

# 2015 Global Payments Insight: Bill Pay Services

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With big change comes big opportunity

# Catalyst

## Payments are at a crossroads

The payments market is changing. From cash to checks, to charge and credit cards, through to store and then debit cards, payments have traditionally been an aspect of financial services where little attention has been paid to this important step, and were largely taken as a given. Changes were measured in years if not decades, and there was little element of surprise to what to expect with payments. This is no longer the case. Instead payments are now evolving rapidly with new providers, new platforms and new payment tools launching on a near- daily basis.

The seismic shifts now happening in the payments market mark an unprecedented period of potential disintermediation for some, and long term advantages for others, and it is still unclear exactly how the dust will settle in the coming years ahead.

Since there is so much at stake, it's perhaps surprising that the voice of many key players in payments, particularly the organizations that take payments, on a scheduled or one-off basis, remain little heard and even less well understood. Much of the media hype around the revolution in payments remains fixed on either consumers or individual payment segments with little context or real consideration as to how these technologies will play out together, or across the broader payments value chain.

As payments become smarter, this evolution has the power to transform the billing and payments experience, and as such the needs, experiences and expectations of all of the payments value chain is more critical than ever.

Late last year, technology analyst house Ovum, in conjunction with ACI Worldwide, conducted the Ovum Global Payments Insight Survey, a global survey of retailers, financial institutions and organizations like consumer finance, higher education, insurance and other firms that send out bills (referred to as "organizations" in the rest of the paper), asking them about their experiences, perceptions and expectations of payments and how this is shaping their behavior today. As payments go from an evolutionary to a revolutionary market, it is essential that the views of all those involved in the value chain are understood.

The analysis presented here highlights some of the key findings of this survey work and provides an explanation of what this means for payments today in terms of global payment strategies and investment priorities. This document is focused on the views and experiences of organizations and is one part of a four-part series based on ACI and OVUM's 2015 survey. Those interested should visit [www.aciworldwide.com/billpayinsights](http://www.aciworldwide.com/billpayinsights) for further information.

## Methodology

For the 2015 survey, ACI and Ovum created a nineteen point questionnaire, looking at key aspects of payment players existing infrastructure, their forecasts for spending, areas for investment and their perceptions on where payments fit within their broader strategic objectives.

This digital survey was then sent to key payment decision makers globally in October - November 2014, providing a snapshot of payment perceptions amongst financial institutions, merchant retailers and payment accepting organizations, such as consumer finance, higher education, and insurance, amongst others.

Overall, this included a total 1,119 executive respondents across 15 industry sub verticals in 25 key global markets, resulting in over 144,000 separate data points on perceptions and expectations of payments amongst critical payment enablers globally.

Ovum notes that for the payment taking organization segment, this survey was conducted exclusively on the America's region.

This industry perspective piece focuses on consumer finance, insurance, higher education, government, utilities and healthcare providers.

Those interested in finding out more are advised to visit [www.aciworldwide.com/billpayinsights](http://www.aciworldwide.com/billpayinsights) for further information.

Respondent Breakdown	
<i>Total Organization Respondents</i>	<b>149</b>
PTO Respondent Sub-sectors	
<i>Higher education</i>	<b>15.4%</b>
<i>Insurance (personal, auto)</i>	<b>24.8%</b>
<i>Consumer finance (e.g. automotive loans)</i>	<b>8.1%</b>
<i>Government (includes municipal utilities)</i>	<b>17.4%</b>
<i>Healthcare services</i>	<b>16.1%</b>
<i>Utilities (investor owned, private)</i>	<b>18.1%</b>
Example Respondent Titles	
<b>Chief Operations Officer, Finance Director, GM Finance</b>	

## Summary

### The customer experience and cost structure of payments are shifting

Organizations that receive payments are now waking up to the deeper implications that the dramatic shifts in payments are having on their businesses. With a growing alertness to the rising demands from consumers, and a positive perception of new payment technologies, organizations across all segments (consumer finance, higher education and insurance, among others) are increasing their investment and focusing on modernizing their bill pay services.

Key highlights provided by the 2015 Ovum Global Payments Survey show that:

- 75% of organizations say consumers expect more payment options.
- 50% of organizations are evaluating at least eight new payment methods.
- 56% of organizations are increasing investment in payments.
- Reducing the number of fee collectors in the payments value chain is seen as the top opportunity.
- Organizations report they want to form direct connections with banks, while 85% of banks report they want to work more closely with organizations to reduce their cost and enhance the customer experience.
- An enhanced customer experience and cost savings are the chief benefits expected from increased investment in payments infrastructure.

While also reducing costs, this rising focus on the customer experience is now placing organizations into a more critical positioning within the broader payments value chain. By focusing on reducing the number of payment intermediaries and adding new capabilities, this will give organizations an opportunity to gain a commercial advantage.

The U.S. payments market in particular remains ripe for disruption, with many organizations reliant on this country's slow and cumbersome 40-year-old ACH and card systems. The renewed focus on payments will likely see new innovations and approaches to payments take hold within broader business strategies over time.

Organizations are now increasingly seeking to satisfy their consumers, lower their costs and strengthen security. Organizations are now acting to ensure they will be ready for the variety of new payment technologies emerging and improve their payments capabilities, such as by reducing the number of fee collectors in the payments value chain, as well as real-time confirmations and targeted customer offers amongst other developments.

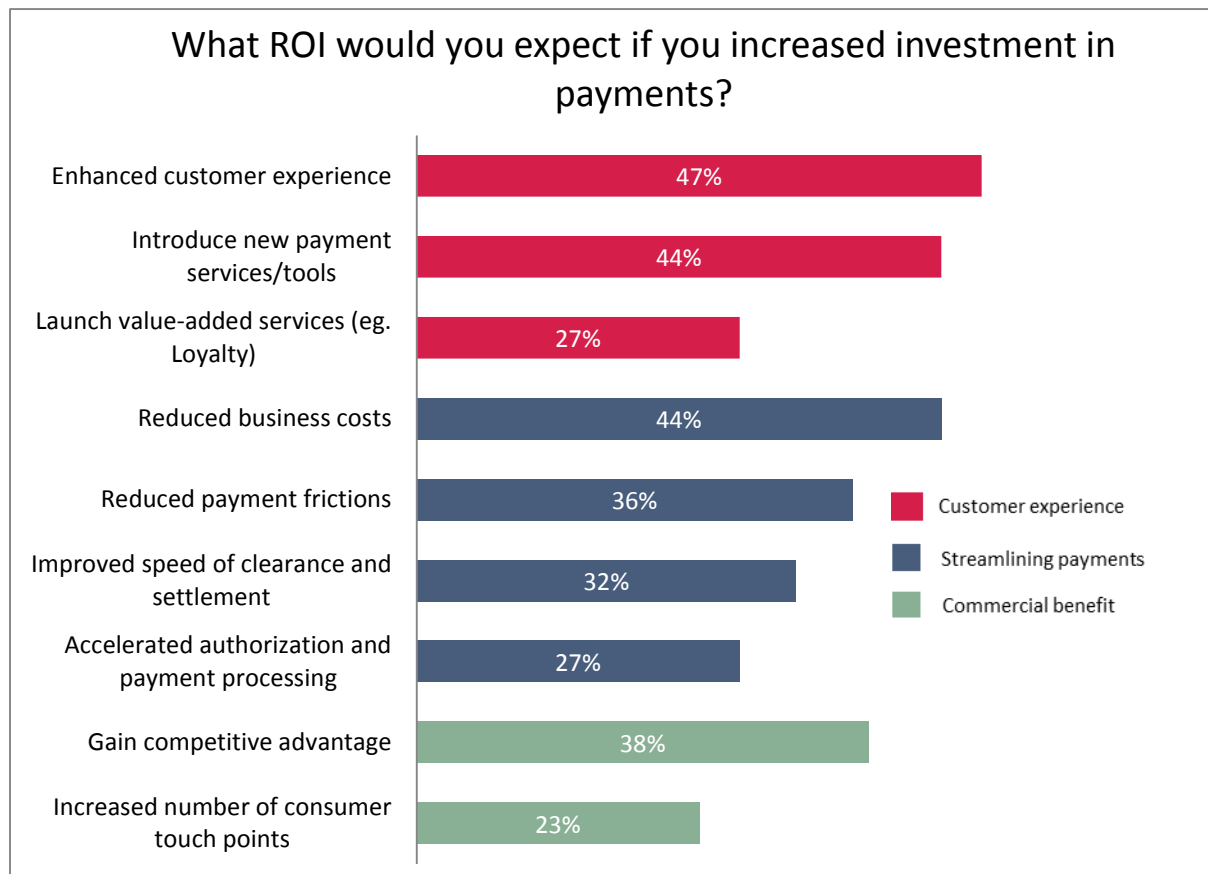
# The traditional payments paradigm is shifting

## Customer experience and cost savings are the critical drivers behind payments investment

The customer experience is now emerging as the top priority for organizations when it comes to their overall payments infrastructure. Although they face issues with cost and security fears as described below, an enhanced customer experience comes up as the top expected return on investment on any increase in payments investment (47%). Back office functions such as reducing business costs (44%) and gaining a competitive advantage (38%) also remain high on the agenda.

For most organizations this represents a fundamental shift in their relationship with payments, away from a purely utilitarian feature to a central component of their business strategy. As this perspective takes hold across a growing number of industries, competitive pressures and increasing customer expectations, mean this customer-centric payments approach will be nearly impossible to reverse.

**Figure 1: 47% of organizations view an enhanced customer experience as their top ROI in payments investment**



Source: 2015 Ovum Global Payments Insight Survey

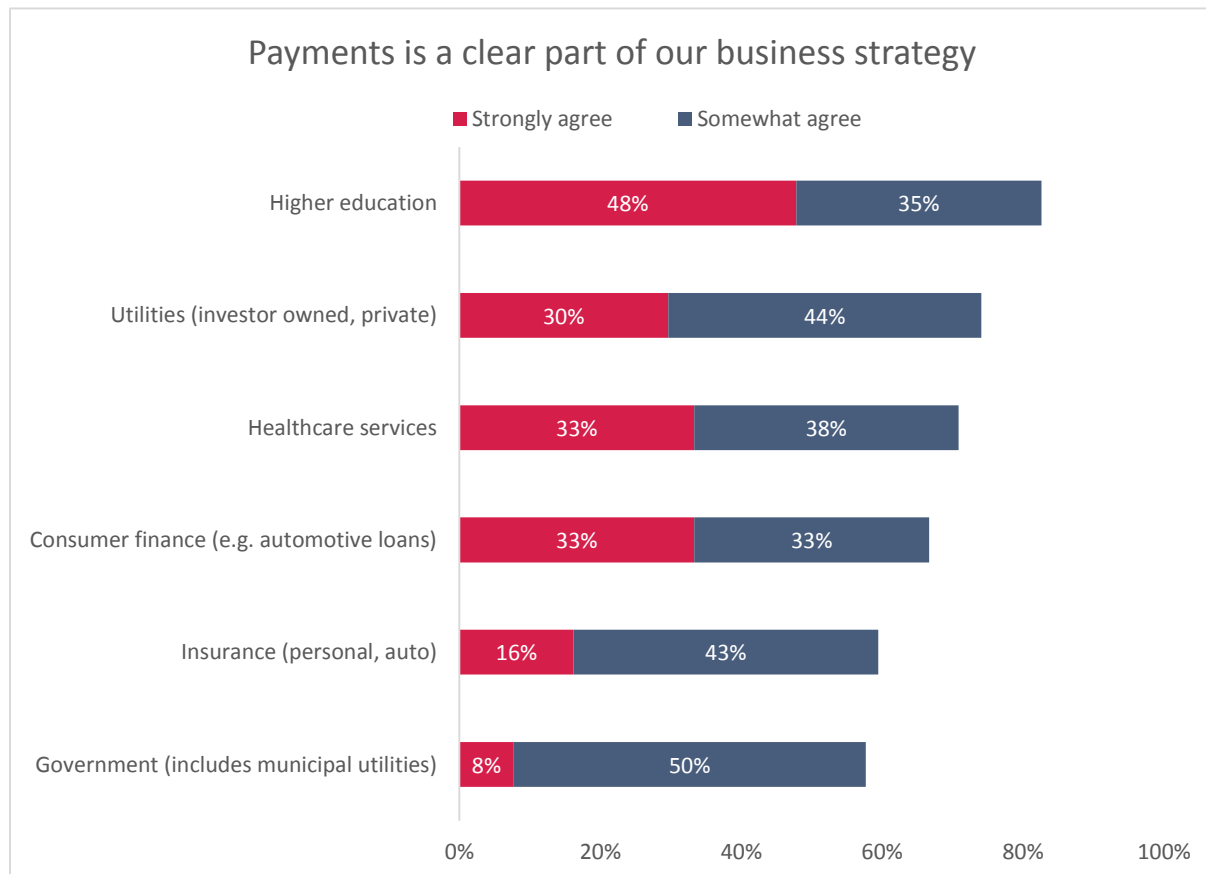
## Payments are high on the agenda for organizations of all types

Up to 83% of organizations view payments as a core part of their business strategy

A majority of organizations now view payments as a clear part of their business strategy. For many organizations the bill is their most critical consumer touch point and as such plays a key role in their broader business goals.

In all payment taking organization sub-sectors surveyed by Ovum, a majority of respondents, ranging from as high as 83% of higher education organizations through to 58% of government bodies report that payments play a key part in their business strategy.

**Figure 2: A majority of organizations view payments as a clear part of their business strategy**



Source: 2015 Ovum Global Payments Insight Survey

## Organizations want to change the payments value chain

Simplifying payments is now critical for organizations, with 44% reporting they would like to lower the number of intermediaries in the payments value chain. This comes as little surprise given the pressure on cost as described below. What is surprising is how high of a priority this is, even higher than mobile payments.

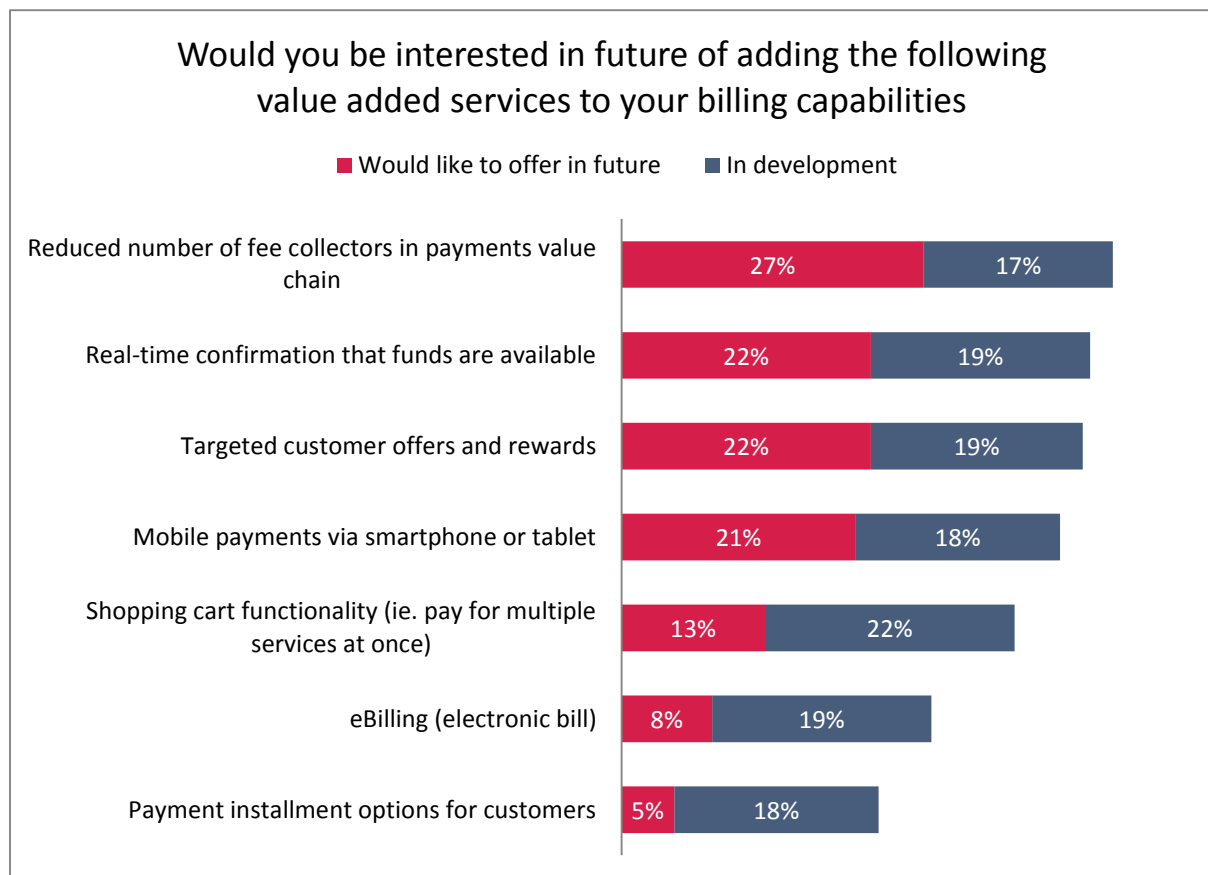
This focus on changing the payments value chain is backed up elsewhere in the survey, which also found that 28% of organizations would like to form more direct connections with their banks. In addition, 85% of banks surveyed by Ovum also reported they want to work more closely with organizations to reduce their costs and enhance their customer

experience. Alongside this 49% report that real-time clearing and settlement capabilities are either a gap in current capabilities or are currently under consideration.

Also mentioned were a variety of newer payment capabilities, which notably include real-time confirmation of funds and targeted customer offers and rewards, with 22% saying they'd like to offer it in future and 19% reporting it is currently in development.

For organizations of all types this suggests the need to balance an increase in their capabilities while simplifying complex value chains and players. Methods which allow them to achieve both at once will prove popular.

**Figure 3: 44% of organizations want or are already reducing the number of fee collectors in the payments value chain**



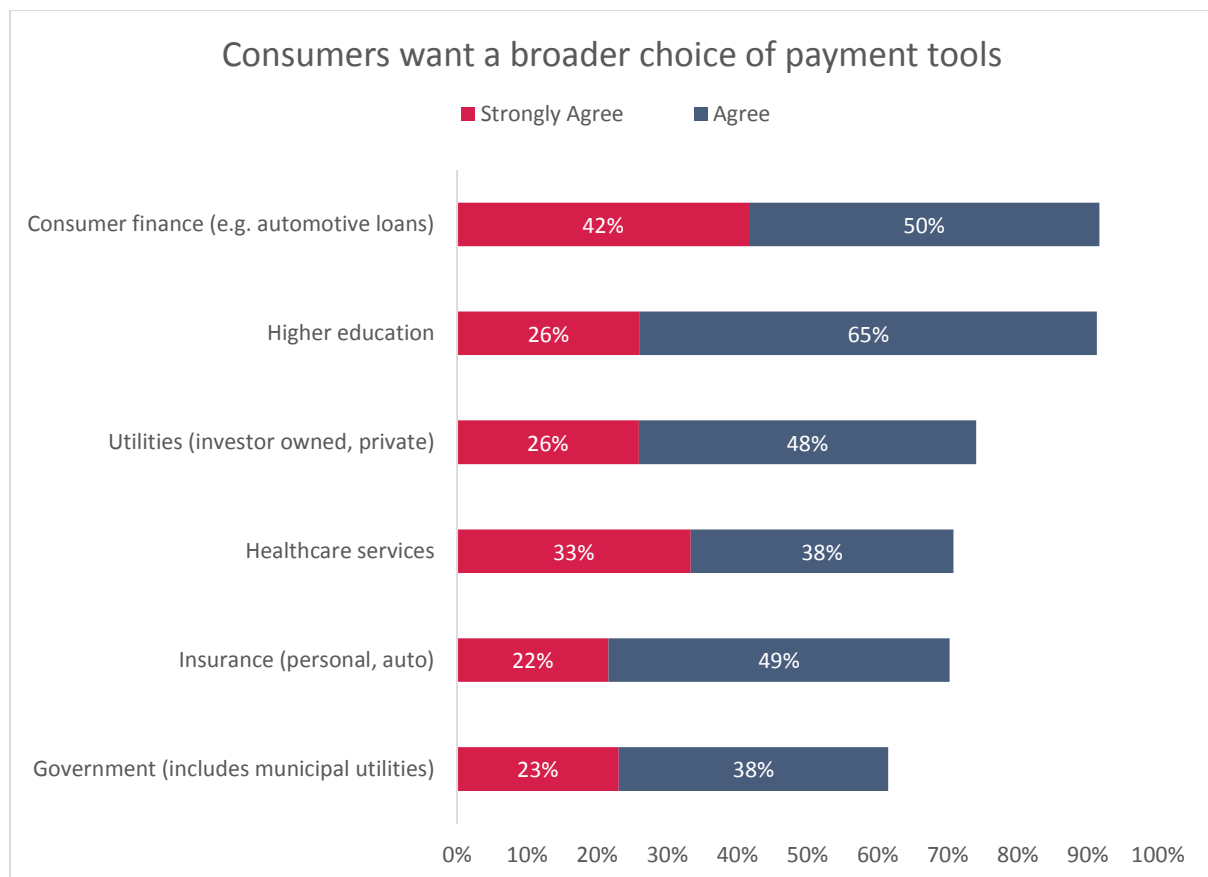
Source: 2015 Ovum Global Payments Insight Survey

# 75% of organizations say consumers demand more payment options

Given the rapid development of online and mobile channels and the ensuing growth of new payment methods, three quarters of organizations today now feel that consumers want a broader choice of payment tools. These tools range from debit and credit cards, through to online platforms direct ACH payments and newer emerging mobile payment methods.

Overall 62% of respondents reported they felt that new payment technologies will provide benefits to their organization. These potential value-added benefits include everything from omni-channel capabilities, through to customer engagement, analytics, cross selling and so on. This positivity suggests that many organizations recognize and are now poised to take advantage of the potential benefits of these new technologies.

**Figure 4: 75% of organizations believe that consumers want a broader choice of payment tools**



Source: 2015 Ovum Global Payments Insight Survey



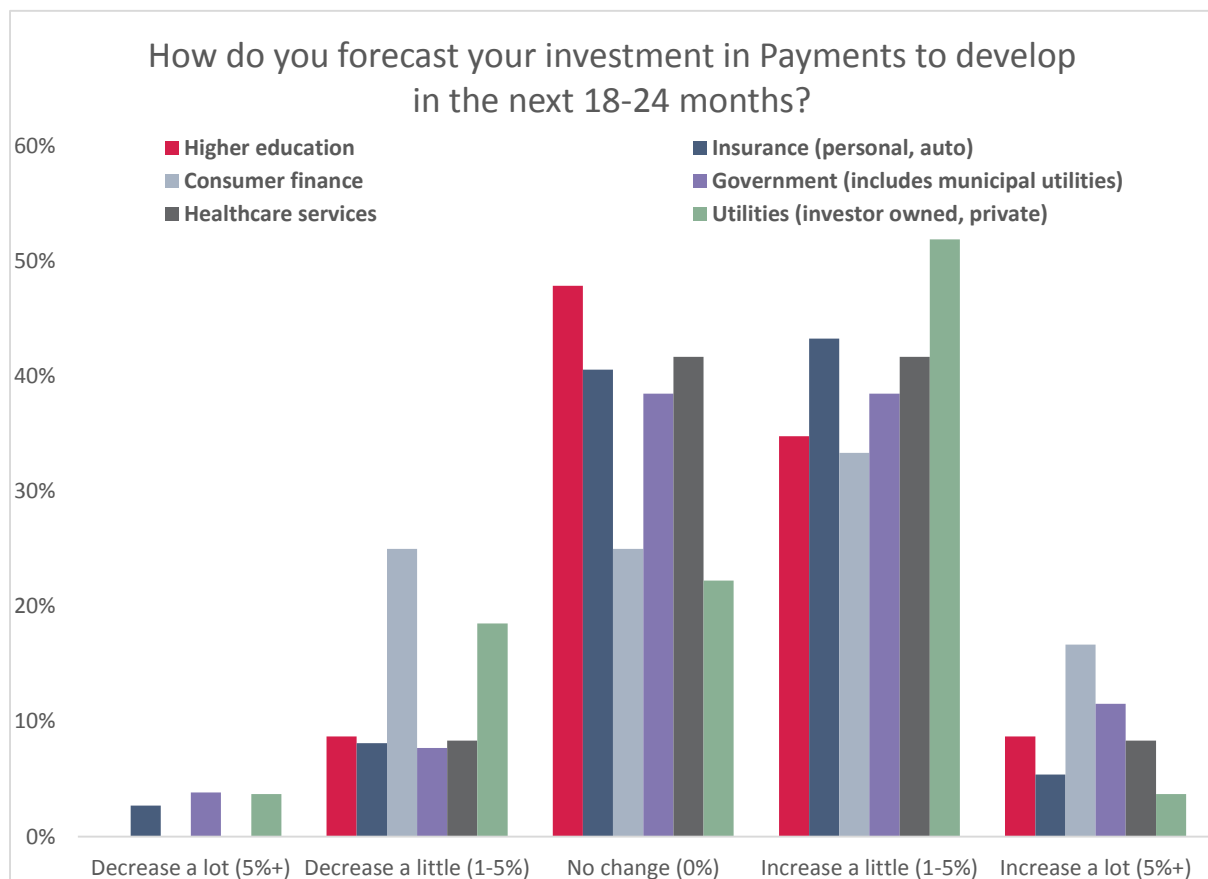
## As a result most organizations are increasing their investment in payments

With organizations conscious of growing consumer demand for a broader choice of payment tools, and a largely positive perception of the benefits that new payment technologies can bring, investment in payments is now stable or rising across all industry segments.

Privately owned utilities show the highest forecast level of investment with 55% of survey respondents reporting a planned increase. In most other segments, around 50%

report a forecast increase in investment. Even where respondents were not forecasting an increase, most suggested their spending would at least stay stable, with few reporting an outright decline. Where these declines have been reported, notably in consumer finance and utilities, Ovum notes these segments are already hugely focused on online and mobile channels suggesting they have likely already invested heavily in updating their payments capabilities.

**Figure 5: Over half of all organizations are increasing their investment in payments**



Source: 2015 Ovum Global Payments Insight Survey

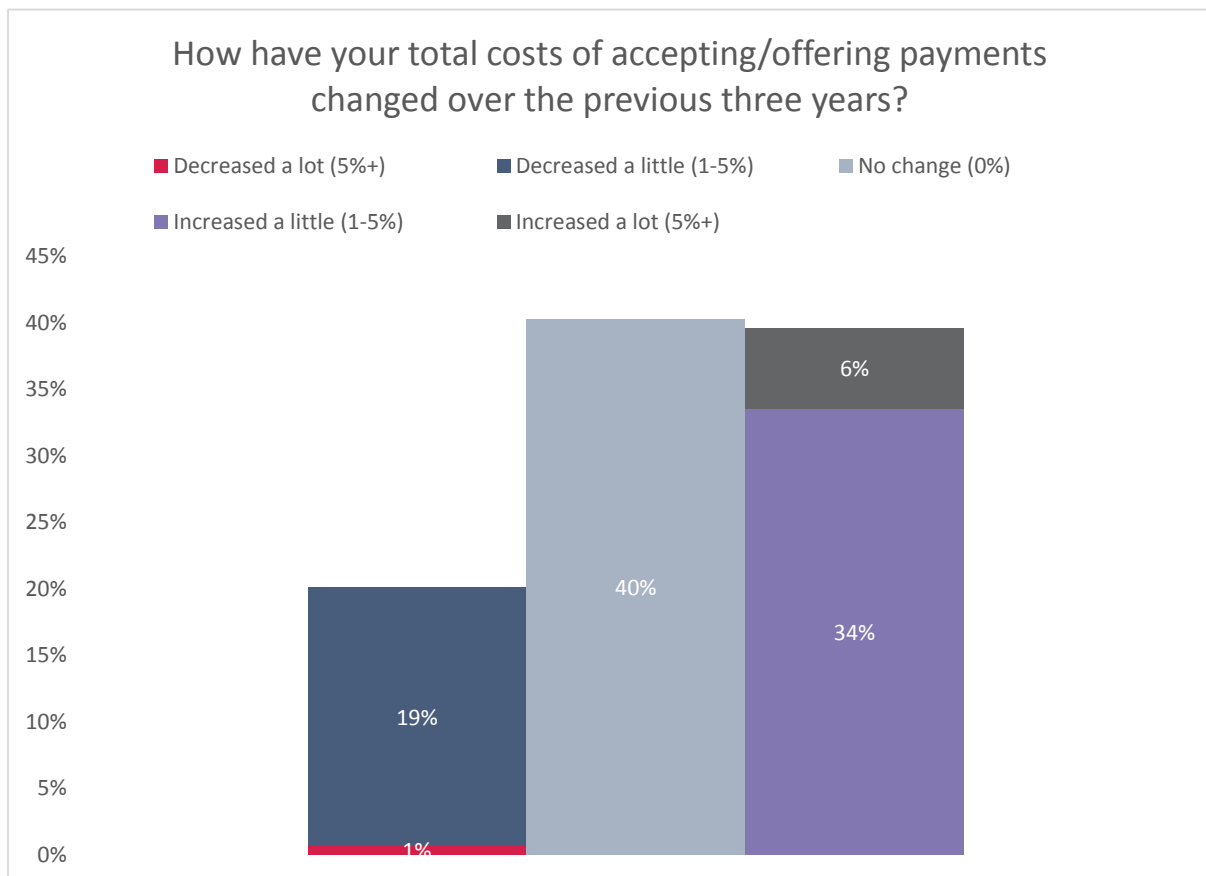
# Organizations face cost and security considerations

## Payment costs continue to rise and organizations need to find ways to reduce this

Despite the pressure being placed on interchange fees, including through the Durbin amendment, and the lower processing costs that digital channels can bring over traditional paper-based payment methods, a higher share of organizations report their costs of accepting payments is increasing rather than declining.

Overall 40% of respondents reported an increase, while a further 40% felt their costs were stable, and only 20% experienced a decline. With organizations conscious of the potential benefits that new payment technologies can bring, means of lowering their payment costs will remain high on the agenda.

**Figure 6: 40% of organizations report their cost of accepting payments has increased over the previous three years**



Source: 2015 Ovum Global Payments Insight Survey

## Security fears are needlessly holding back investment

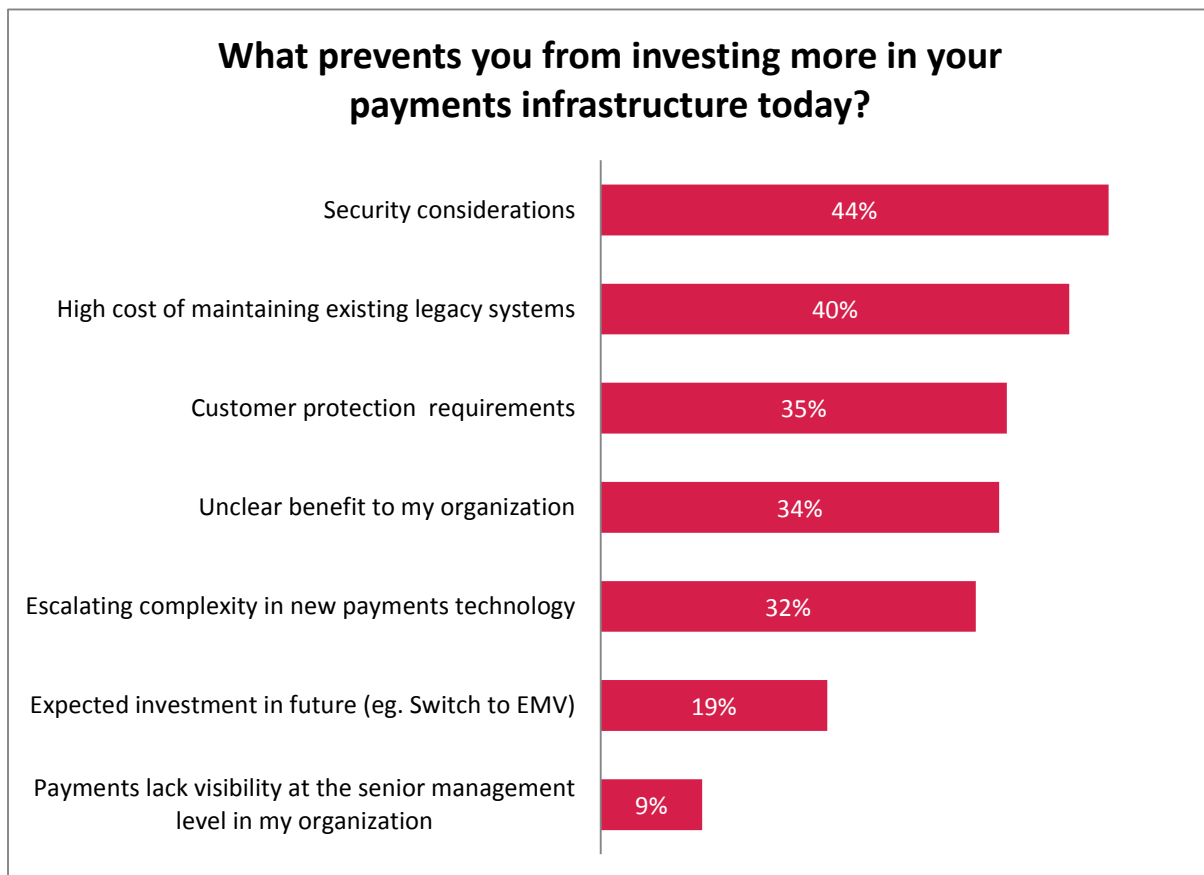
As organizations seek to modernize their bill pay service to help meet consumer demand and lower their payment costs, they are being held back by fears over security and what risks new technologies could in theory expose them to. This sort of perspective however is ultimately self-defeating as it may limit these same organizations' abilities to implement the latest security technologies to protect themselves.

When organizations were asked what prevents them from investing in their payments infrastructure today, 44% cited security

considerations as a stumbling block, followed by the high cost of maintaining their existing legacy systems (40%) and customer protection requirements (35%).

Although there are inevitably risks in all forms of payment development, newer payment technologies, including tokenization amongst others, drastically reduce organizations' overall risk exposure. Taking a conservative approach and remaining reliant on older technologies will increase overall security risks.

**Figure 7: 44% of organizations say security considerations prevent them from investing more in payments**



Source: 2015 Ovum Global Payments Insight Survey

# Appendix

## Methodology

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### Ovum Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at [consulting@ovum.com](mailto:consulting@ovum.com).

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