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TECH TOPICS: Electronic billpay usage heats up

Hands-on marketing and no fees have finally pushed this customer-sticky service into the payments mainstream

By [Lauren Bielski](#), senior editor

At last, your average Joe and Jane are signing up for electronic bill payment—and so are their twenty year olds.

Sure, the “e way” is still an activity of a highly publicized minority. An estimated 12% of U.S. checking account holders take care of business each month with their mouse, according to Matt Lawlor, chairman and CEO, with Online Resources Corp. The Chantilly, Va.-based provider of bill payment and online banking services reaches eight million end users. This puts it just behind Checkfree in terms of market reach.

Yet, adoption has finally hit the inflection point, in 2006, of the widely heralded “hockey stick” or “J-curve” of technology use, say Lawlor and other experts in the field. Early on, consumer inertia and problems with the service relegated it to a novelty act. Now, however, billpay providers can expect less friction in a ride straight to the top—or at least, a steadier climb to the first round of mass acceptance of the service—and not a moment too soon in 2007.

Sanjay Gupta, senior vice-president of e-commerce and ATMs with Bank of America, points out that his bank’s efforts toward spurring adoption have paid off—BofA, after all, is the acknowledged market leader. “We’ve gone from seven million users in 2002 to 21 million online users today,” Gupta says. Yes, they led the pricing revolution (free) and ran ad campaigns to promote the service, all of which helped, but BofA also trained employees on the ins and outs of the service in what could only be accurately called an organic educational campaign. “Once they used it at home they could speak from the heart when singing its praises or presenting a demo to branch customers,” Gupta explains. Security concerns were almost as big a barrier as price—at first. “We used alerts, simplified online statements, and clearly stated zero liability language on the site. The SiteKey service—which acts to prevent unauthorized account access—also helped users feel safe,” says Gupta.

Wells Fargo, another market leader in the online billpay space, also benefitted from an “in-store” campaign to promote the service through employee testimony and demonstrations. “Once customers are shown how the registration process works, they get over any natural resistance we tend to feel over something new,” says Jim Smith, executive vice-president, internet services group.

When it comes to paying bills online, many consumers—BofA customers and others—are experiencing the convenience and rich payment detail of the electronic method for the very first time.

While consolidated bank sites aren’t the only beneficiaries of this growing affection for this “old but new” method, banks are capturing a good bit of incremental business via internet banking services, says Carol Coye Benson, partner, Glenbrook Partners, Menlo Park, Calif.

Patrick Foy, group president, bank servicing and e-payments, Fiserv, Brookfield, Wisc., points out that in the universe of financial service providers, big banks and credit unions scored first with early users.

Now, however, banks of all sizes are offering online bill payment for free—and consumers are taking them up on it. “What’s different now is that fast followers are taking the lead of banks like BofA, Wachovia, and WaMu, and are bundling this service with DDA and other core accounts,” agrees Catherine Graeber, Forrester Research, Cambridge, Mass. “Overall, annual growth in adoption of the service in 2005 was 34%, the highest growth rate in four years,” she explains. “Underperformers in the top 10 over-performed in 2005. And, below that group, in that second- and third- tier of banks, growth is similarly dramatic.”

By now it’s common knowledge that consumers who started with online billpay services years ago have—in general—tended to be among the bank’s most profitable customers. While mainstreaming will yield a more mixed group in terms of profitability, internet banking will continue to be a lower cost channel to deal with a widening pool of customers.

Action, accelerating

And so it seems success is finally an option. “Sign-up rates and usage rates are accelerating,” agrees Kim Sutherland, director and chief operating officer, Market Line Associates, an Atlanta-based consulting firm that delves into electronic bill payment trends as part of profitability assessment services for financial services. (She defines “usage” as a consumer paying at least one bill electronically per month.)

Who’s getting a piece of the action? Experiencing stepped-up usage are biller direct sites (i.e., credit card, utility, telecommunications URLs), non-bank consolidator sites still operational today (such as Yahoo), and bank and financial services websites. According to Checkfree, today’s macro trends indicate a 15% CAGR for consolidated bank sites.

“In the late ’90s, the biller-direct sites had the edge in adoption,” notes Jeff Weikert, senior vice-president of the CSP business unit at Checkfree, Atlanta, “but the dynamic is shifting. More consumers are aware of the billpay services their bank offers and more like the idea of seeing all bills gathered in one place.” (Admittedly, early turf struggles have largely given way to a new era of cooperation among billers and banks.)

Moreover, many non-top 50 banks are beginning to experience truths long touted by providers like Checkfree. That is, “e-services” are sticky, and that regular online billpay users are more loyal and more likely to recommend their bank to others.

Users from all circumstances

Since the price is right and many wrongs with the service have been corrected, users of the service now are a universal sample of the population, including college students and other Gen Y cohorts, mass affluent families with payors and “account managers” who are middle-aged, small service or retail business owners, and e-savvy users in search of capabilities such as cell phone account access, for life’s little payment emergencies.

In psychographic research conducted by Checkfree in 2004 and late last year, only two segments continue to stay away: paranoid paper pushers and desperate avoiders. (Quite frankly, both groups seem a little high maintenance and might not be missed.)

In the case of bank-sponsored sites, bill payment is being neatly bundled with basic internet banking services that have traditionally let consumers check balances, review transaction activity, or transfer funds between accounts. “The link is seamless, the experience is far more elegant and intuitive,” says Beth Robertson, senior analyst, global research payment specialist, at TowerGroup, Needham, Mass., and a steering committee member of the Council for Electronic Billing and Payment.

Online billpay, Robertson reminds, refers to the ability for a registered user to authorize a payment to anyone electronically. Increasingly, at most bank-sponsored sites, “billpay” also encompasses presentment, that is, the electronic delivery of a bill to the bank site—from multiple billers—with the ability to select the payment instrument.

What made the difference, now?

Some of the latent success of online billpay can be attributed to penetration of broadband, says Mike Friedman, Mercator Advisory Group,

Waltham, Mass. Some of it to the fact that consumers are learning to live with “e-risks.” Also, in a world where consumers are often stressed out, overworked, or distracted, financial service providers appear to be responding to a pay-anywhere, pay-anytime public. Cell phone payment trials in the U.S. are part of this broader trend.

Basically, consumers are stepping up their efforts to get a grip—running their debts and obligations instead of being run by them. And banks want to meet that demand.

In terms of “version 2.0 and beyond” of billpay offerings, banks and their providers are getting sophisticated. Richard Winston, Dallas-based director of North American Payments for Accenture, believes that not only is the industry past the early struggle (“with delayed-payment horror stories”), but he believes that increasingly banks will put a premium on incentive services (pay with X and get reward points) as well as offer expedited payment for a fee. Over time, he says, even that service will be free.

And while plenty of industry watchers, including Glenbrook’s Carol Coye Benson, point out that banks won’t capture the bill payment business of all consumers (an estimated eight million are unbanked, and many others are “too scattered to stick to one method, venue, or instrument,” according to the analyst), data shows that banks continue to hold their own.

“We noticed a big change in acceptance with greater numbers of bills delivered electronically—now about 80% of our payees are known as managed payees, meaning their bills are delivered and we have their information to expedite processing,” says Wells Fargo’s Jim Smith. “With same-day settlement on many payments and one to two days on the rest, the benefit is compelling. It simply becomes a matter of education and promoting the service.”

Looking at billpay in broader context

Billpay was supposed to be a pronounced revolution, but it didn’t work out that way. Yet to put it in historical perspective, billpay uptake is a big improvement over the ATM adoption curve, notes Matt Lawlor. While it’s inconceivable to today’s consumers, Lawlor remembers a time in his own banking career when ATMs were perceived as exotic, ill-trusted devices and consumers had to be persuaded, even coddled, to get closer.

“The banks are ready, the service is mature and improving all the time, and consumers are ready to put their trust in it,” Lawlor says of billpay’s perfect storm. “It’s really that simple.”

Accenture’s Winston adds that today’s services offer a simplified registration process and have superior user interfaces compared to the old days.

Individual banks, Lawlor points out, had to get familiar with EBPP. “They had to understand operating costs, figure out the investment return, and determine how the service impacted customer loyalty and retention.”

When asked why consumers didn’t flock to banks for the billpay service initially, Forrester’s Catherine Graeber, said: “Seems strange, but many consumers just didn’t realize what banks had to offer, and, in many tiers of the market, many banks didn’t offer the service until recently.”

Also, banks are better at getting consumers to sign up and use the service. “With our help, our banking clients provide customers with a well-structured on-boarding procedure that includes e-mail and call center outreach,” notes Lawlor.

Who will get the future business?

Not every bank goes to the same extent to familiarize consumers, but in-branch or direct-mail promotional campaigns are more the norm since BofA pushed the service about two years ago, running television ads incessantly, like the one showing someone paying bills online while her bathtub was filling. That was a turning point in getting the service on the public’s radar.

BofA’s Sanjay Gupta adds that a robust user interface design process—the bank’s current site, for example, features popular billers listed in one corner and a calendar that shows the timing of payments in another—and the addition of presentment also helped pushed the service into the mainstream. (“More than 7.7 million bills are delivered today as compared to under one million in 2002.”)

Still, to Coye Benson, it’s not a foregone conclusion that banks will get all, or even most, of the future flow of e-billpay business. “Google and PayPal definitely have the loyalty of many consumers, and some Gen Y-aged consumers are more familiar with them,” she says.

TowerGroup’s Robertson isn’t sure. “By 2010, 50% of U.S. households will pay at least one bill online,” she says. “Banks will continue to get some business.” **BJ**