

METAVANTE WHITE PAPER

Putting the Convenience Back into Online Payments

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Putting the Convenience Back into Online Payments

Although online biller direct is a substantial channel for consumer bill payment, biller concern regarding return on investment for online channel efforts, adoption levels, and paper reduction remains a significant issue. Clearly, these types of payments are not diminishing. According to an Aite Group study, the biller direct payment channel will maintain its share of more than 50 percent of all online payments through 2010¹. However, there are steps a biller can take today to overcome these concerns.

Shifting Customer Preferences

Looking strategically at the underlying needs of customers can uncover opportunities to drive growth and improve the value of your online channel. For example, one key emerging trend is the expectation of “instant gratification” online. Consumers not only want instant information, they want to be empowered to interact with you – including initiating payments – instantaneously. One way this trend can translate into opportunity for you is through “expedited payments.”

More and more, customers are asking for the ability to make last-minute bill payments to merchants and service providers to help them avoid service disconnection or a negative report impacting their credit score. Along with the convenience of these “panic payments,” customers are also increasingly looking to make these payments online, instead of using voice response units or call center agents. Consumers are also asking for more ways to use payment cards as a funding source.

As expedited payments are growing in popularity among consumers, they’re also influencing consumers’

perceptions of payments. A recent study by Javelin Strategy & Research² revealed not only that growing numbers of customers are leveraging existing expedited payments systems, but also reported that the ability to pay bills “anywhere, anytime” has become so common that consumers “now consider ‘anytime’ to mean up to and including the due date” of the bill.

Key U.S. industries, such as the utilities and lending sectors, have seen strong biller adoption of expedited payment services, according to a research report by Tower Group³. In fact, the utilities and lending industries have seen the greatest growth in the number of biller users over the past two years. While the acknowledgement of expedited payments is at a low level today, the Tower Group’s report predicts the number of expedited bill payments will double by 2010.

According to the Tower Group report:

- Vendors report that 65 percent of consumers who use expedited bill payment services make five or more payments of this type per year.
- Low-volume penetration, along with factors such as underdeveloped biller segments, high consumer interest and recurring service usage, and expanded use of payment media and channel options, points to growth for expedited bill payment services.
- By 2010, Tower Group expects that expedited bill payment transactions will total 1.7 billion items per year and represent 10 percent of key industry bill payments.

Considering these growing, positive trends, billers should seriously consider including expedited payments in their online payment strategy.

¹ Aite Group, LLC, October 2006: “Online Bill Payments: Chasing the Next Big Thing”

² Javelin Strategy & Research, February 2007: “Expedited Bill Payment Forecast: Effective Strategies to Create Revenue and Enhance Relationships”

³ Tower Group, October 2005: “Expedited Bill Payments: The Market for Convenience”

Should You Charge a Convenience Fee?

Despite traditional online bill pay's widespread availability as a free service, research suggests customers who demand expedited payment services have also been willing to pay for them. Although the per-payment fees have been declining, a Javelin Strategy & Research survey² suggests revenue opportunities for billers aren't drying up. Javelin predicts the price per expedited payment will continue to decline from the current \$5.64 to \$3.14 by 2009. However, due to increased convenience-based transaction volume, the study also forecasts expedited payment fee revenue will grow from the current \$1,261M to \$1,702M in 2009. Clearly, expedited payments make it possible for billers to tap into this projected growing revenue stream.

Fee Considerations

Similar to the launch of any new payment option, a certain amount of planning is necessary, especially when introducing a fee. Concerning expedited payments, three major considerations need to be kept in mind:

- First, because many expedited payments will be “panic payments,” made in order to avoid a late fee, a convenience fee would most likely be priced lower than the late fee. Without a financial benefit to the expedited payment service, customers won't use it.
- Second, with the rise of debit and credit at the expense of cash and check, customers have grown accustomed to paying the way they want to pay. In many situations, customers are willing to pay a fee for this payment flexibility.
- Third, billers introducing convenience fees need to be aware of regulatory aspects imposed by card associations on fee collection. For example, Visa® regulations do not permit charging a variable fee structure between Visa and other payment methods. This implies that billers need to be creative in maintaining a free bill payment service, while monetizing expedited transactions.

Additionally, billers need to remember which payment channel will be used to offer expedited payment options. As with payment cards, customers have preferences regarding payment channels, including the Web, phone, bank, or biller direct. While “walk-in” has traditionally been the channel associated with panic payments, the Tower Group study³ reports that customers now prefer remote channels.

Finally, does a biller want to administer the expedited payment service itself or look to a third party? Factors influencing this decision include regulatory issues, the ability to lower the cost of payment operations, and the capacity to meet increased customer expectations with respect to convenience.

Providing Convenience for Your Customers

Whether you are a merchant or a regulated utility, the goal of any payment service is to attract and retain customers to your organization. Determine what your customers want. Are they asking for additional access channels to view their bills or to make a payment? Are they asking for additional payment-type options like credit, debit, ACH, wire transfer, or a prepaid account? Compiling a clear picture of your customers' needs can provide you with a solid business case for online payments and convenience fee strategies.

Also, when launching an expedited payment offering for end-users, billers need to invest in effective marketing to help successfully introduce the new payment service to consumers. The marketing message should focus on key areas that are valuable to the end-user. For example, because consumers consider payment posting speed to be important, customer communication needs to highlight this benefit. A successful product launch will include varying types of communication to reach consumers, such as direct mail, online, on-hold messaging, customer service representatives, and more.

Selecting a Partner

Finally, developing an optimal payments strategy should include a third-party processor or biller service provider. Both have bill presentment and collection expertise regarding best methods of collection and presentment and consumer behavior. These individuals continually evaluate current and future technology for suitability in the expedited payment space. Also, they understand a large number of credit, debit, and ACH regulations, as well as maintain extensive relations (often participating) with the groups that create those regulations.

When considering a third-party processor or biller service provider, pay close attention to the opportunity for future service expansion, the flexibility and security of the available services, and quality of product support. Verify that these providers can progress beyond expedited payments to full bill presentment and payments. Evaluate their expertise and experience in compliance with regulatory and security bodies, such as the National Automated Clearing House Association (NACHA) and the Payment Card Industry (PCI). A provider should also have the flexibility to work within biller guidelines, solve for specific biller needs, and provide a broad spectrum of assistance to support your selected payment types and drive consumer adoption.

Customers are calling for expedited payments, and the revenue stream is flowing because they're willing to pay for the convenience. If the customer is always right, then the time is now to give your customers a new way to pay.