

Electronic Bill Pay: Niche Opportunities Still Abound

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Boston, MA (AllPayNews.com) September 25, 2008 -- This newest report from Mercator Advisory Group's Retail Banking Practice outlines the opportunities within electronic bill pay that continue to arise as new technologies, new networks and new marketing creates an overlay of bill payment services (from both consolidators and billers) and mutable consumer needs.

After many of the early players in the EBPP space filed for bankruptcy and vanished along with their virtual coins (remember Cyber Cash?), the finish line of what constitutes universal adoption of EBPP has continued to evolve and morph.

First, bankers and billers got online consumers setting up user names and passwords to log-in to check account activity, balances and payment postings.

Second, bankers and billers got consumers to sign up for online bill pay and now, third, bill pay players are convincing consumers and commercial customers to relinquish paper statements and adopt truly electronic end-to-end bill pay.

This moving end-point of adoption means that EBPP is not a product/service whose attributes and value are so apparent that when consumers are educated about it, they switch from check to electronic bill payment and that is the end of it. Rather, biller and bank technology offerings and consumer preferences continue to change, which creates windows of opportunities for new vendors and new services.

It is critical that retail banks resist an increasingly common perspective on the expenses banks absorb in offering electronic bill presentation and payment. Offering online bill payment is not a net billion dollar cost to banks. Online banking and bill payment is a billion dollar expense to its department but across the bank, it stands as a bulwark against customer attrition, creates interactions conducive to cross-selling and is the interface transaction pouring deposits into the accounts of their largest corporate customers.

In the coming months, retail banks must address their internal competitive issues to resolve expense/revenue allocations to break through the logjams blocking credit card acceptance for bill payments.

Bank bill pay has lagged its biller direct competition in the acceptance of credit cards for bill payment. Most online banking and bill payment web sites were built to bolster consumer loyalty at the lowest possible cost to the bank. Credit card acceptance for bill payment is very specifically not a part of lowest-cost strategy planning. But bank customers are clamoring to use credit cards for recurring bill pay and bank bill payment web sites will never be the dominant bill pay channel until payment methods are driven by consumer preference, rather than bargain basement technology expenses. If banks are going to pull \$36 Billion in fees out of their customers' wallets, they must also resign themselves to absorbing some costs to serve those same retail customers.

Also, they need to quickly begin working with their processing vendors to create bill pay portals capable of accepting and processing prepaid card bill payment. Within two years, the payment of a billion bills will move from money orders to prepaid cards and currently, neither consolidators nor billers are positioned to gain market dominance as that change occurs.

Report Highlights:

In EPBB, well-financed niche billers snub the competitive landscape of revolving bills and focus on high-margin, low-competition niche capabilities including single-bill environments, building bill pay credit files for nonprime consumers, same-day expedited payments, bill pay with prepaid cards and bill pay with credit cards.

Not only are bank e-bill payments a required offering to banks' most profitable customers, nonprime customers are anxious to enroll in recurring ACH bill pay and nontraditional credit reporting programs.

Banks have dramatically lagged behind billers in accepting credit cards for recurring bill payment. For consumers, the value proposition of bill pay by credit cards is too great and banks resisting this trend invite customer defections.

Banks must begin to quickly work with their processing vendors to create bill pay portals capable of accepting and processing prepaid debit card bill payments. Within two years, the payment of a billion bills will move from money orders to prepaid cards and currently, neither consolidators nor billers are positioned to gain market dominance as that change occurs.

In 2007, 830 million money orders with a value of \$110 Billion were issued. We estimate that money orders will be supplanted by electronic payment methods, principally prepaid debit cards, quite quickly. In 2011, only 74 million money orders will be issued but 900 million bills will be paid using prepaid cards. Together, those money orders and prepaid cards will remit \$147 Billion of consumer bills.

Elizabeth Rowe, Group Director of Mercator Advisory Group's Banking Advisory Services and author of this report, comments, "Among electronic bill payment providers there has been a stampede to promoting the monetization of expedited payments. While consumers appear quite willing to pay \$5 to \$15 to avoid late payment charges and a ding on their credit reports, what was a niche vendor offering three years ago is now a standard capability customers expect and banks have already built that income into next year's revenue projections.

Two emerging trends will dramatically affect electronic bill payment methods and future bill payment volumes.

Increasingly, consumers are demanding that billers and consolidators offer them the capability to pay recurring bills with their rewards accruing credit cards. Banks have resisted yielding to this consumer demand, but moving forward, they do so at heightened levels of peril.

In the mid-1990's, when banks charged fees for online bill payment while billers invited customers to log onto their websites and pay their monthly bills for free, saw a stampede of bank customer defections to biller direct payment sites. The banking industry is only now, a solid ten years after that misstep, reclaiming its disintermediated bill pay customers. Refusing to accept credit cards for recurring bill payments would be a loyalty killer redux and we strongly recommend that retail banks step back from replicating a previous hugely consequential miscalculation.

The single most common bill pay instrument used by the unbanked is the money order and in 2007, 830 million money orders with a value of \$110 Billion were issued. Mercator Advisory Group estimates that money orders will be supplanted by electronic payment methods quite quickly. The combination of First Data's withdrawal from this market and the organic migration of consumers to non-paper bill payment schemes will send the money order market into a free-fall of declining demand. We predict that the half-life of the money order is just until 2009 and then the use of that venerable product will taper until existing contracts with retailers expire.

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The report is 32 pages long and contains 15 exhibits

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