

2016 Global Payments Insight Survey: Bill Pay Services

Facing the need for innovation

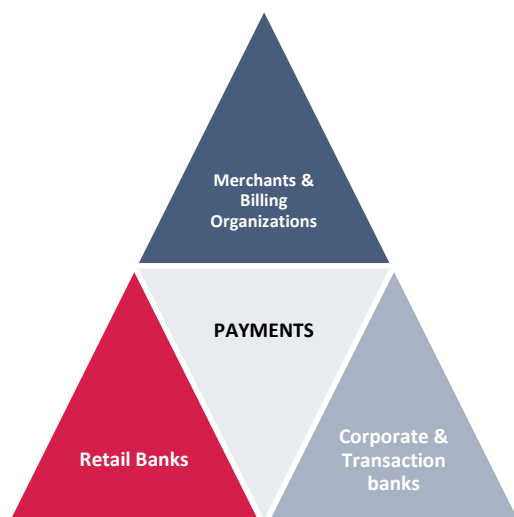


Catalyst

Payment players need to rethink roles and relationships

The payments industry has always been an ecosystem in which participants have particular roles and relationships with others.

It is now changing rapidly as existing participants continue to invest in technology and adjust to new roles while new entrants, particularly from the fintech world, continue to create new business models and threaten to displace incumbents.



Payment technologies and platforms bind these participants together in a tight ecosystem. Merchants and billing organizations interact with corporate and transaction banks in a different part of the value chain than they do with their own customers and with retail banks. However, each have different and changing priorities as well as common needs and goals.

How those touchpoints are changing, how they affect the relationships between different participants, what opportunities that presents and what that means for their future

strategies is the subject of this series of reports.

While much of the media attention is driven by the fintech hype machine and filtered through a consumer lens, there are considerable shifts happening at the regulatory, infrastructural and technology level that will have a profound effect on the way the payments industry operates. Market participants will have to create business and technical strategies to address the changes and make decisions about their role in the value chain.

In 2015, technology analyst house Ovum, in conjunction with ACI Worldwide, conducted the first annual Ovum Global Payments Insight Survey. This global survey of merchant retailers, retail banks and corporate banks, and billing organizations examines strategic plans and IT investment trends, asking respondents about their experiences, perceptions and expectations of payments and how this is shaping their behavior.

This billing organization focused report highlights some of the key findings from the second year of this research and provides an explanation of how the views and perspectives of the different players in the ecosystem contrast. It is one part of a five-part series based on Ovum's 2016 survey. Those interested in the reports focusing on merchants, retail banking and transaction banking should visit www.aciworldwide.com/paymentsinsight for further information.

Summary

Organizations are ill prepared for an increasingly competitive payments market

Organizations fighting for market share increasingly compete with the payment experiences they offer consumers. Despite the need for greater innovation when it comes to new payment capabilities, most organizations are not ready to meet this opportunity.

A reliance on legacy infrastructure hinders flexibility and innovation for many even as the pace of payments change increases. Organizations are faced with a variety of challenges including changes in how consumers pay, lowering costs, and security and regulatory compliance. All these pressures are now colliding head on leading to a period of significant investment in payments. Those that adapt and innovate quickly will benefit the most long-term.

Key highlights from the 2016 Global Payments Bill Pay Services survey include:

- 65% of organizations recognize they face growing competition when it comes to payments
- 59% of organizations are not confident that they are flexible enough to drive innovation in payments
- At least 35%, if not more, of organizations will change their business models due to compliance issues
- Security concerns are high in all sectors, with at least nine different security threats viewed as a major concern by over 50% of organizations

- 91% of organizations were not efficient enough to decrease payment processing costs last year and 51% expect costs to increase next year
- Organizations are now more likely to accept electronic payments than cash or check

Organizations face further challenges, creating immediate deadlines for action. This includes the Consumer Financial Protection Bureau's new auto-debit guidance for consumer finance, new tuition systems for the higher education sector before autumn enrollment, and the health insurance need for a competitive consumer experience for the November enrollment deadline.

Organizations of all descriptions should consider following several recommended actions to help them adapt to a shifting market:

- The changes now occurring necessitate a more proactive stance to payments innovation and this may require the use of, for instance new hosted delivery models and/or partners.
- Modernize legacy infrastructure. This will lower maintenance costs while providing greater flexibility for innovation
- Increase the range of payment options and channels available. This includes value-added services like targeted offers within electronic bill

Organizations lack the flexibility for payments innovation

Organizations face growing competition in payments

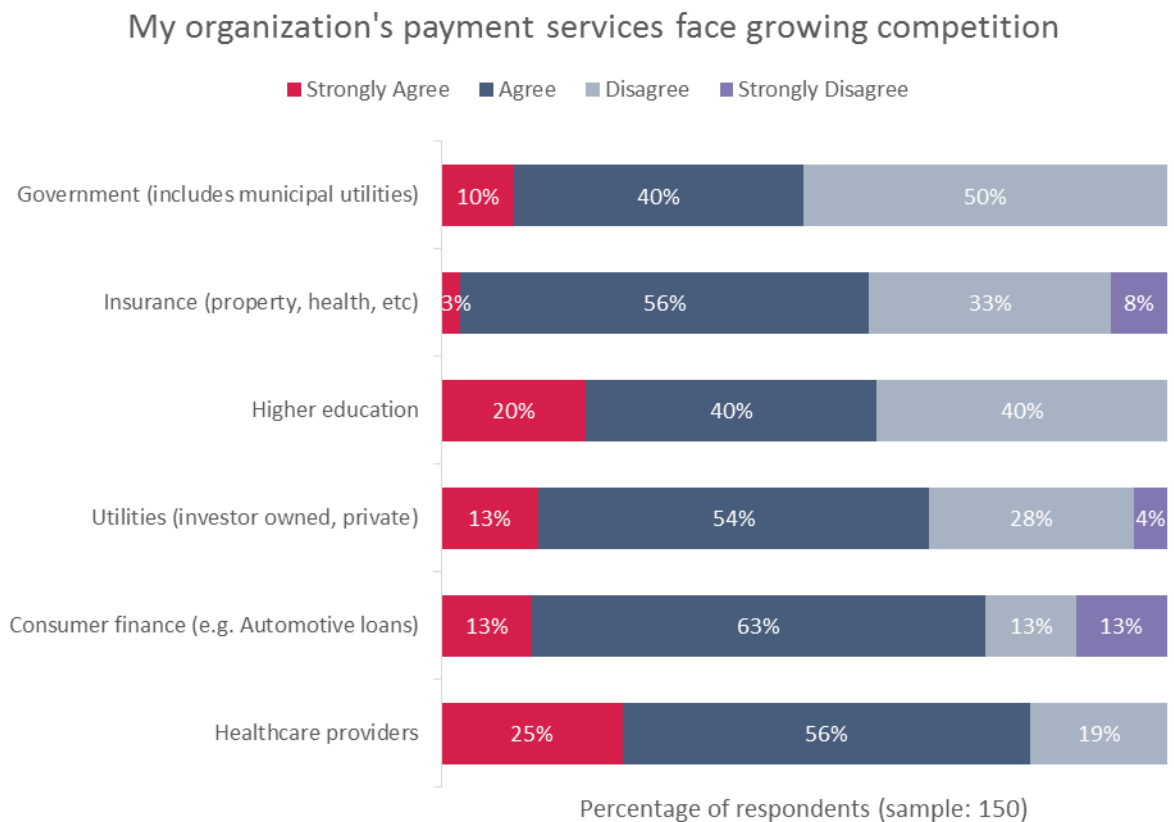
A significant proportion of organizations recognize that they face growing competition when it comes to their payment services. This is in turn fueling payments development as organizations fight to stay competitive in their market.

Even in the government space, where competition levels will in many instances be

restricted, 50% of surveyed respondents felt they faced growing payments competition. This is likely due to a perceived need to meet consumer demands and match the experiences seen in other sectors.

Competitive motion, once set into play, is difficult to stop and will keep payments high on the agenda for most organizations.

Figure 1: 65% of all organizations recognize they face growing competition in payments



Source: 2016 Ovum Global Payments Insight Survey

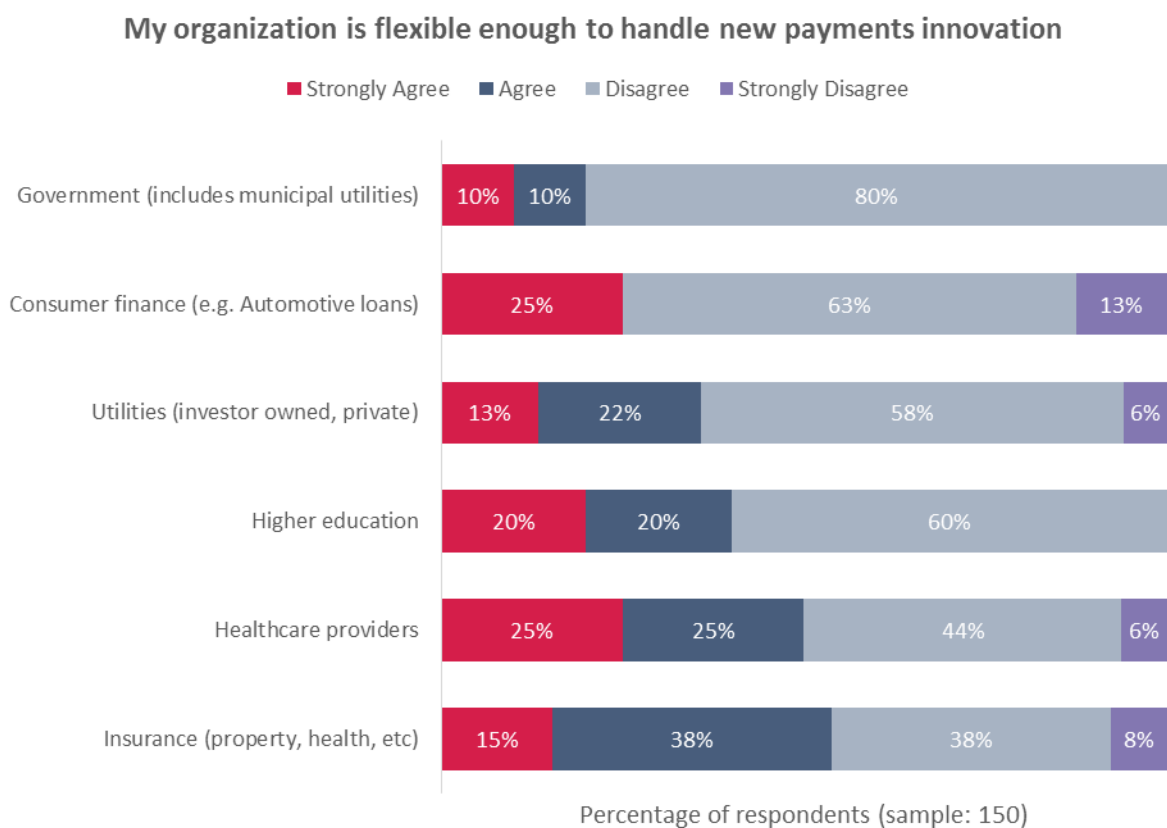
Most organizations feel they are too inflexible for innovation

Many organizations lack confidence in their ability to innovate, with a majority in most segments reporting they are not flexible enough to handle new payments innovation.

Between 50% and 80% of surveyed organizations disagreed that they were flexible enough to handle new payments innovation. This is unsurprising given the reliance on legacy infrastructure by many

Payments are increasingly shifting away from purely a functional means to an end and towards being a critical tool in broader customer engagement strategies. As a result organizations that are able to enable payments innovation now will gain a considerable competitive advantage.

Figure 2: A majority of organizations are not confident they are flexible enough to innovate



Source: 2016 Ovum Global Payments Insight Survey

Accepting new payment options is the front line of change

Organizations are adapting to shifting consumer habits

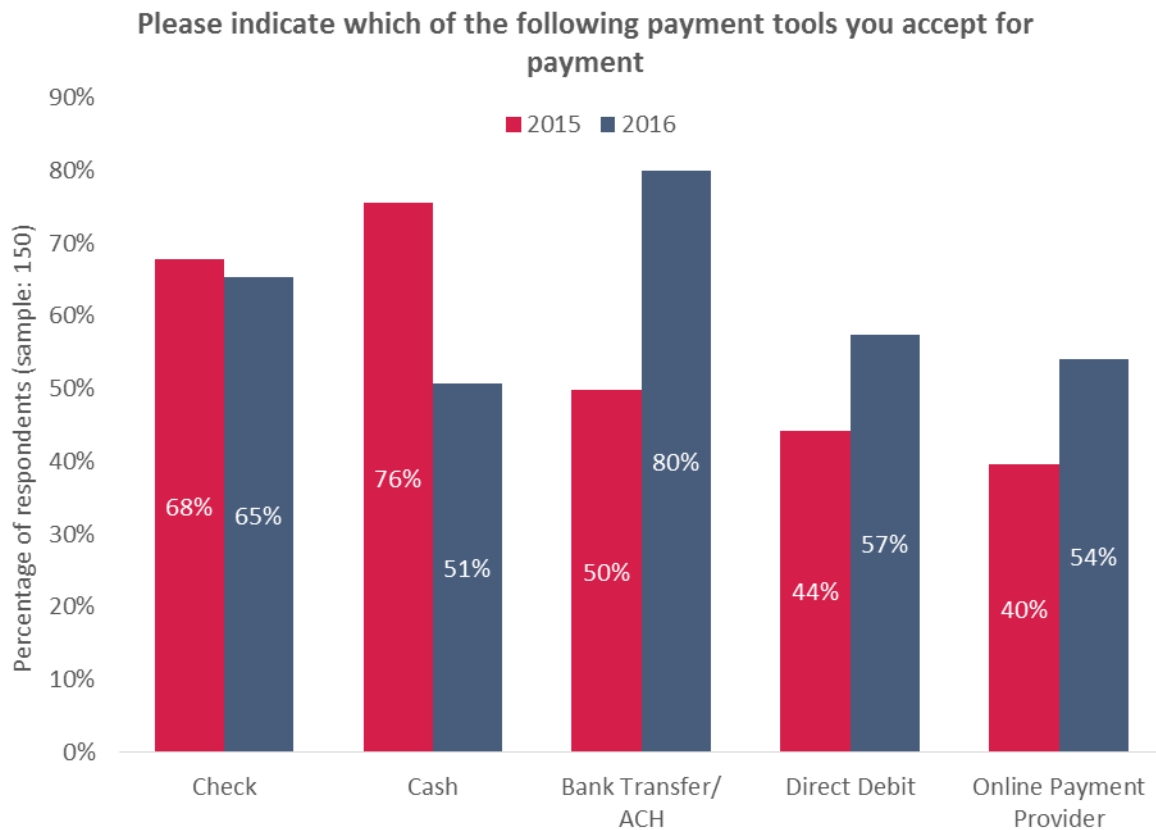
Organizations now are more likely to accept electronic payments, than paper-based payments like cash or check. The emergence of digitally connected consumers and the explosion of new engagement channels is increasingly making organizations digital by default.

Growing numbers of organizations are now shifting away from more laborious paper based payment tools, with check and cash

acceptance declining by 3% and 25% respectively among surveyed respondents between 2015 and 2016.

Digital and automated forms of bill pay services which can help to lower the cost of acceptance, while adding significant benefits to consumers, grew significantly over this same time frame. Bank Transfer/ ACH acceptance grew by 30% and now reaches 80% of organizations today.

Figure 3: Paper based payments are being replaced by electronic digital acceptance



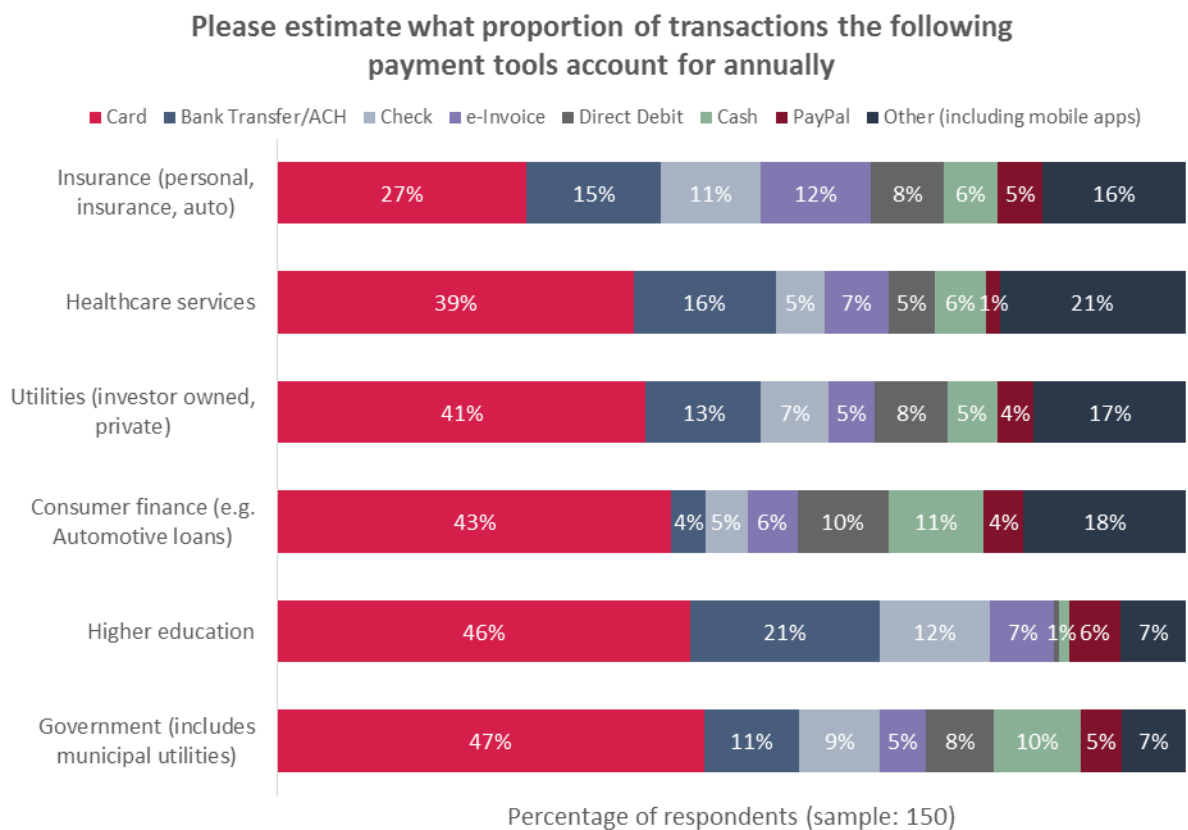
Source: 2016 Ovum Global Payments Insight Survey

The role of checks is shrinking in all billing sectors

As a share of actual revenue the role of non-paper based payment channels is even stronger. Card based payments now account for a significant share of revenue, ranging from 27% for insurers to 47% of government services. Bank transfer and ACH payments have also grown in importance and in many sectors now account for a greater proportion of revenue than checks.

Perhaps unsurprisingly given the younger skew of end users in the higher education market, this sector saw the greatest split with 21% of revenue stemming from bank transfer/ACH payments, compared to 12% via check. The growth of newer digital and online channels will only continue to grow in the near term, and organizations have little choice but to adapt.

Figure 4: Cards account for up to 47% of revenues in some sectors



Source: 2016 Ovum Global Payments Insight Survey

Easing payment frictions is key for billing organizations

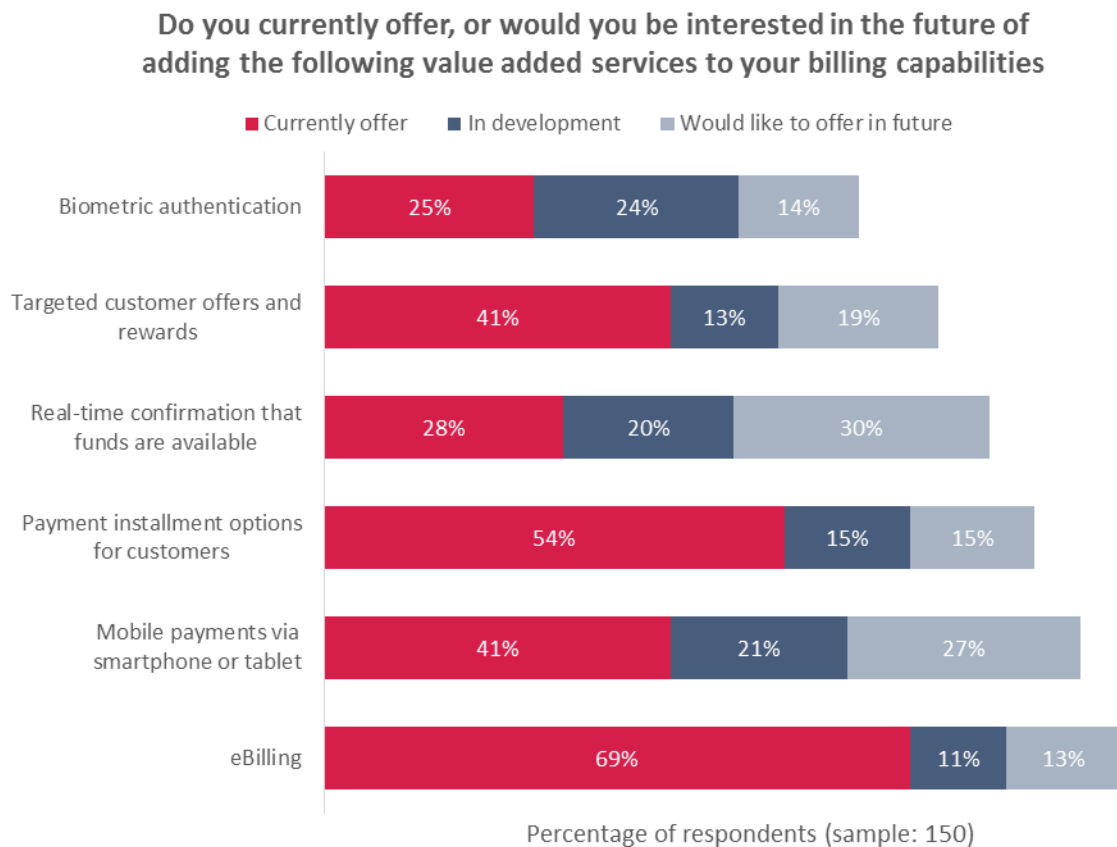
In terms of actual payment capabilities, most organizations are primarily interested in increasing their payment channels, and reducing payment frictions. This includes through the use of e-billing, with over 93% of respondents reporting they already offer it, or will do soon and mobile payments, where close to 89% report they already offer it or will soon.

Alongside this expansion of channels sits more purely economic payment functionality,

such as offering payment installment options to consumers, which is of some form of interest to over 83% of organizations. Real-time confirmation that funds are available is less deployed, but is also of interest to 78% of surveyed bodies.

All of these payment capabilities ultimately provide a means to both better engage with consumers, by both increasing convenience, and as a means of reducing costs.

Figure 5: Organizations are most interested in expanding their payment channels



Source: 2016 Ovum Global Payments Insight Survey

Organizations are putting their money where their mouth is

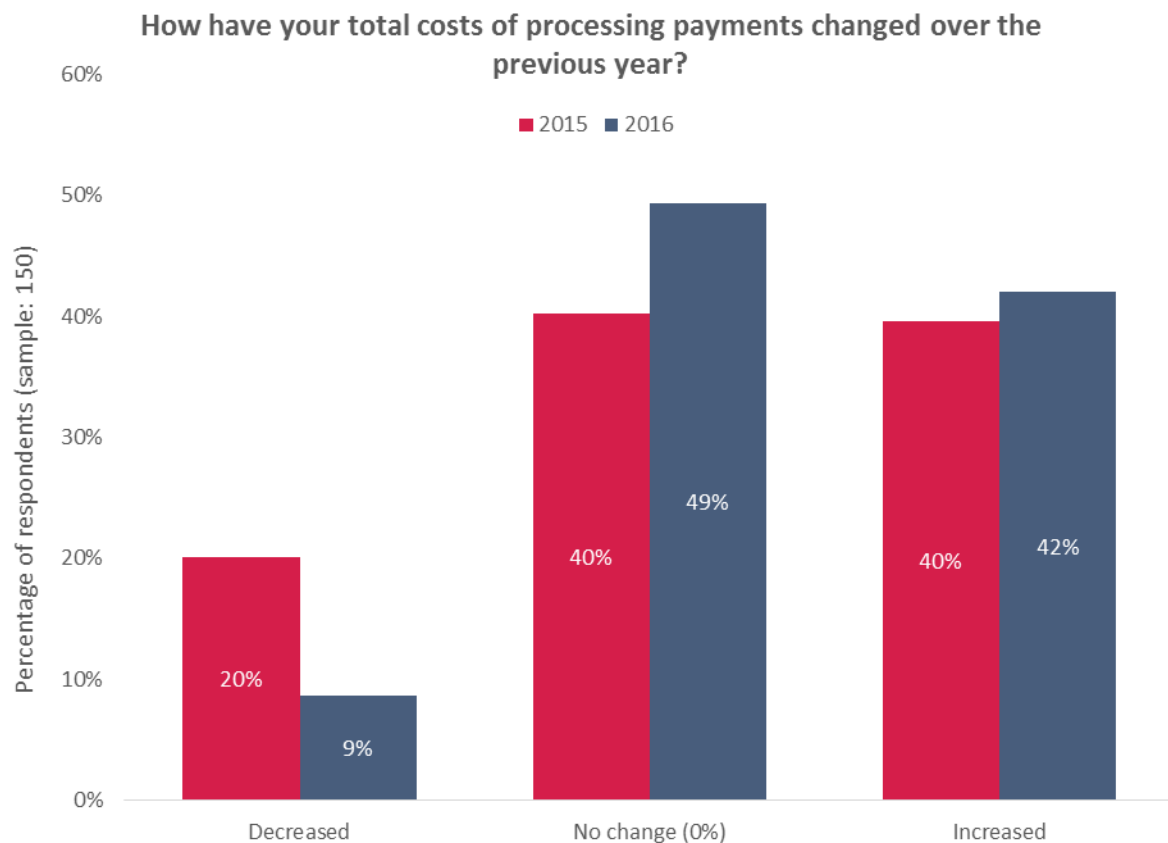
The cost of payments processing is growing year-on-year

Surveyed organizations reported a continual year-on-year increase in their cost of processing payments. Less than one in ten organizations experienced a drop in their payment costs in 2016 over the previous 12 to 18 months, more than halving from the one in five who saw a decline in their costs in 2015. Meanwhile close to half of organizations report their costs remain stable in 2016, up

from 40% in 2015, while 42% claim their costs have increased, up from 39% the previous year.

While organizations have invested to improve the customer experience, it appears that organizations still need to improve the efficiency of their payments to generate more savings.

Figure 6: Organizations have seen no relief in their costs of processing payments



Source: 2016 Ovum Global Payments Insight Survey

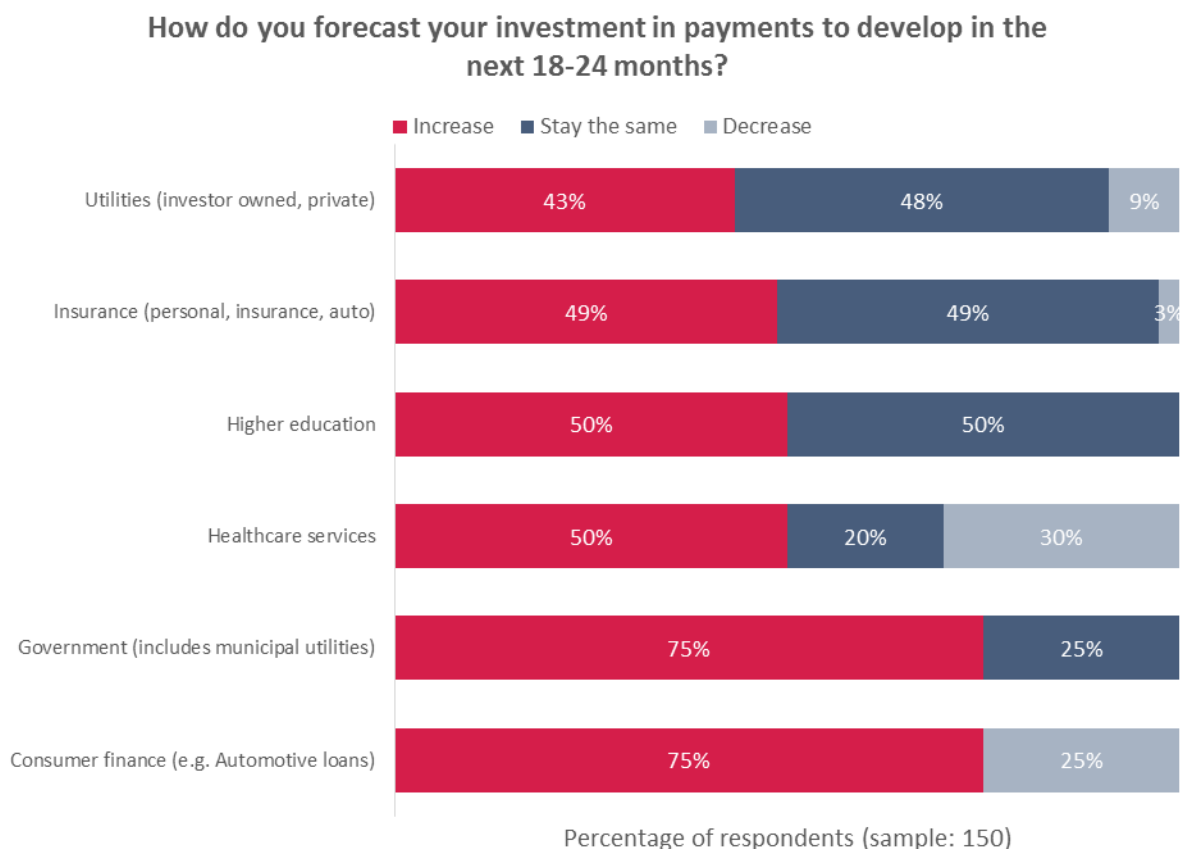
Organizations expect to increase or maintain their investment in payments

Billing organizations do not expect to drop their investment in their payment capabilities anytime soon. All surveyed billing organization sectors reported an expected significant increase in forecast spending, with a large proportion in many categories indicating they would maintain their already elevated spending levels.

The only sectors with any significant indication of any decline in spending on

payments included healthcare providers, where spending was particularly elevated in recent years due to the shakeup caused by the passing of the US Affordable Care Act. Even in these instances where more significant declines are expected, overall levels of investment remain very high, with between half and two thirds of organizations expected a continued increase in investment.

Figure 7: Most organizations will maintain or increase their investment in payments in the near term



Source: 2016 Ovum Global Payments Insight Survey

External challenges add pressure to innovate

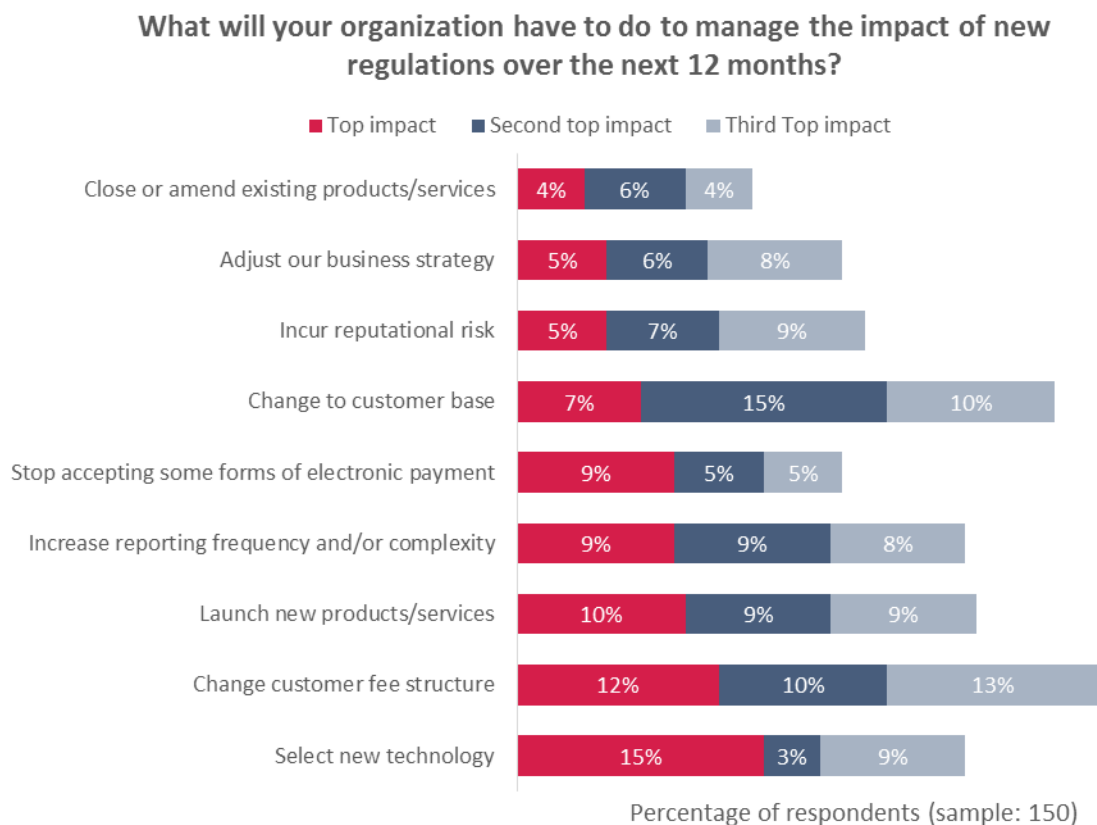
Regulatory issues pose a challenge to business models

Indicative of some of the external pressures being faced by billing organizations is the impact that new regulations are expected to have over the next 12 months on their broader business models. Nearly 15% of organizations report that the top impact of new regulations will be that they will need to select new technologies, while a further 12% cite it as a secondary or third impact. Close to 35% of organizations expect new regulations to have an impact on their customer fee structure.

This highlights the growing pressures faced by many in their need to be able to innovate and remain flexible in a changing business environment. By selecting new technology and replacing legacy infrastructure, this can provide organizations with, for instance, the ability to more easily adapt pricing structures, often in smarter more effective ways.

Organizations need to find more nuanced and dynamic ways to reach their customers, and this has a profound impact on broader payment strategies.

Figure 8: Nearly 35% of organizations believe they will have to change customer fee structures due to new regulations



Source: 2016 Ovum Global Payments Insight Survey

Security concerns are an enterprise-wide challenge, particularly for risks which impact on consumers

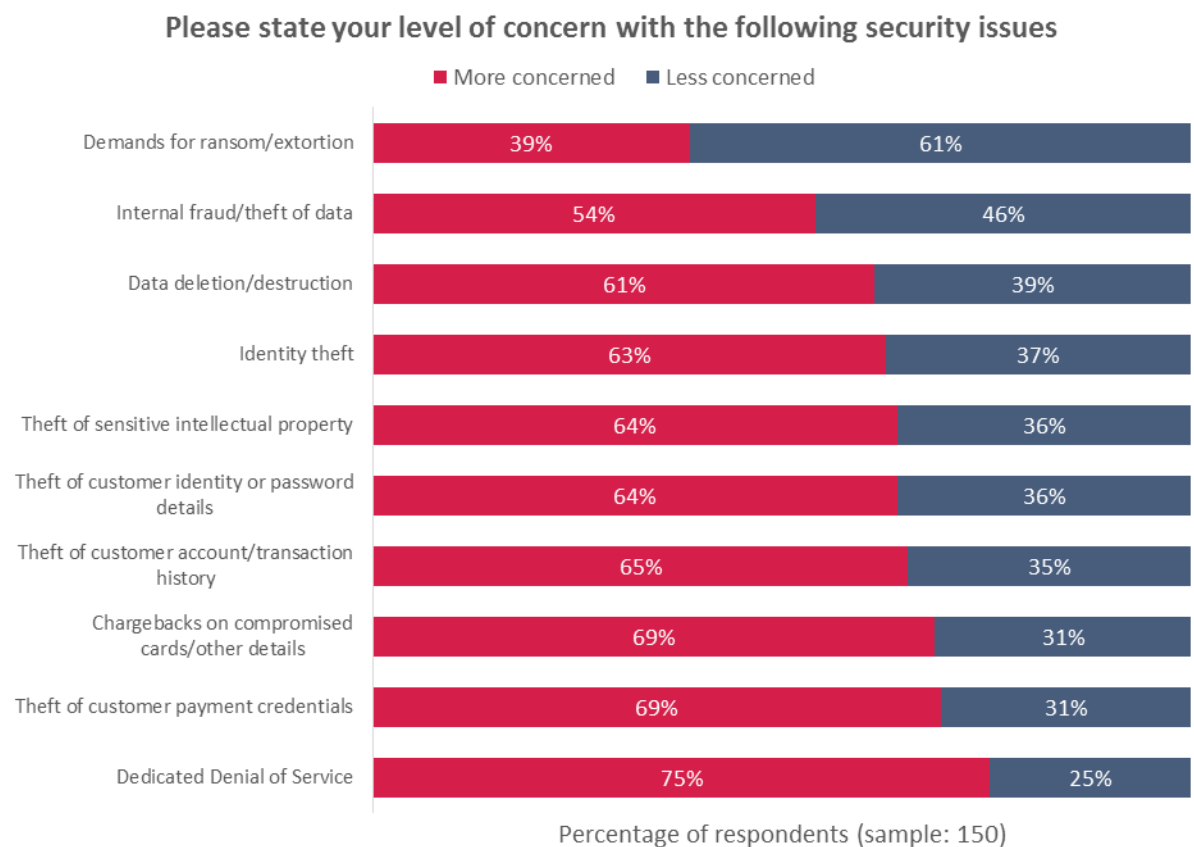
Over 50% of surveyed organizations expressed significant levels of concern with nine out of ten key security issues. However even in the lowest scoring security concern, demands for ransom/extortion, this was still perceived as a concern by 40%.

Concern is highest on security risks which hold the potential to impact on consumers in terms of both their ability to make transactions, and in the security of their personal information and payment credentials. The reputational risks for

organizations, particularly in sensitive areas like healthcare and government services are likely higher than for other organizations such as retailers, and security breaches here are likely to have significant repercussions.

The changing nature of payments, towards new channels and payments tools, means the risk profile face by organizations is changing. Securing the consumer and enabling continued service provision are the top priorities now, and will help to maintain already elevated levels of payments spending.

Figure 9: Organizations are worried about securing customer data and enabling transactions



Source: 2016 Ovum Global Payments Insight Survey

Appendix

Methodology

For its 2016 Global Payments Insight Survey Ovum, in conjunction with ACI Worldwide, created a 27 point questionnaire to understand how the current and future landscape of the payments industry.

The study examines a range of themes, including:

- Investment drivers and focus areas for 2016/17
- Role of payments in broader strategic objectives
- Attitudes to newer opportunities, such as immediate payments and blockchain
- Payments IT spending plans and expected ROI
- Preferred partners for delivering new services

The research focuses on four different industry verticals and a total of 14 sub-industry verticals.

The lead categories are as follows:

- Billing organizations
- Retail banking
- Retailers
- Transaction banking

The fieldwork was conducted with senior executives responsible for payments strategy and/or payments IT strategy in each business, and was in the field from December 2015 - February 2016. In total, 1,675 executives were interviewed, across 14 industry sub-verticals in 18 countries globally.

This report focuses on billing organizations. Those interested in the research on retail banking, merchants, or transaction banking are advised to visit www.aciworldwide.com/paymentsinsight for further information.

Billing Organization Respondent Breakdown	
<i>Total Respondents</i>	150
Sub-verticals surveyed	
Billing Organizations	
<i>Higher education</i>	
<i>Insurance (health, P&C)</i>	
<i>Consumer finance (e.g. automotive loans)</i>	
<i>Government (includes municipal utilities)</i>	
<i>Healthcare providers</i>	
<i>Utilities (investor owned, private)</i>	
Example Respondent Titles	
Director, Global Corporate Payments, Chief Operations Officer, Finance Director, Revenue Manager, Owner, etc.	

Author

Gilles Ubaghs, Senior Analyst, Financial Services Technology

gilles.ubaghs@ovum.com

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www.ovum.com

askananalyst@ovum.com

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