

Is Electronic Bill Presentment and Payment Poised for Growth?

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In the last "The E-Files" column, we profiled several Tenth District financial institutions (FIs) that offer online banking products such as Electronic Bill Presentment and Payment (EBPP). This column more closely examines EBPP and the various roles FIs can play in offering it.

According to the Federal Reserve System Check/Electronic Instruments Study, consumers write a staggering 13 billion checks for bill payment or remittance. In comparison, *Online Banking Report* estimates that in 2002, U.S. consumers will pay only 600 million bills online. Though these numbers suggest that EBPP is still in the "infant" stages of adoption, they also illustrate the service's vast growth potential. FIs in particular might benefit from offering EBPP. Although EBPP may not be profitable, it could help FIs attract profitable customers to other products such as wealth management and investment services. Studies suggest that individuals who bank online and engage in EBPP have higher annual incomes, more investable assets and a greater number of financial products than those who don't.

Service methods

Consumers opting to use an EBPP service have three methods from which to choose: biller direct, consolidator or lockbox. With the biller direct method, FIs play virtually no role in the process. Rather, billers that have established electronic payment capability on their Web sites notify participating customers either by paper or e-mail that a bill is due for payment. By visiting the biller's Web site, those customers can view billing information and make payment directly to the biller using a credit card or demand deposit account. The biller direct method is typically free to consumers and is most prevalently used by telecom, insurance and credit card companies.

The consolidator method of EBPP is based on agreements the consolidator establishes with a variety of billers to provide presentment and payment capabilities to the billers' customers. Consolidators may be FIs such as banks and insurance companies, Internet portals such as MSN and Yahoo, or other private sector entities such as CheckFree. Acting as a "service bureau," the consolidator collects billing data from billers, delivers it to customers and collects payment instructions from customers online. The presentment model used by the consolidator can be either "thick" or "thin." With the thick method, customers can view summary and detailed information about individual transactions. The thin method provides only summary billing information; if customers want detail, they must go to the biller's Web site. In both instances, the consumer decides when and how much to pay, and according to those instructions, the consolidator submits electronic payments to those billers able to accept them and mails checks to those that cannot. Consolidators have the opportunity to generate revenue from billers by facilitating presentment and collection processes and from consumers by providing presentment and bill payment services.

The third EBPP method, consumer lockbox, provides a means for consumers to receive all their bills electronically by enrolling with and rerouting their bills to a lockbox provider such as PayTrust. When paper bills are received at the lockbox, they are scanned and converted to electronic statements. The



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electronic statements are then presented to consumers to review. Payment to billers and fees to customers are similar to those associated with the consolidator method. And as with the biller direct method, FIs play virtually no role in the process.

Advantages and disadvantages

The three EBPP methods provide consumers, billers and FIs with various advantages and disadvantages. From a consumer perspective, the biller direct method is typically free, enables viewing of detailed billing information and payment directly to the biller (often via credit card, which enables the consumer to earn rewards points). However, the biller direct method is not offered by a wide range of billers and requires consumers to establish and maintain multiple biller relationships. The consolidator method enables consumers to pay multiple bills in one location but may not include all bills. In addition, detailed information may not be universally available, payment may ultimately be made by check (which can impact the timeliness of the payment and result in late fees) and a fee is charged by the consolidator. Lastly, the lockbox method provides a means by which consumers can see all their bills in one location; however, it shares the consolidator method's drawbacks.



From a biller's perspective, the biller direct method offers reduced statement production costs and a faster delivery mechanism. It also enables billers to maintain direct contact with consumers to preserve the opportunity to market other services. However, this method may be expensive to design, host and maintain, and it requires consumers to take the initiative to visit multiple biller sites. The consolidator and lockbox methods allow billers to offer EBPP without having to implement their own infrastructure, but billers generally lose branding and marketing opportunities because they no longer have direct customer contact. In addition, in the thin version of the consolidator method, the biller still must provide a means for customers to obtain detailed billing information.

From an FI's perspective, the consolidator method is the only one of the three that offers business opportunities. Indeed it offers opportunities to serve both the biller and consumer. An FI can assist billers by facilitating their presentment and collection processes and help consumers by providing consolidated bill presentment and payment services. Both roles could result in increased customer retention, loyalty and cross-selling opportunities. However, like consumers and billers, FIs must weigh the possible benefits of EBPP against the costs and challenges. Though numerous EBPP models are available and the potential market is large, only time will tell whether EBPP grows sharply. ■

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