



Utilities Should Plug In to the Powerful Advantages of

Electronic Bill Payment

*Network Model Delivers Access to Virtually Every
Consumer Online Bill Payment Originator*



Delivering Access to Virtually Every Online Bill Payment

Over the last five years, a radical transformation in consumer behavior has dramatically reshaped the payments landscape, with important implications for the utility industry. Companies willing to address the changing terrain can reap huge advantages, while those that resist may lose ground to their competitors.

Going Electronic

According to a 2006 study of consumer payment preferences by Dove Consulting, consumers have demonstrated a clear and growing preference for electronic forms of payment across all payment venues—in stores, for Internet purchases, and for recurring payments. In fact, between 2001 and 2005, electronic payments' share of total payments jumped from 43% to 55%.

Checks' percentage of total recurring payments dropped precipitously over the same period. Today, checks account for just 49% of consumers' monthly bill payments, down from 72% in 2001.

Online bill payment is growing at a particularly rapid pace. In 2001, 12 million U.S. households paid bills online. By 2004, that number jumped to an estimated 34 million households, and it is predicted to increase to 50 million by 2008.¹

The Opportunity

While consumers are moving irresistibly to electronic forms of payment, different methods—such as online bill payment, credit and debit cards, and automatic recurring payments—will appeal to different consumers, depending on demographics. What's more, consumers want a choice of payment options so that they may select the method that's most convenient for their immediate needs. It's up to utilities to provide that choice.

The accelerating growth of online bill payment—in particular, a consumer-anticipated shift toward the use of online banking Web sites (e.g., financial institutions' sites)—presents a particularly important opportunity that utilities should not overlook.

The Dove study indicates that for monthly bills, 24% of consumers currently choose to pay online via either an online banking Web site or at the biller's site. Consumers, however, expect that in the future, their use of online banking sites will increase faster than that of any other payment option. In fact, by 2008, the number of consumer bills that will be paid

online through a bank will more than double, according to the research firm Aite Group.

Utilities' expansion of their electronic bill payment services to address consumers' fast-growing preference for online banking sites can deliver both significant savings and enhanced efficiencies. In the climate of industry deregulation, it can also provide a valuable tool for strengthening customer relationships.

A Recent Utility Industry Case Study

One of the nation's largest energy suppliers found itself flooded with check-and-lists from more than 2,100 financial institutions every month. The time-consuming and labor-intensive ritual of manually entering those payments into its system—a tedious and error-prone process—dramatically slowed payment posting while elevating costs and customer inquiries.

A link to the MasterCard RPPS® network, a leader in the electronic payments industry for more than 20 years, helped this company transform its resource-draining, paper-based payments operation into a model of efficiency.

Now, the company receives hundreds of thousands of payments totaling tens of millions of dollars via the network every month. The check-and-lists, transformed into electronic payments, have been all but eliminated. Today, the network connection enables the company to process twice the volume of payments it did just six years ago with half the number of employees. Moreover, the payments that used to take 7 to 15 days to post as check-and-list items are now processed automatically in just hours.

With the support of the network connection, this supplier has earned distinction as one of the industry's most productive and cost-effective companies. While its operating and maintenance expenses measure just 53% of the industry average per customer, it serves 43% more customers per employee than its industry peers.

One Connection, Multiple Benefits

What drives the impressive turnaround illustrated by this case study is the network, which functions as a central hub that collects payments from multiple sources and routes them to connected billers. With its single connection, the network offers billers and lockbox providers access to virtually every consumer who pays bills via an online banking site. Moreover,

¹ eMarketer Spotlight Report: "Online Bill Payment," October 2004.

Originator

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consumer bill-pay service providers and walk-in payment companies also connect with the network, allowing billers to electronically receive payments from these sources, as well.

Accepting electronic bill payments via a reliable network provider offers dramatic benefits for a utility's payment-processing operation:

- The speed of delivery reduces mail float and vastly improves days sales outstanding.
- Network controls enable the automatic editing of customer account information according to biller requirements, greatly reducing the potential for returns and their associated costs and customer service inquiries. Plus, robust risk management procedures promote a secure environment.
- Billers can avoid the inefficiencies and expense of processing paper exception items, which cost an estimated 30 to 50 cents per transaction versus just pennies for an electronic posting.
- Companies need to construct and maintain only one connection, versus multiple one-off connections to literally hundreds of payment originators across the country.
- A good funds environment, unavailable via the Automated Clearing House (ACH), ensures that all of the funds have been secured from the origination point before a transaction is sent to a biller, so billers can be confident that items received via the network will not have to be returned due to insufficient funds.

Reaching and Satisfying Every Consumer

Utilities that allow online bill payment at their own Web site can significantly expand their electronic reach with the network connection while enhancing customer satisfaction. The network connection provides instant access to the significant and rapidly growing percentage of consumers who prefer to pay via online banking sites, as well as those using consumer bill-pay service providers and walk-in payment companies. At the same time, it gives consumers a preferred payment option.

Companies that cannot accept electronic payments generated at online banking sites face important disadvantages in addition to the slower, more costly posting of payments. First, as consumer use of these sites increases, payment costs could actually rise for billers that do not have an efficient channel for receiving electronic payments. That's because payments originating from such sites would be delivered as couponless checks, which are costly to process.

Second, consumers who pay online expect that their payments will post quickly. The slower posting of couponless checks will frustrate customers whose electronic payments were made in a timely manner, eroding loyalty and boosting customer inquiries.

The network connection clearly provides an important payment option that is in line with both consumer preferences and corporate operational realities.

Clear Choice

With consumers increasingly turning to online banking sites, utilities can choose to reach these consumers via the network model and enjoy reduced costs, improved operating efficiency, and strengthened customer satisfaction and loyalty. Alternatively, they can opt to watch their costs rise, payment posting slow, and customer satisfaction drop.

The choice appears to be clear.

The Online Bill Payment Opportunity

- According to Financial Insights, 21.8% of electronic bill payments were made online at online banking sites in 2003 versus 78.2% at biller-direct sites. By 2008, online banking payments will account for 42.7%.
- A 2006 Dove Consulting study indicates that 31% of consumers paying bills online used online banking sites exclusively in 2005, 19% used both online banking and biller-direct sites, and 50% use biller-direct exclusively.
- According to the Dove study, the use of checks has dropped precipitously in recent years, from 72% of consumer bill payments in 2001, to 60% in 2003, to just 49% in 2005.
- By 2010, checks' share of the payment market could fall below 25% of noncash payments, according to a Dove Consulting study conducted in 2004 for the Federal Reserve.
- In five years, consumers in the United States will receive more bills through the online channel than through traditional channels, and the average number of monthly household bills paid online will more than double, according to a recent report by Jupiter Research. Jupiter forecasts that 6.4 billion U.S. bills—50% of the U.S. total—will be presented online by 2009.

Not all billers use
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to get paid electronically.

(Only those who like to eliminate
paper and get paid faster.)

Whether you have 100 customers or 100,000, getting paid electronically is the most efficient way to receive your money. Plus, when you eliminate paper, you can reduce many costly errors. So what's the fastest, easiest way to reach virtually all consumer e-payment providers? A single, direct connection to MasterCard RPPS. That's why just about every online bill payment provider in the country connects to us. Find out how you can get started today—just call **800-535-2130** or visit www.mastercardintl.com/rpps.

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