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DISRUPTING THE BILL PAY MARKET:  
INNOVATIONS CREATE OPPORTUNITIES  
TO UPGRADE THE EXPERIENCE  
FOR ALL PARTICIPANTS

*A Mercator Advisory Group Research Brief Sponsored by Mastercard*



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## Introduction

“Every once in a while, a new technology, an old problem, and a big idea turn into an innovation.” The author of this quote, engineer and inventor Dean Kamen, has applied it to innovations such as the Segway. His idea is also distinctly applicable to the financial services industry. The “old problem” of using cash and checks for person-to-person transactions spawned the innovations of P2P payments. Credit card fraud led to encryption and tokenization technology. Insecure and laggard money transfers are being addressed by real-time payments.

Now another financial services tangle is being recognized and transformed by technology. This one is as basic as paying bills, which has become complicated for the entire bill pay ecosystem, including consumers, banks and credit unions and other financial institutions (FIs), biller service providers, and the billers themselves by a puzzle of digital and analog transactions. For the transactional stakeholders in this market, bill pay represents an area ripe for innovation through technology and partnerships.

Bill pay transactions make up 30% of consumer spending,<sup>i</sup> with the total estimated at more than \$4 trillion annually in the United States. This makes paying bills central to consumers’ financial lives, but making an electronic bill payment, particularly when paying through bank bill pay, can be a complicated exercise for a consumer:

- Setting up a biller can be cumbersome and prone to errors.
- Consumers often can’t see the amount owed or the details of each bill they are attempting to pay.
- The process lacks transparency, so consumers are unclear when payments are actually received by their billers, particularly with ACH-based payments.
- Consumers are not provided a choice of payment types.

The alternative of using billers’ websites to pay bills is not easy either. For example, consumers have to remember unique logins and passwords required when paying with each biller individually. Potential security issues result as consumers enter their payment and other details on multiple websites.

For financial institutions and billers alike, bill pay transactions have been similarly complicated by a need to support varied payment types, the associated support expenses, as well as limited transparency. The market is due for a new bill pay solution to improve the customer experience and to help banks and billers capitalize on the opportunities to move the market toward more digital interactions. Innovation will also enable stronger engagement between financial institutions and consumers through bill pay services at a time when those relationships are fragmenting.

This research brief details the bill pay market’s problems and innovations by covering four areas:

- Recent trends in consumer bill payments
- The opportunities present in the current bill pay market
- The role of real-time payments in bill pay
- Mastercard’s role in market innovations through Mastercard Bill Pay Exchange

## Recent Trends in Bill Pay

The two most striking trends in the current bill pay market have been consumers' move away from financial institutions and the growth of mobile bill pay.

### Financial Institutions Are No Longer Central to the Bill Pay Experience

Financial institutions' online banking websites, and later their mobile apps, were central to consumers' bill pay experience. Consumers who wanted to pay bills from their checking accounts electronically had one secure site where they could make all their payments. FI-based bill pay was championed as a great tool for customer retention. And yet, given the lack of revenue opportunities and the increasing costs for this service, financial institutions did not invest heavily in their bill pay capabilities, nor did they promote the service even as adoption of online and mobile banking grew.

Currently, as few as 27% of U.S. consumers<sup>ii</sup> make their online bill payments through their FI. In 2010, this number was closer to 40%. The dramatic drop has been the result of online bill pay users finding a better experience by paying directly on billers' websites. A consumer who pays bills online may go to different sites for credit card payments, utility bills, and insurance, healthcare expenses, telecom, and other bills. Biller-direct sites are offering benefits appreciated by consumers such as the choice of payment and the opportunity to see their entire bill, not just the amount due, and they are getting consumers' attention by communicating with them directly through alerts and notifications about their bills. These features are sufficiently beneficial that consumers are willing to go through the cumbersome effort of creating separate user names and passwords and logging into separate biller sites each time they need to pay a bill.

Running counter to this trend is the satisfaction that consumers show with their financial institutions' online and mobile app experience. In a survey conducted on behalf of American Bankers Association, 93% of U.S. consumers rated their respective banks' online and mobile app experience as "excellent," "very good," or "good." The survey also found that 70% of Americans use a mobile device to manage their bank account at least once per month and 46% do so more than three times per month.<sup>iii</sup> This data suggests that financial institutions have an opportunity to create a more coherent and comprehensive customer experience by including an engaging bill pay experience in the digital banking solution to become central to consumers' bill pay routine once again.

### Growth of Mobile Bill Pay

Consumers are rapidly embracing mobile bill pay. An S&P U.S. Mobile Banking Survey found that 53% say bill pay is the most important mobile banking feature but 11% say it's not available via their bank's phone app.<sup>iv</sup> Mercator Advisory Group's CustomerMonitor Survey Series report on digital banking finds that of transactions consumers conduct with their mobile phone, the most common activity is paying a bill. In 2017, 31% of U.S. consumers *paid* their bills from a mobile phone and 28% *received* their bills through mobile phones directly from billers. The shift toward mobile for bill payments is underway.

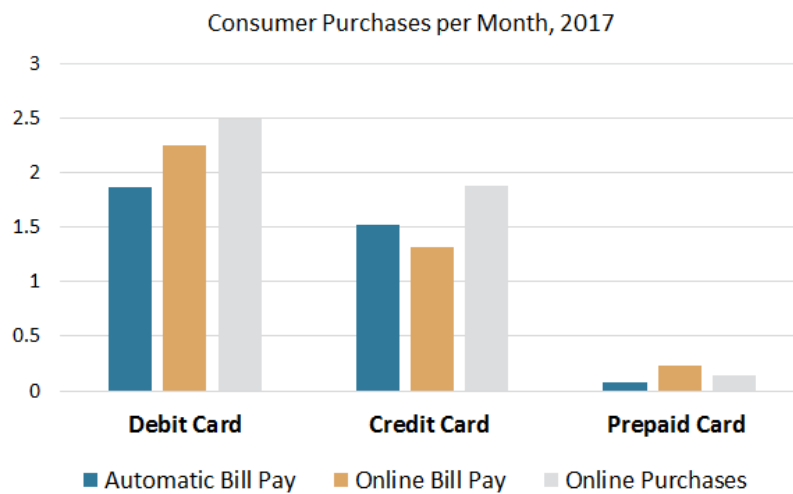
## Current State: Friction and Opportunity

The bill pay market is fraught with legacy problems and is ready for a change. It is a massive yet inefficient market. Following is a review of the primary points of friction in the current market and how turning these around can create opportunity.

### The Need for Payment Choice

In 2017, U.S. consumers paid more than half of their bills using payment cards according to the Federal Reserve's annual *Survey of Consumer Payment Choice*. Indeed, U.S. consumers made almost as many online bill payments as online purchases. As shown by the data in **Figure 1**, they used debit cards most frequently for both online purchases and online bill payments. In a typical month, they averaged 11 bill payments using debit, credit, or prepaid cards. They made about 5 bill payments from a bank account using electronic methods including recurring automated clearing house (ACH) transactions and 5 from a bank account using paper methods (cash, check, or money order).

**Figure 1: Online Purchase vs. Bill Pay**



Source: Federal Reserve Bank of Boston, Research Data Report 18-3, *The 2016 and 2017 Surveys of Consumer Payment Choice: Summary Results*

Consumers have the right to use different payment options depending on need and situation. In fact, many use multiple channels sequentially to complete a financial transaction, starting in one channel and continuing or finishing in another.<sup>9</sup> For bill pay, many consumers choose to spread their payments across different payment types for several reasons: (1) the convenience of certain payment types, (2) the opportunity to earn rewards (e.g., credit card rewards, debit card rewards, or a benefit offered by the biller), and (3) the opportunity to pay over a period of time as needed.

For financial institutions, this mix of payment methods represents a missed opportunity as most FI-based bill pay solutions offer only one option—the ability to pay from a checking account at that institution. Offering choice gives the FI an opportunity to capture a substantial revenue stream and increase the strength of customer relationships. By embracing a more advanced bill pay opportunity, FIs gain three key benefits described later in this paper.

### **An Appreciation for Improved Clarity and Service**

If there is one thing that the bill pay ecosystem has learned from the dramatic shift of payments from financial institutions to billers' sites, it is that consumers are drawn to those biller sites because of the information they receive there and the ability to take action immediately. They are able to view a digital version of their bill with complete details, review their previous payment history, dispute charges if needed, receive confirmation that their payment has been received by the biller, and set up alerts and reminders for future payment due dates. Although setting up a relationship with each biller is time-consuming and potentially poses a security risk as consumers establish their payment credentials with each biller, consumers are willing to go through the hassle for the improved transparency and support that they gain.

### **The Convenience of a Digital-First Solution**

As consumers choose the convenience of paying more bills digitally and with a clear shift toward mobile, a solution built with a “digital-first” approach will attract more users and has built-in opportunities. Online and mobile channels with the right technology represent a communication platform for notifications, payment tracking, and connections with budgeting solutions. Financial institutions are a natural fit to bring all these digital capabilities together in one place, providing a holistic view of a bill payer's obligations.

### **An Opportunity to Displace Checks**

Despite the increased use of the digital channel in 2017, U.S. consumers on average wrote 1.72 checks to pay a bill each month.<sup>vi</sup> That equates to billions of bills being paid by consumers writing checks and dropping them in the mail. Some payers will always be reluctant to change habits despite the benefits of paying a bill through more efficient digital means, not the least of which is knowing that the bill has been paid. These benefits suggest that much of the current check use can be wrung from the bill pay process if the message of better options is communicated.

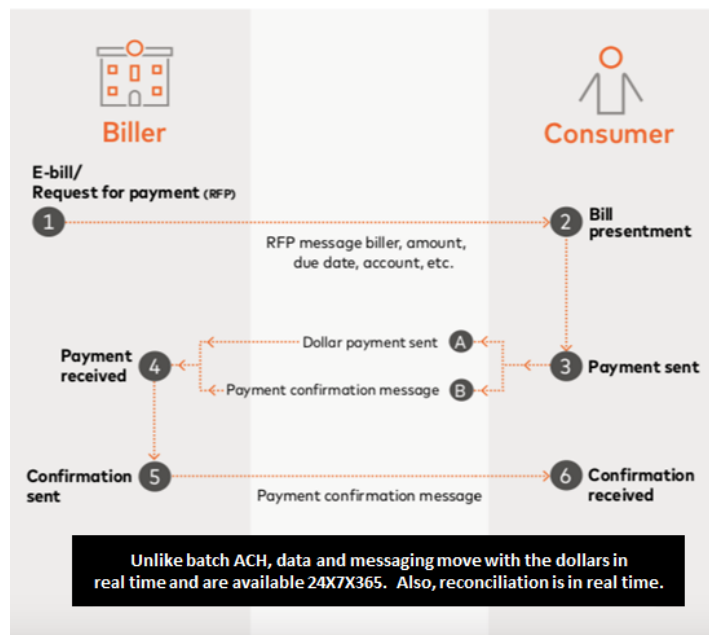
Even consumers who are familiar with online and mobile bill pay services continue writing checks. They do so because they want to make a payment from an account not set up with the financial institution they use to pay bills, or where it is uncertain if the biller can be paid electronically. Many also think that by using the mail they are controlling the timing of the payment. The right solution, with payment choice, payment timing, a pay-anyone option, and confirmation of payment, can vastly reduce usage of checks. Certainly financial institutions and billers champion the effort since checks are costly to process and manage and are more susceptible to fraud.

## The Role of Real-Time Payments

Real-time payment solutions in the United States are still evolving, but the benefits they offer to the bill pay market are already getting attention. The near-instant settlement of good funds gives consumers an option to avoid late payments and the associated fines as well as provides the peace of mind that a bill was paid with certainty. Real-time payments have benefits for billers because they receive irrefutable funds that can be immediately used for other business needs. Just as important as the speed of a real-time payment transaction is the quantity of data that accompanies the payment. Leveraging the expanded real-time messaging capabilities provides the necessary information to match a bill with its payment, making reconciliation automatic and fast for billers, improving efficiencies and reducing costs.

In this environment, the biller sends the payer a notification via text, push notification, or email informing that the bill is due and requesting payment. The notification includes access to billing details. Upon receipt of the bill, the payer can respond by crediting the biller with funds immediately or scheduling a timeframe for the payment to be made. The payment can be made from a variety of funding sources including a checking account, debit card, credit card, or another eligible source. The biller sends confirmation data back within seconds so the consumer is assured that the bill has been paid. An example of this Request for Payment process is illustrated in **Figure 2**.

**Figure 2: Real-Time Payments Process in Bill Pay**



Source: Mastercard, Real-Time Payments Report

## Mastercard's Response to Bill Pay Challenges: Bill Pay Exchange

Taking into consideration all the current friction points, trends, and new opportunities, any transformative innovation in the bill pay market would need to improve the customer experience, embrace mobile payments, incorporate real-time payments, and provide an accessible platform for billers and banks to work together. Mastercard has entered the market with Mastercard Bill Pay Exchange—a mobile-first bill payment solution that will offer viewing and paying bills in a single place, an easier/automated biller setup, broad bill presentment, payment choice, and enhanced messaging. The solution will also add the power of real-time payments once the industry is ready.

Mastercard is leveraging strategic partnerships and its real-time messaging capabilities from Vocalink to create the Bill Pay Exchange with accepted standards for banks, processors, biller service providers, and billers. Bill Pay Exchange is building on three decades of experience where Mastercard has a network of 135,000 billers through the existing Mastercard Remote Payment and Presentment Service (RPPS), which currently manages 45 million electronic payments every month.

Partnerships with banks and billers are critical to bringing Mastercard Bill Pay Exchange to life. Financial institutions and processors will be able to integrate their online and mobile user experience via APIs. Banks and billers can sign on with industry technology partners to facilitate systems integration, real-time payment messaging, and confirmation. In addition, billing information provided will enable FIs to auto-suggest billers to their customers so they don't have to manually add the businesses to whom they make regular payments. This remedies a major consumer pain point.

Mastercard Bill Pay Exchange seeks to transform the billing experience by the unification of billing statements, transparency of data, and mobile platform and is focused on providing:

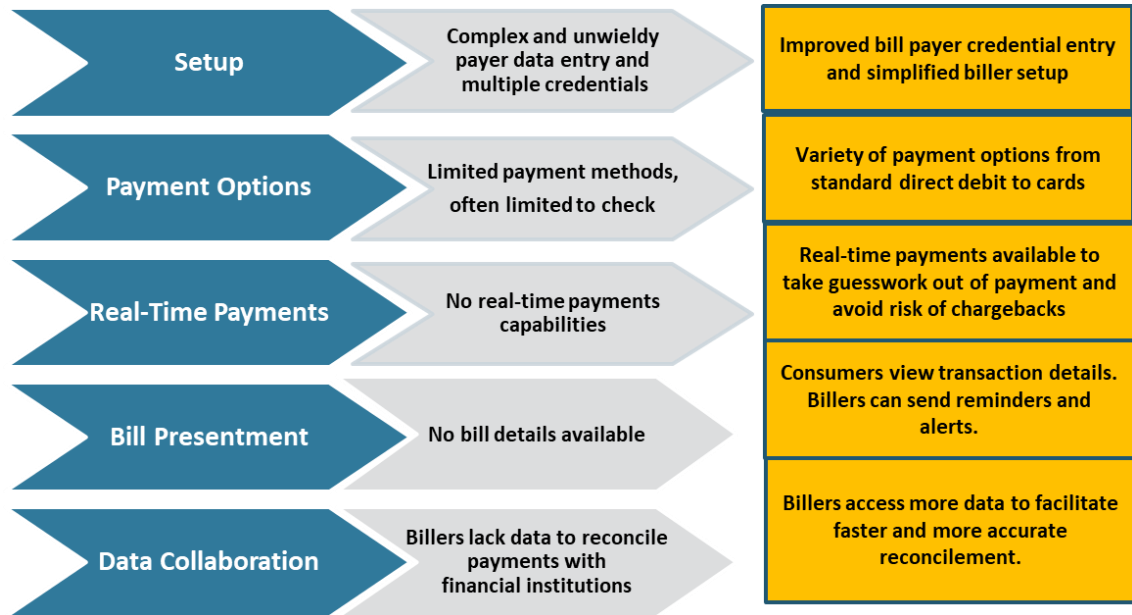
1. **Payment options.** The Bill Pay Exchange solution offers a variety of payment options so that consumers can choose the one(s) that best fit the way they want to pay. Payment options will encourage consumers to pay electronically, not with checks.
2. **Easy biller setup.** Requiring less input from users speeds biller setup and reduces errors.
3. **Real-time messaging.** The technology adds reliability for consumers and billers, taking out the guesswork concerning when bills will actually be paid. Billers that are not enabled for real-time payments will still receive transaction messaging in real time.
4. **Improved communications.** Consumers can receive notifications and reminders about their bills so as to keep track and not miss any important payments due. They will also receive real-time confirmation of their payments so there is no question that their bills have been paid.



- Clarity through enhanced data.** Billers will receive more transaction data to facilitate more accurate and faster bill reconciliation.

**Figure 3** lists the pain points inherent in the current bill pay process and indicates how Mastercard Bill Pay Exchange offers solutions.

**Figure 3: From Bank Bill Paying Pain Points to Improvements with Mastercard Bill Pay Exchange**



Source: Mercator Advisory Group

One of the industry bill presentment and payment platform providers, Transactis, has been working with Mastercard to bring Bill Pay Exchange to market. Its CEO, Joe Proto, stated:

Neither the Bank Bill Pay model nor the Biller Direct model offers a holistic experience for consumers or businesses because billing data and bill payments are not integrated. Mastercard Bill Pay Exchange offers transformational technology for banks to bring a seamless billing and payment experience to both consumers and businesses. Transactis is eager to help Mastercard integrate the advantages of Biller Direct to help reinvent Bank Bill Pay. We created Transactis to help banks drive value for their clients with advanced Biller Direct technology. As a partner to Mastercard Bill Pay Exchange, Transactis helps promote next generation solutions for banks to make payments not just faster but smarter for both consumers and businesses.

The consumer experience is set to launch in the second half of 2019 and will be offered to financial institutions.

## Conclusions

The current state of bill pay remains decidedly analog despite the rise of online and mobile payments, which are meant to provide digital efficiency. For the consumer, bill payment is a complicated process that needs to be streamlined. For financial institutions, billers, processors, and other participants in the bill pay ecosystem, the current state of bill pay has led to diminishing returns from what could be a source of customer loyalty and engagement.

Innovation in this market is needed to serve the bill pay ecosystem well. Mastercard's Bill Pay Exchange is an industry solution that endeavors to provide an upgrade by directly addressing key pain points with digital solutions, transparency, improved data, and the benefits of real-time payments to solve existing pain points and further eliminate paper checks. Banks and credit unions can strengthen their relationships with customers and members through a holistic bill payments offering that includes billing partners. Billers get a new payment channel, decreased costs, and reduced collections.

By improving the digital bank bill pay experience, with mobile-first and integrated real-time payments options, banks and billers will keep pace with the most important part of the bill payment equation: the consumer.

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<sup>ii</sup> <https://www.digitaltransactions.net/consumers-increasing-pay-billers-directly-rather-than-through-bank-sites/>

<sup>iii</sup> <https://www.aba.com/Press/Pages/111318MorningConsultResults.aspx>

<sup>iv</sup> <https://www.spglobal.com/marketintelligence/en/news-insights/research/u-s-mobile-banking-survey-participants-increasingly-hooked-on-payments>

<sup>v</sup> Mercator Advisory Group, *Digital Banking: Improvements Needed to Compete with Fintech*, April 2018, <https://www.mercatoradvisorygroup.com/Reports/Digital-Banking--Improvements-Needed-to-Compete-with-Fintech/>

<sup>vi</sup> <https://www.bostonfed.org/publications/research-data-report/2018/the-2016-and-2017-surveys-of-consumer-payment-choice-summary-results.aspx>

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