

The **NEXT** Payment

A new generation of online and mobile bill pay promises faster, more remote access for payment approval

BY LAURI GIESEN

Internet banking and bill payment programs are certainly nothing new for community banks. Some community bank pioneers have offered these services since the mid-1990s. That doesn't mean, however, that the technology hasn't continued to evolve.

Staying on top of these improvements, say experts, could go a long way to boost customer adoption for those banks already offering the service and enhance the proposition value for those customers already using online bill payment.

And that's good news—and not just for online banking's ROI. Most studies show that customers who use their bank's online services are more loyal and keep bigger balances in their checking accounts than other customers. Bill payment, in particular, has been found to make customers “sticky” as it is difficult for customers to switch banks once they sign up to pay their utility and other major bills through the bank's Internet offering.

“We've just begun brushing the surface of the benefits that can be seen from the online services we offer our customers,” says John Buhmaster, president of First National Bank of Scotia, N.Y., and a member of the ICBA payments council. “Any type of new service that a community bank can offer that would benefit our customers needs to be looked at very closely.”

Among the most promising hot technologies are:

- Expedited bill payment for same-day processing.
- Cell phone access to bank and bill payment data.
- Enhanced bill payment services for small businesses.

None of these technologies are especially costly to implement and, in most cases, community banks can rely on their existing online-banking service processors to develop and implement the technologies for them. These services do come at additional costs to the bank, some of which may be passed on to the customer, at least initially.

E-volution



The **NEXT** Payment E-volution

And while expedited bill payment and mobile-phone access are not widely available to community banks today, some service providers and consultants say they expect the technology to be rolled out within a year, making now the perfect time to investigate their suitability and availability, experts say.

Expedited Bill Payments

Most bill-payment systems offered through a third party require two days after the customer authorizes the transaction for payment to reach the biller. Some utility and credit card companies offer expedited bill payment on their own Web sites,

about to change, says Kishore Bayyapureddy, senior vice president and general manager of Fidelity National Information Services (FIS), an online banking and bill-pay service provider in Norcross, Ga. Most of the large multi-regional and national banks—expected to develop their own services in-house—will have systems ready for prime time later this year, he says.

Community banks can be ready, too. FIS is piloting an expedited payment service within its Billpointe Biller Direct product this quarter, and expects to roll out the service to all its customers by the third quarter of this year, Bayyapureddy says.

“We’ve just begun brushing the surface of the benefits that can be seen from the online services we offer our customers.”

— John Buhrmaster, First National Bank of Scotia

where, for a fee (typically \$8 to \$20), customers can make an immediate payment and not incur any late penalties or risk service disruption.

Banks typically have not been able to offer similar benefits from their Web site, but that is

“This is a real chance to provide added service to your customers and generate additional revenue.”

The service will likely carry a fee (set by the bank) to offset the cost of offering the service, which Bayyapureddy estimates will range from \$4.95 to \$10—still a substantial savings over typical late fees or the cost of restarting suspended service, he suggests.

While not all payments will be expedited, there still will be a significant number of payments that will be made due to last minute requests or special needs.

Not all billers will be able to initially accept same-day payments, but service providers like FIS already have a large number of billers that are ready to do so today, Bayyapureddy says. And most of these billers are the ones consumers are most likely to need to pay quickly—utility companies and the big finance and credit card companies, he explains.

But while many believe expedited bill pay will be a hot technology that will spur customer interest in a bank offering, there are skeptics. “It could build some additional revenue stream for banks, but I don’t think this is really the ‘oh wow’ technology that others think it is,” says Brian Riley, senior analyst with for Needham, Mass.-based Tower-Group. “The problem is that people don’t really need to pay a bill immediately all that often. I am

ONLINE MONEY MANAGEMENT

More and more consumers and businesses are demanding the convenience and ease of getting and paying their bills online. FIS Premium Bill Payment and Presentment has flexible options to bring end-to-end electronic billing and payment solutions to community banks. This service allows your customers to receive and pay their bills online and even make same-day payments to billers who offer presentment and accept same-day payments. A recent independent study conducted by Feedback Research found:

- **Almost half (49 percent) of respondents said they have paid their bills online.**
- **Among respondents who have paid bills online, 82 percent indicated they did so because it was faster/more convenient than paying bills through the mail while 66 percent liked being able to pay all of their bills whenever they wanted.**

For more information or to see a demonstration of FIS’s bill payment services, call (877) 482-8786 or visit www.fidelityinfoservices.com

The **NEXT** Payment E-volution

more interested in technologies where there is the more potential for repeated use.”

Mobile Payments

Given the predominance of cellphones in today’s culture it should come as little surprise that companies are piggybacking on the telecommunications infrastructure to develop their financial

services delivery capabilities. Banking is no exception, say community bank experts.

“Mobile-phone banking is the next biggest thing,” predicts Raj Patel, partner with Plante & Moran consulting firm in Southfield, Mich.

Here too, community banks can satisfy customer demands—especially from younger, on-the-go customers who are wedded to their cell phones—as well as generate additional income. Customers using their cellphones most likely won’t be able to, or even want to, make all their financial transactions on their home computers via the Internet, but there are some basic functions that can be provided. Such functionalities on these devices could include the ability to request balance inquiries, pay bills and transfer funds within a bank.

“Would I use a cellphone myself to bank or pay bills? Probably not,” says First National Bank of Scotia’s Buhmaster. “But there are a lot of people out there today who would. This is going to happen sooner [rather] than later.”

Online Resources’ Ron Bergamesca, executive vice president and general manager of integrated banking services at the Maclean, Va.-based online banking provider, estimates that financial institutions should be able to charge an extra \$4 or \$5 per month for each customer who signs up for mobile-phone access. “Customers won’t be able to add bill payees or set up their payees via their cellphones,” he says. “But customers will be able to instruct via a cellphone that a bill should be paid if the payee is already registered.”

They also most likely won’t be able to apply for a loan or mortgage via the phone, but those are not typically the urgent applications that lend themselves to cellphone use anyway, he reasons.

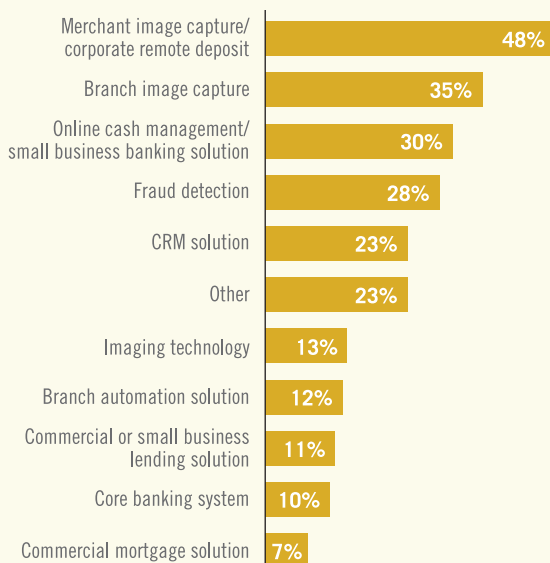
Online Resources is conducting a beta test with several banks on mobile access, and Bergamesca expects the product will be released to all the clients by the third or fourth quarter.

Some technology analysts, however, caution community banks not to get too far ahead of the game with mobile banking. “The industry is still trying to define how they will use the technology, and it has yet to be market tested,” says TowerGroup’s Riley.

While mobile phone access may not be here just yet, it is something community banks need to be thinking about now. “Community banks need to be watching this carefully,” Patel says. “If their current

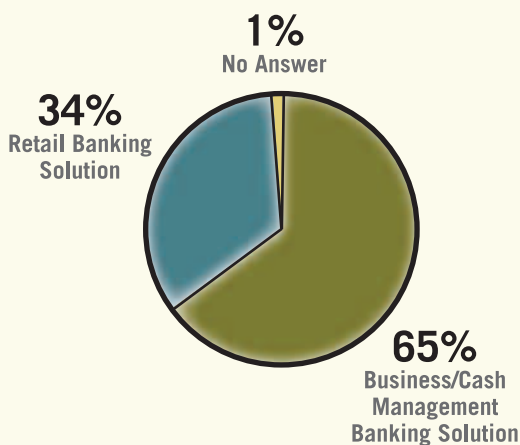
CHECKBOOK LOOK

Which of the following technologies does your bank plan to replace/deploy over the next three years?



Source: Aité Group/ICBA Community Bank Survey

Do your business customers have a separate internet business/cash management banking solution or must they use a retail banking solution?



Source: Aité Group/ICBA Community Bank Survey



service provider does not plan to offer the service, banks need to be thinking about a service provider that will.”

Although some big banks had experimented with mobile phone banking a few years ago and did not

sophisticated applications which could set the stage for banking via the phone.

“The technology was not there a few years ago and customers were not ready,” Patel says. “That has all changed in just a few years.”

“Small businesses could really benefit from better ways to pay their bills and manage their cash.”

**– Alenka Grealish,
Celent Communications**

have much success, many believe the environment is different today. Some studies show a huge increase in the use of text messaging and other more

Bill Pay for Small Businesses

Historically, community banks have viewed their small business clients as high-touch priorities. As a result, many banks have committed personnel resources to these clients while neglecting automated services, says Alenka Grealish, a technology analyst with Boston-based Celent Communications. “But small businesses could really benefit from better ways to pay their bills and manage their cash,” she adds. “Community banks need to explore how to help them do this better, and online bill payment can play a big role.”

“In my area, we have a large number of small businesses that want to use more technology and are

The **NEXT** Payment E-volution

asking for better ways to pay for their bills,” says First National Bank of Scotia’s Burhmaster.

Christine Barry, researcher for Boston-based Aite Group, agrees that community banks need to rethink their approach to how they provide online bill payment to their small businesses clients. “Until one month ago, I believed that businesses under \$1 million belonged with retail banking solutions

and businesses larger than that should be moved over to cash-management side.”

The change in Barry’s thinking came when Intuit Corp., developer of the popular accounting software Quicken and QuickBooks, acquired a major provider of online-banking services. Intuit is expected to integrate its account software into the online-banking product.

Barry believes other vendors may be compelled to follow. The benefit would likely be that online-banking and bill-payment solutions offered to retail customers should be easier to adapt for small business. “Small businesses, even those over \$1 million, will be able to stay on the retail solution longer, and it will be easier to use,” she says.

Community banks will also need to work with service providers to develop other special features that will appeal to small businesses. One important area, experts say, is developing tighter security so that employees can have access to certain information and databases within the online-banking and bill-payment programs, but not others. “We offer just the basic offering today,” Burhmaster says, “but if we had a program available that would limit access for designated employees, that would be a great feature with a lot of demand.”

But whether it is the small-business bill pay features, mobile-phone access or expedited bill-pay programs, there is plenty for community banks to look at if they want to add some zest and appeal to existing online services. **ib**

Lauri Giesen is a free-lance writer in Libertyville, Ill.