

Banks billpay advantage needs reinforcement

Forrester forecasts consolidators will soon catch direct billers, and offers advice on how to sustain that advantage, especially with young adults

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Startling as it may seem to those who still pay bills by check, the online billpay market is now reaching the mature stage.

Forrester Research predicts that from 2009 to 2014, the total number of U.S. households paying bills online will grow from 48 million to 63 million, a compound annual growth rate of 5.4% (see Figure 1). Forrester senior analyst Edward Kountz says that in the near term, the online billpay market will reach about 75% of the total billpay market, and that the 63 million households would still be below that percentage. That result reflects the fact that checks, while declining steadily, will not go away in the near future. In addition, few financial institutions of any size have been willing, so far, to assess fees for paper-based payments, though the tactic has been discussed.

In its report, "US Electronic Bill Payment and Presentment Forecast, 2009 to 2014," Forrester also predicts that within three years, direct billers will lose their market share edge to consolidators—including banks and nonbank firms, such as Yodlee—but only slightly. By 2012 the firm predicts consolidators will have a 50.5% share versus 49.5% for direct billers, the first time that has happened. (See Figure 3)

Direct billers (in which consumers go to the site of each biller, or receive an invoice electronically from a biller) hold the advantage by virtue of having been early in the game and by being free. Consolidators (in which customers arrange to pay all or most bills from one site) initially charged for electronic bill payment. Now, however, most banks offering the service provide it for free.

Kountz, the report's author (along with three colleagues), cautions that banks shouldn't assume that their market share advance will continue, even as more households pay more bills electronically. One significant challenge comes from data that show that a key demographic segment—"young affluents"—are less likely than average to pay bills via their bank's website. (Young affluents are defined as online users ages 25 to 34 in households making more than \$75,000 a year.) Research conducted last year by JupiterResearch/NPD Group, and cited in the Forrester report, shows that 35% of this group regularly pays bills on the website of their primary financial institution. Though that's the same percentage as those who most commonly pay at billers' sites, it's significantly below the 39% of all online users and the 46% of all online banking users—two much broader segments—that most often pay bills at their primary bank's site.

“Having grown up with and developed a high level of comfort with the Internet,” says the Forrester report, “young affluents are more likely than online users in general to have begun paying bills at billers’ sites before they opened traditional bank accounts.”

How to lock in more Young Affluents

To strengthen their position against direct billers for the loyalty of the young affluent segment and other young adults, Forrester suggests five approaches:

1. Make the service more useful and attractive by adding more payment options. Choices include acceptance of credit and debit card based payments and “just in time” payments. “In particular, offering expedited payments to last-minute bill payers will help ensure this traffic remains within the financial institution environment,” the report says, “while helping to capture the revenues that last-minute payers are able to bring to the bottom line.”
2. Deploy online and mobile bill payment alerts. Enhanced control of their finances has become very important to customers generally, but particularly for younger customers accustomed to electronic messages and alerts. Says Forrester: “...online and mobile alerts to notify [consumers] of bills coming due or that have just been paid will help increase the utility and immediacy of bill payment services, while adding minimal incremental costs.”
3. Emphasize the “free” in free bill payments. “It may seem obvious,” Forrester says, “that most leading U.S. banks no longer charge for bill pay services, but recent research indicates that the message isn’t getting through to some bank customers.” The company urges banks to drive the message home explicitly, not just as part of a broader message of “free online banking.”
4. Layer adoption drivers in ongoing marketing. Banks should “combine multiple marketing messages” in their billpay campaigns, creating “layered messages” that will “resonate with customers from multiple angles.” Examples include time convenience, cost savings, security advantages, and environmental benefits. Layering those points in conjunction with other bank services can help create a buffer against direct billers, says Forrester.
5. Move beyond an acquisition-first mindset. In a maturing market, Forrester emphasizes that banks need to recognize that simply acquiring new billpay customers will no longer be as effective as in the past. More important now will be activation and onboarding of acquired customers during the first 90 days to ensure that laggards receive outreach and support in using e-billing service. BJ

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