



Four Ways Data Entry Errors Hurt the Bottom Line

Implementing new software is often viewed as an expensive and time-consuming challenge. As a result, many financial institutions make do with legacy systems and workflows, rather than investing in robust, modern technology solutions aimed at reducing operating expenses and increasing revenue. Though investing in a new technology solution may seem like an added expense and administrative burden up-front, lenders stand to lose much more in both time and resources as a result of operating with outdated systems. Legacy software solutions not only negatively impact administrative capacity, but they also put financial institutions at risk time and again in the form of data entry errors.

The Scary Truth about Data Entry Errors

A [study](#) published by the National Center for Biotechnology Information (NCBI) observed the error rate in single entry data entry. Over 100 individuals participated in this study, which evaluated over 20,000 individual pieces of data. The study revealed rates reaching upwards of 650 errors per 10,000 entries—a 6.5 percent error rate.

However, simply calculating 6.5 percent of a total loan portfolio—\$65,000 of a \$1 million, for example—produces an arbitrary number. To truly understand the potential risk of human data entry error, one must be able to estimate the true cost of each error. Solely quantifying data entry error rates is meaningless without assigning a value to each error.

Using the 1-10-100 Rule to Determine the True Value of Data Entry Errors

In their [book](#), *Making Quality Work: A Leadership Guide for the Results-Driven Manager*, authors George Labovitz, Y.S. Chang, and Victor Rosansky outline what they refer to as the “1-10-100 Rule.” They posit the theory that the cost of every single data entry error increases exponentially at subsequent stages of a business’s process.

For example, if a worker at a communications company incorrectly enters a potential customer’s

address, the initial error might cost only one dollar in postage for a wrongly addressed mailer. If that error is not corrected at the next stage—when a customer signs up for services—the 1-10-100 Rule would predict a loss of \$10. If the address remains uncorrected in the third step—the first billing cycle, perhaps—the 1-10-100 Rule would predict a loss of \$100. After the next step in this progression, the company would lose another \$1,000 due to the initial data entry error.

However, this example considers only one error in data entry, not the multitude that doubtlessly occur each day in companies that rely heavily on humans to enter data into systems.

In lending, data entry goes far beyond typos in customers’ contact information and can include potentially serious mistakes in vital customer profile information. Data points such as social security numbers and dates of birth are necessary to document identity verification to comply with the Bank Secrecy Act’s [Customer Identification Program](#).

For financial institutions, data entry errors can also lead to mistakes in loan amounts. A \$10,000 loan, for example, has different implications with respect to compliance reporting, documentation, and pricing than a \$100,000 loan. Even if the loan is funded correctly, a single zero incorrectly entered in a lender’s loan management system can lead to costly oversights.

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Data entry errors can be especially troublesome and costly in industries in which businesses rely heavily on data for daily operations, strategic planning, risk mitigation, and decision making. In finance, determining the safety and soundness of an institution, its ability to achieve regulatory compliance, and its budget planning depend almost entirely on the accuracy of data entry in its loan portfolios, account documentation, and customer information profiles. Because of this, data entry errors can harm a financial institution in several ways.

1. Time Management

When legacy systems cannot [integrate](#), data ends up housed in different silos, which require duplicative data entry. Siloed systems and layers of manual processes expose an institution to various opportunities for human error and negatively impact administrative capacity. Managers often overlook this time because data entry only requires a moment of a loan administrator's time. However, the true cost of these errors on an employee's time—in terms of wages, taxes, benefits, training, etc.—add up, making multiple data entry a hefty and unnecessary expense.

2. Uncertain Risk Management

No matter how many stress tests you perform, it is impossible to manage the risk of a loan portfolio comprised of inaccurate data. In addition, entry errors can lead to incorrectly filed security instruments, leaving a portfolio exposed to the risk of insufficient collateral.

3. Inaccurate Reporting

Data entry errors create unreliable loan reports, leading to missed maturities, overlooked stale-

dates, canceled insurance, overfunding, and other potentially costly oversights.

4. Mismanaged Compliance

Data entry errors are a major compliance risk. Whether due to inaccurately entered loan amounts, file exceptions, insurance lapses, or inaccurate reporting, the penalties associated with non-compliance can be extremely costly—not only in terms of dollars but also with respect to an institution's reputation.

Reduce Opportunities for Human Error

An institution's risk management plan should include steps intended to mitigate the inevitable occurrence of human error. In addition to establishing systems of dual control and checks and balances, you should also implement tools and procedures that eliminate redundancies within data entry processes. By doing so, you will be able to prevent potential risks for human error, rather than relying solely on a system of double-checking.

By investing in the right technology solution, financial institutions have the ability to proactively mitigate risk by eliminating siloed systems, excessive handoffs, and duplicative data entry. Though implementing a modern technology solution may seem like an expensive and time-consuming challenge up-front, a suite of fully integrated software solutions will significantly reduce the potential risk of human entry error and allow the institution to make faster, smarter lending decisions.