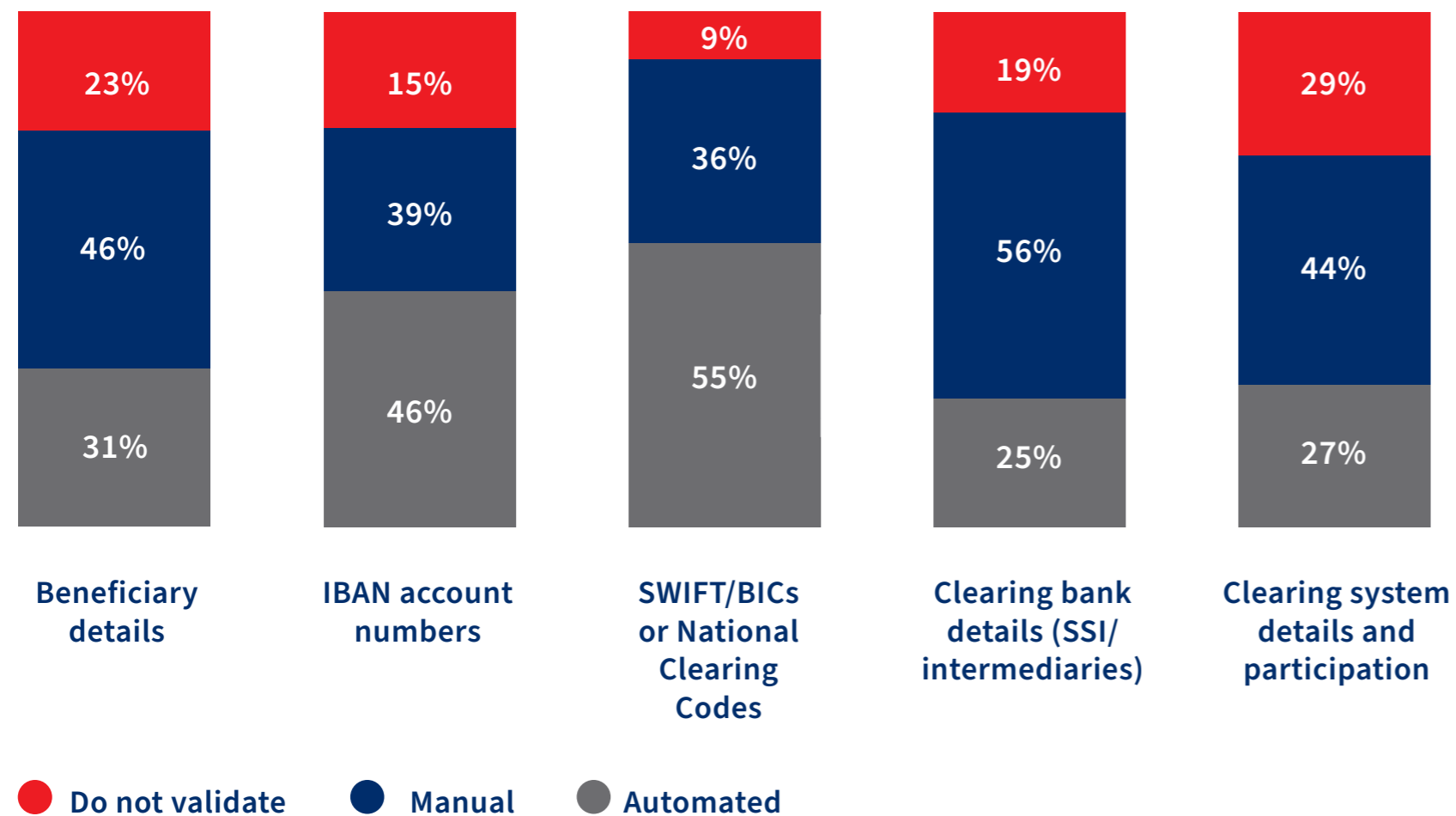
52% of NBFIs use apis or web services to access bank payment reference data.

How organisations access bank-to-bank payment reference data



Theme 3 – Validation process makes a difference

The data elements that organisations validate before sending payments

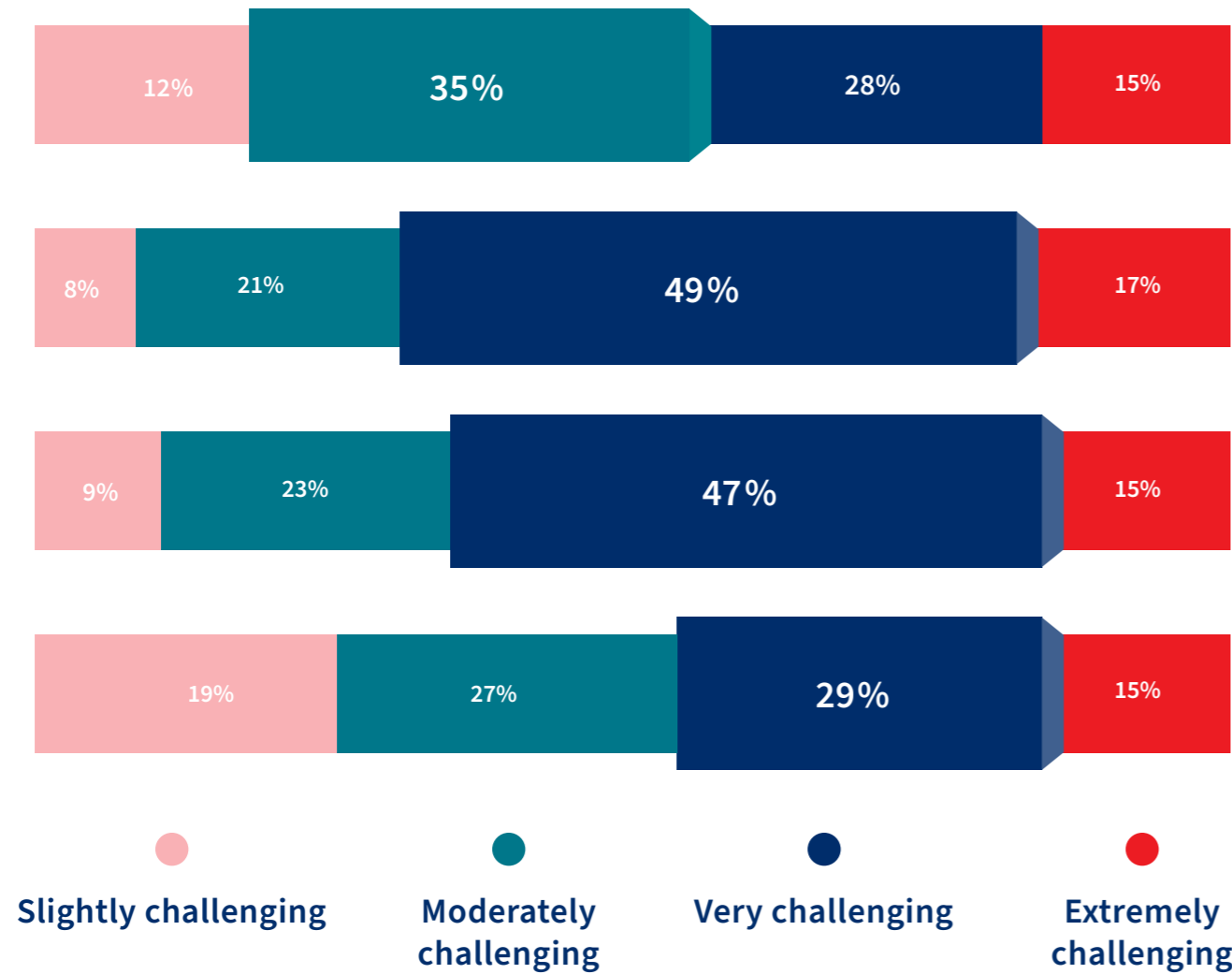


Manual processes, which are more prevalent with some validation methods than others, continue to be deeply embedded in the operations of all organisations. In fact, one-third to more than one half of all payment data elements are still validated manually. Manual processes increase the chance of input error, which leads to greater failure rates and lower operational efficiency.

When asked about challenges with the payments process, reducing manual processes came out on top, with 66% of organisations identifying it as extremely challenging or very challenging. Keeping up with regulatory changes was the second most noted challenge. In the 2018 survey, these top two challenges were the same, but the severity of the challenges appear to have increased.

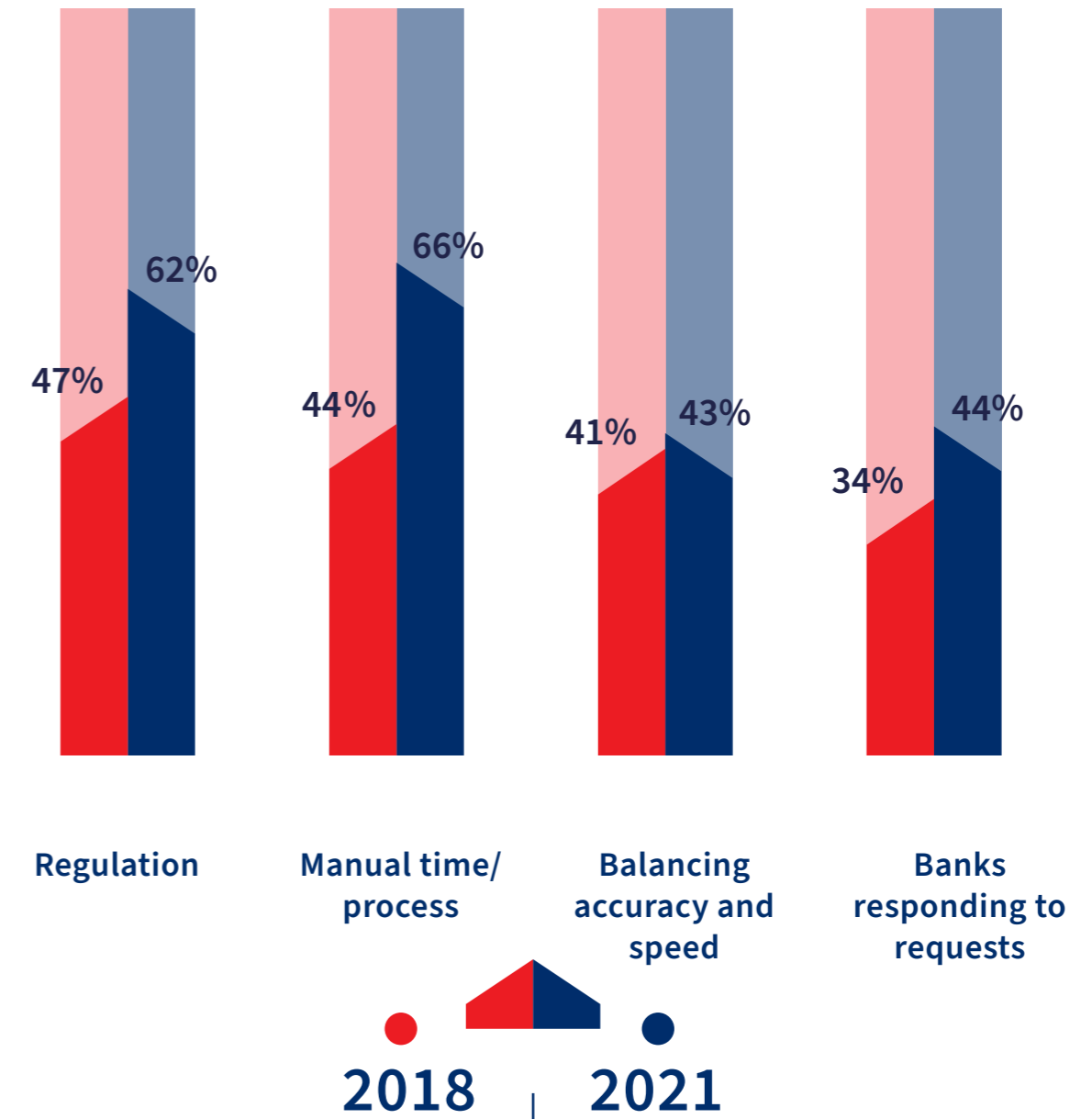
Theme 3 – validation process makes a difference

Challenges organisations face with the payments process



Challenges organisations face with the payments process

Comparison with 2018 research



(Answers of extremely challenging and very challenging only)



Conclusion

Managing the rate of failed payments is a continual challenge for all organisations. In addition to fees and other direct costs, failed payments also impact customer experience and customer retention, which are indirect costs that can have a significant impact on the company. Improving accuracy, which begins with accurate reference data, is essential for organisations that set up, route, and process payments. It is the key to achieving fast, efficient processing, lower costs and greater customer satisfaction.

Fintechs, which are typically the most technologically advanced of all the sectors, have a relatively high adoption of API technology, which improves accuracy and delivers the lowest failed payment rates. This technology enables them to easily use industry best practice validation services to validate payment data before customers submit payment information, for example, which increases the chance that the payment will go through without issue.

Although larger corporates already add file-based reference data to their ERP systems to automate payment validation, some have also begun to add API solutions to their vendor onboarding platforms, resulting in lower failed payments rates. Among banks, there is strong interest to adopt more process automation to increase straight-through processing rates.

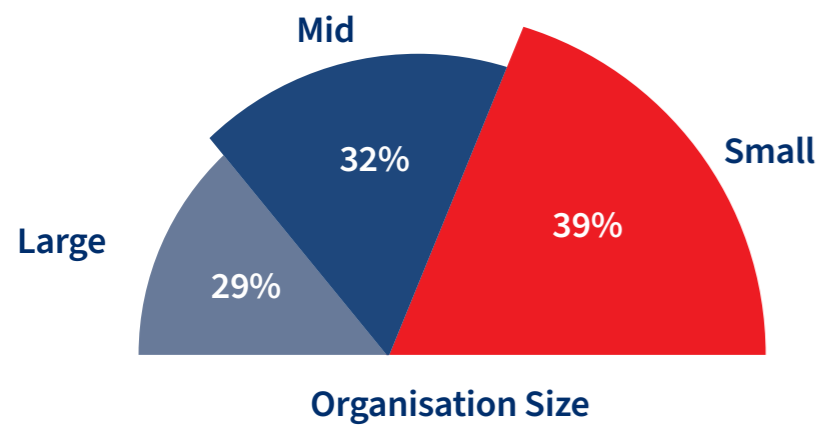
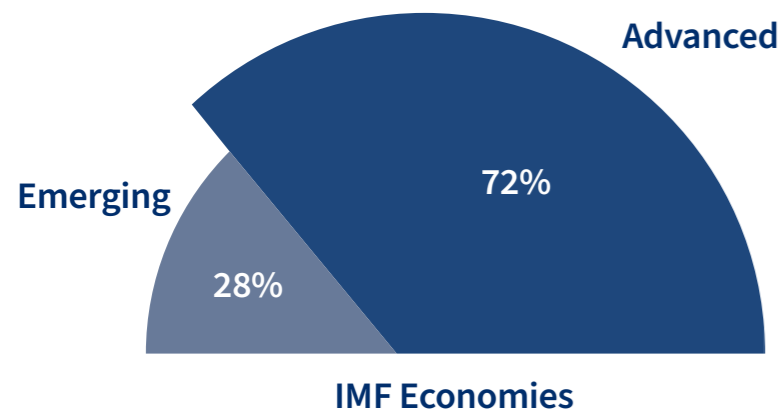
LexisNexis® offers a range of solutions to ensure payment information is verified as it moves through the payment flow using the right tool at each step, and with as little manual work as possible. Choose from plug-in APIs to files that can be ingested into your ERP or core banking system to online look-up tools.

LexisNexis® provides instant access to payments validation tools and payment reference data covering financial institutions and payment networks worldwide. With its comprehensive source of truth throughout your payments flow, LexisNexis® eliminates failed payment costs, improves customer experience, and maximises your organisation's straight-through processing rates.

To learn more about LexisNexis®, please visit lexisnexis.co.uk

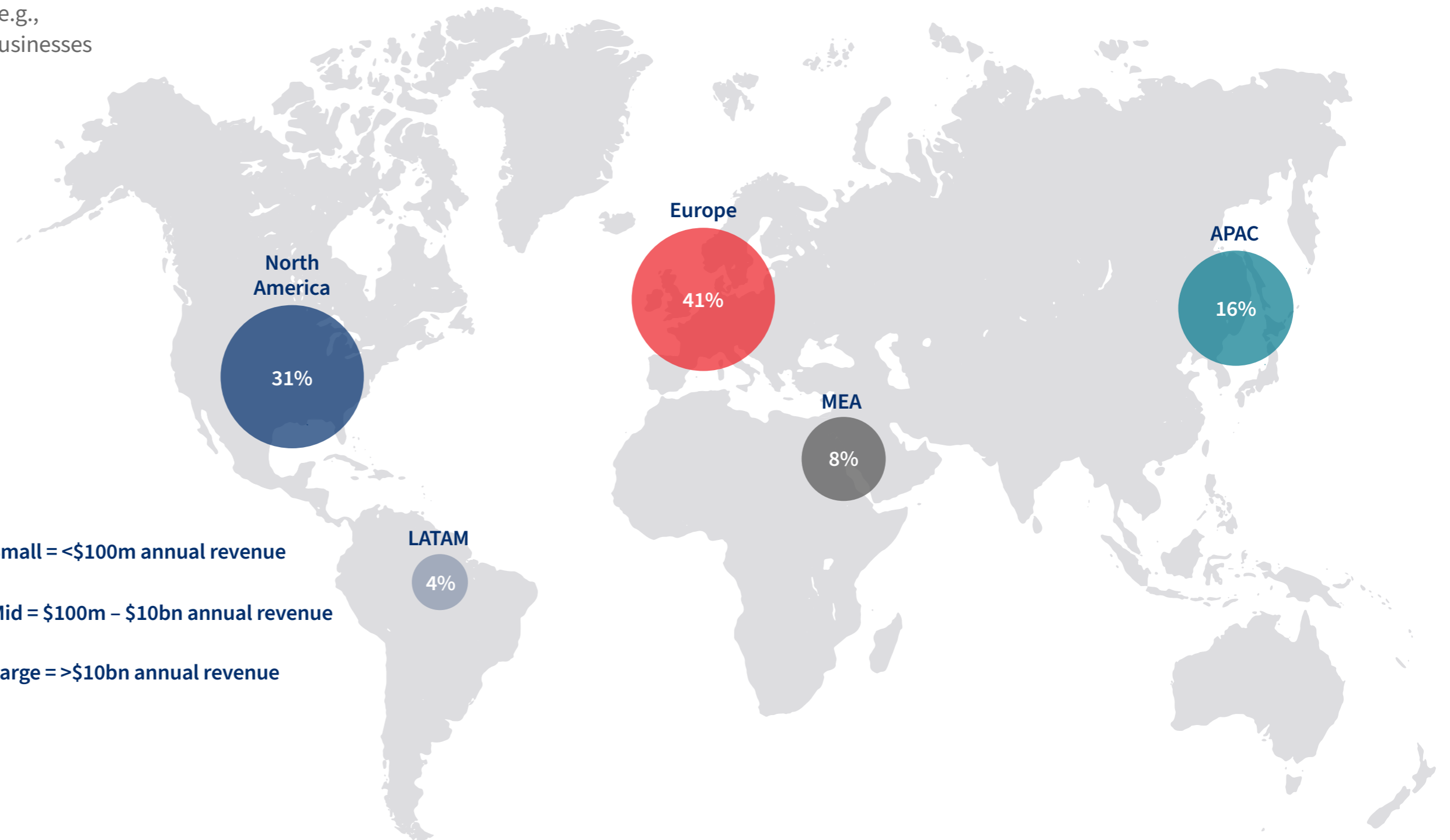
Participant profile and methodology

Information for the survey was gathered in early 2021 based on responses from 240 organisations, including banks (traditional banks and fintechs), corporate entities, and NBFIs (e.g., payment service providers (PSPs), money service businesses and insurance companies) around the world.



- Small = <\$100m annual revenue
- Mid = \$100m – \$10bn annual revenue
- Large = >\$10bn annual revenue

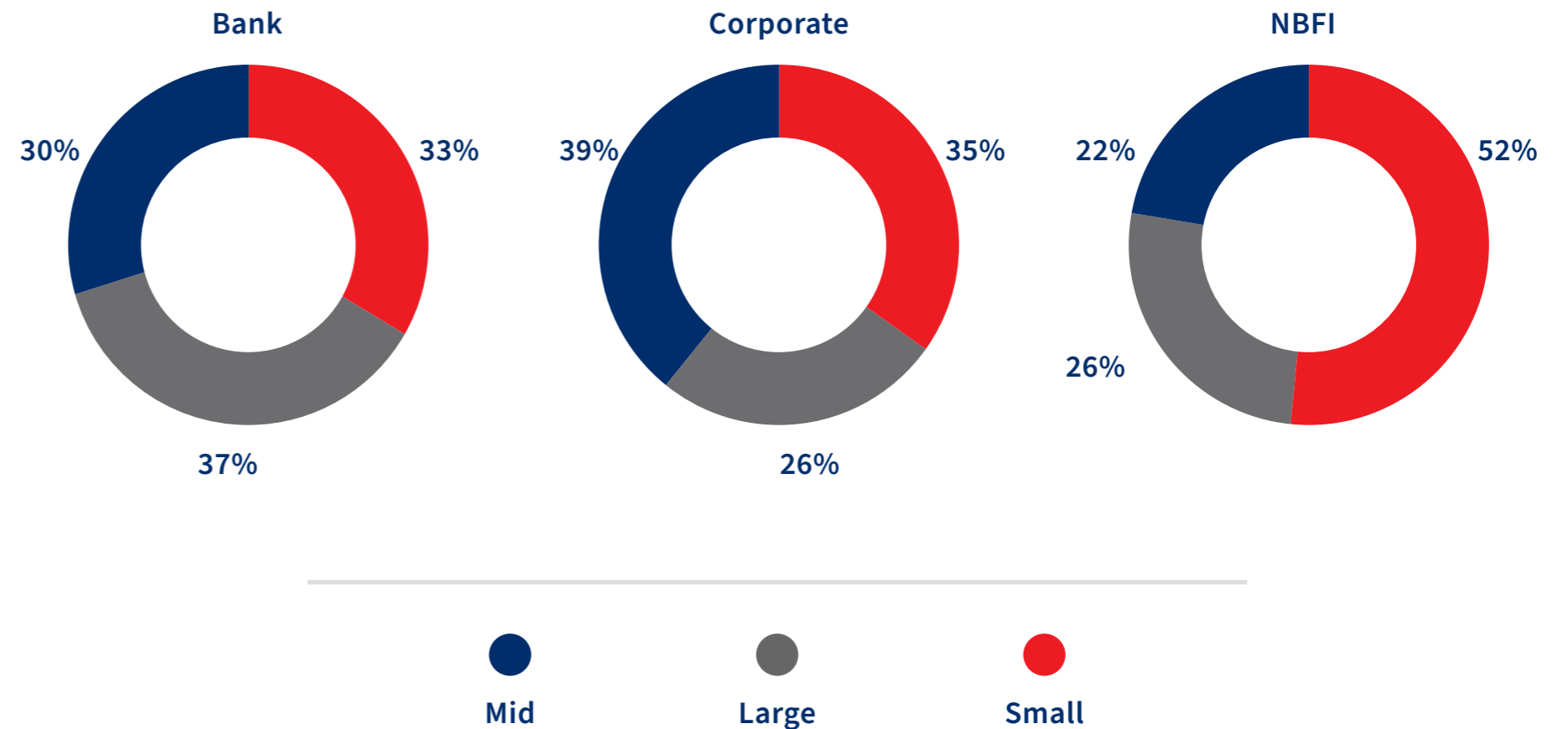
Percentage of survey respondents



Survey respondents represented a balanced cross section of small/medium/large organisations although NBFIs were more heavily weighted to small and mid-sized companies. Total revenue, asset size and the size of the workforce were the data points used to determine the size of the organisation.

Results were extrapolated by the number of organisations in the appropriate segment from a universe of more than 15,000 banks (source: LexisNexis®) and 182 million entities (Dunn & Bradstreet). These have been condensed to 1.9 million to account for a percent of firms (mostly smaller) that do not make regular electronic payments.

- Median scores across a number of categories were used in determining cost estimates Where answers are in bands, a mid-point was applied
- Where no data or unreliable survey data was present, an average from the most similar data point was applied
- Labour costs were calculated by using average salary (OECD index) multiplied by the full-time equivalent for time spent fixing payment failures



Calculations are based on the following median values

Average total costs per company (median)	APAC Bank	APAC Non-Bank	MEA Bank	MEA Non-Bank	Americas Bank	Americas Non-Bank	Europe Bank	Europe Non-Bank
<\$10m	\$47,040\$	43,448 \$	66,164 \$	47,330	\$38,699	\$45,010	\$49,300	\$56,984
\$10-100m	\$104,010	\$209,513	\$121,787	\$117,451	\$135,833\$	102,144	\$279,534	\$147,458
\$100m-\$1bn	\$185,980	\$248,036	\$388,847	\$375,524 \$	254,395	\$248,905	\$535,600	\$431,858
\$1bn - \$10bn	\$703,357	\$740,582\$	398,020	\$ 384,356 \$	1,109,570 \$	733,323	\$965,934	\$909,076
>\$10bn	\$1,456,738\$	909,807	\$841,180	\$822,157	\$3,064,908 \$	1,021,542 \$	2,445,947 \$	1,006,724
Bank >\$500bn assets	\$12,904,498				\$21,137,750		\$20,999,700	

Calculating the average cost a company incurs as a result of failed payments by adding the individual elements from survey responses:

- Volume of payments
- Percentage of failed payments
- Price paid per failed payment in U.S. dollars
- Number of employees processing payments
- Percentage of time taken to fix broken payments
- Average salary per country (OECD and WorldData.info)

Identifying the median average per segment, broken down into:

- Six size categories (revenue/assets)
- Five regions
- Banks and non-banks
- Multiplying times a number of companies that make payments (total number of companies times percentage estimate who make electronic payments on an ongoing basis)



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