

The Drivers of Bill Pay Adoption

ONLINE RESOURCES CORPORATION SURVEY OF ONLINE BANKERS
AT COMMUNITY BANKS AND CREDIT UNIONS



March 2008



THE DRIVERS OF BILL PAY ADOPTION

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THE DRIVERS OF BILL PAY ADOPTION

Executive Summary

For community banks and credit unions, encouraging consumers to pay all their bills at your website is an important step in convincing them to choose you as their primary financial institution. As such, it is the key to building more extensive and more profitable relationships and competing successfully with other financial institutions.

In order to provide banks and credit unions with the information they need to achieve this goal, Online Resources conducted a survey of 14,971 consumers who bank online at community banks and credit unions.

Among our findings:

- Households who pay their bills online at a community bank or credit union website are almost three times as likely as the industry average to do most of their checking with that financial institution.
- A key challenge for community banks and credit unions is that checks continue to be a popular payment channel.
- Consumers hesitated to use online bill payment at a financial institution website because of concerns over security, flexibility, and speed. Inertia also plays an important role.

The Online Resources survey points to a number of arguments a bank and credit union can make for bill payment at its site that will resonate with its consumers:

- Promote the security of online banking and bill pay.
- Promote a payment delivery guarantee, assuring consumers that their payments will arrive on time.
- Promote the consumers' ability to pay all their bills from your site, not just those from large billers.

Our survey shows that a number of features you can add to your site will increase its attractiveness:

- Offer expedited payments, a feature that the top six banks currently do not offer.
- Offer bill presentment, giving consumers the ability to review and pay bills with just a few mouse clicks.
- Offer incentives for enrollment in bill pay and for increased usage.

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Go Beyond Savings to Building Relationships and Profits

Saving money. That's what the Internet was originally all about for financial institutions. The cost of making a transaction online is substantially less than if that same transaction was made at the teller's window, over the telephone, or even at an ATM. Simply put, with online banking, you can do more with less. You can reduce costs.

While these savings can add up, cutting expenses is a finite exercise with a finite goal. In the decade since online banking was introduced, it has become increasingly clear that there is more to the Internet channel than just saving money. You can use it to grow your revenue, even as you cut expenses. If you can use your Internet channel to anchor consumers to your institution, you can build more relationships—and more profitable relationships—with them.

It is only when consumers take the time to set up online bill payment accounts on your site that you anchor them securely to your institution. The more time they put into it—the more bills they set up to pay—the less likely they will be to switch to another financial institution and the more likely they will be to turn to you for other products and services.

Given the high rate of consumer attrition, securing bill pay consumers is particularly important. It is a key strategy for increasing consumer profitability.

The Drivers of Bill Payment Adoption

How can a financial institution convince its consumers to pay their bills through online bill payment at its website? Online Resources took this question to the people who could best supply the answer—consumers at community banks and credit unions themselves. We had a number of goals. Our purpose was

- To document the relationship between paying bills at a financial institution's website and using that bank or credit union as the primary financial institution;
- To assess the attractiveness of the growing number of channels—online and offline—available for bill payment;
- To determine the obstacles that discouraged consumers from paying their bills online at their financial institution's website;
- To uncover the arguments and incentives that would enable consumers to overcome these barriers.

The results of this survey are contained in this report of 14,971 consumers who bank online at community banks and credit unions.

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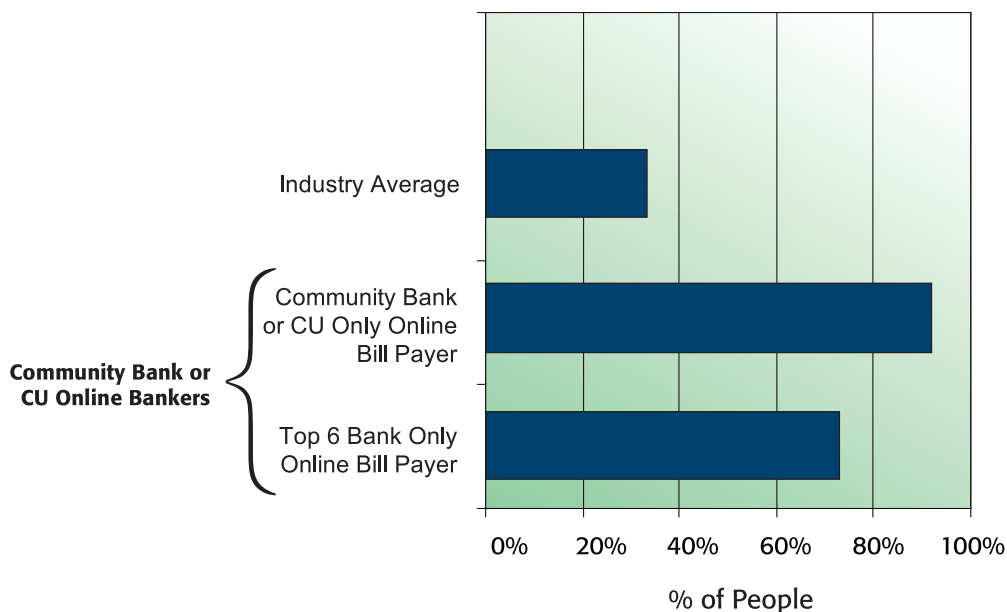
Increasing Bill Payment Adoption Boosts Loyalty and Profitability

A decade of online banking and bill payment data has revealed a solid, durable connection between consumers who pay their bills online at a financial institution's website and their individual profitability. Consumers who use bill payment have more accounts—both loans and deposits—with higher balances than those who do not. They generate higher service fees and income, while producing lower transaction and operational expenses. And their retention rate is much higher.

The correlation is striking. Bank of America found that an active online bill pay customer is 31% more profitable than an offline checking customer.¹ The Boston Consulting Group compared the profitability of individual consumers before and after one year of online bill pay and reached a similar conclusion. It found a 40% increase in profitability due to online bill pay activation.²

A household typically has checking accounts at three institutions. As a result, the likelihood of the household using the checking account at a particular institution most frequently is 33%.³ In our survey, we looked at which checking account households used most frequently. When they paid their bills online only at that financial institution's website, this percentage grew to 91%, an almost threefold increase. However, checking account usage at the community bank or credit union decreased for those who chose to pay their bills at a top 6 bank instead of their community financial institution.

Percent of People Using Community Bank or CU Checking Account Most Frequently



¹ Forrester Research, Inc., "Online Bill Pay's Last Mile," December 31, 2007.

² The Boston Consulting Group, "Online Bill Payment: A Path to Doubling Profits," November 2003.

³ Aite Group, "Online Banking: Moving to a New Paradigm," August 2006.

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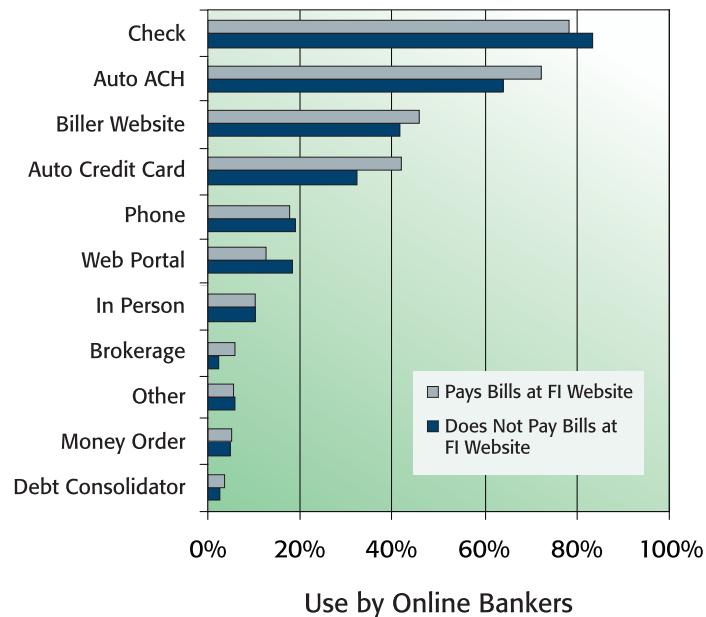
The Competitive Landscape—How Do Other Payment Channels Stack Up?

When it comes to paying bills, that old standby—the personal check—is still a contender. We surveyed consumers who bank online at community financial institutions and found that 83% who do not use the bill pay service wrote at least one check a month. In fact, 33% wrote more than five checks monthly.

Nonetheless, the role of checks and other low-tech approaches is diminishing and will continue to diminish with every passing year as electronic transactions of all sorts gain in popularity. Consumers can choose to use auto ACH and have their checking or savings account automatically debited each month. They can go directly to a biller's website and pay their bill there. Finally, they have the option of having their bill automatically charged to their credit card. In fact the diversity of electronic alternatives could be seen as a more significant challenge than checks for financial institutions promoting their own electronic bill pay service.

Bill Payment Channels Preferred by Consumers Who Bank Online

Even consumers who pay bills at a bank or credit union website use other methods



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Barriers to Adoption—Inertia, Security, Flexibility, and Speed

A key challenge for banks and credit unions striving to use their online channel to grow revenue and build more powerful consumer relationships is to find ways to convert more of their online banking users to their bill payment services. According to the results of our survey, many of the early obstacles to bill pay adoption have faded. Only 7% of consumers banking online at a community financial institution do not have ready access to the Internet, and 88% have high-speed Internet. Just 7% said they were unaware that bill pay service was available through their financial institution. And only 9% worried that it would be difficult to use.

Nonetheless, some issues still persist. Thirty-two percent of respondents were concerned about the security of the service, while 30% did not realize that bill pay could be used for virtually any payment they wished to make. Users were also confused over how long it takes for a payment to be made, which explains a preference among some 29% of consumers for paying at a biller's website. To increase bill pay adoption, community banks and credit unions should focus their marketing efforts on addressing these perceptions.

Even more importantly, they must demonstrate that bill pay at their website provides distinct advantages over other methods of payment. The Online Resources survey found that by far the most significant obstacle to adoption of bill pay is inertia. Seventy percent of online bankers reported that habit was one reason they didn't move to online bill payment.

Perceptions That Affect the Adoption of Bill Pay Service at Your Site

Inertia, security, flexibility, and speed provide a focus for effective marketing.

Perceptions of Community Bank or CU's Bill Pay Service	
I'm in the habit of using other methods to pay my bills.	70%
I am concerned about the security of the service.	32%
I can't use the service for all the payments I need to make.	30%
I think that my payments will be made more quickly if I pay at the biller website.	29%
I'm concerned that the service won't allow me to send my payments when I want to.	26%
I am not confident that my payments will be delivered on time.	23%
I don't know how to start using the service.	20%
Using the service won't save me time.	18%
I think that my payments will be made more quickly if I write and mail a check.	10%
The service is too difficult to use.	9%
I did not know that I could pay my bills through this website.	7%
I don't have easy access to the Internet.	7%

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Making a Compelling Case

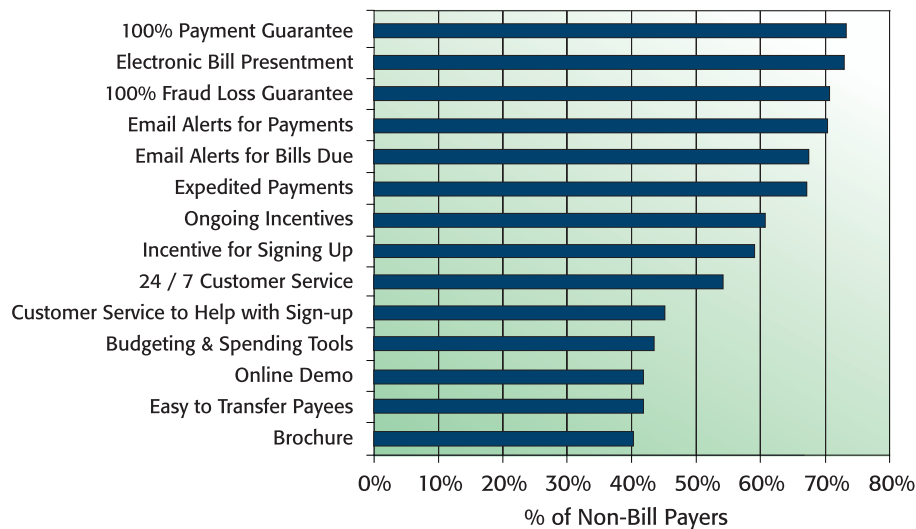
The obstacles that remain to online bill payment adoption are hardly insurmountable. Our survey identified a handful of targeted arguments that community banks and credit unions can adopt to encourage consumers who bank online to pay their bills at their website. You can minimize security concerns by highlighting multifactor authentication. You can address concerns about speed by underlining the fact that consumers' payments will arrive in a timely manner and emphasizing the 100% payment delivery guarantee. With the arrival of expedited payment technology, many bills can be posted on the same day. Consumers paying their bills through another bank's online bill pay indicated that expedited payments would encourage them to switch to paying at the institution offering expedited payments.

Equally important, you can help overcome consumer inertia by stressing the many advantages of bill pay at your site over other payment methods. You can provide online bill presentment, enabling consumers to examine their bills and pay them with just a few mouse clicks. And you can also call attention to the fact that almost all bill payments can be made at the financial institution website.

Of course, setting up bill payment and bill presentment takes an initial investment of time on the consumer's part, and so your challenge is not simply to make a compelling argument for bill payment with your financial institution, but to make a compelling offer. Forrester Research recommends "actively marketing an online security guarantee" and "developing an eChecking account" as ways of enticing people to use online-bill pay.⁴ The independent research firm wrote that banks should create a separate bill pay onboard program, and cited the example of a bank that "analyzed long-term activation rates for customers receiving a \$10 incentive and found that 80% of the targeted customers were still active six months later"⁵

Arguments for Online Bill Pay That Consumers Find Convincing

There are a number of assurances and incentives you can use to induce online bankers to pay their bills at your website.



⁴ Forrester Research, Inc. "Online Bill Pay 2007: Understanding The Mindset Of Holdouts, Fence-Sitters, And Quitters," December 2007.

⁵ Forrester Research, Inc. "Online Bill Pay's Last Mile," December 2007.

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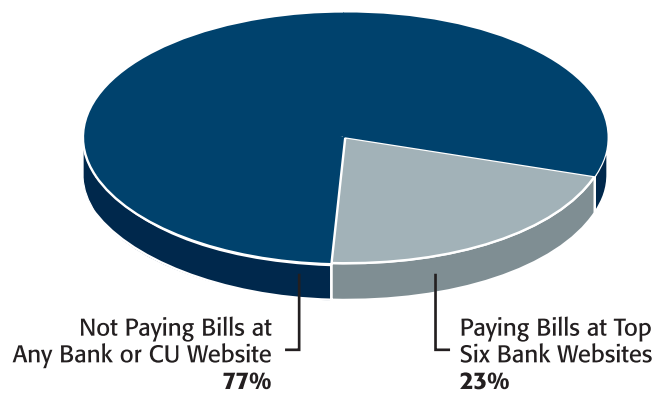
Competing with Other Financial Institutions for Bill Payers

There are a significant number of online bankers who are comfortable paying their bills online but do it at websites other than their own financial institution.

Our survey showed that 23% of the online bankers paying their bills someplace other than their community financial institution website are using the bill pay service of a top six bank. Consumers indicated that expedited payments payment delivery guarantee and electronic bill presentment would encourage them to switch the financial institution where they use online bill pay.

If They Don't Pay Their Bills on a Community Bank or Credit Union Site, Where Do They Go?

Almost a quarter pay bills at a top six bank website.



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The Next Step

The key to tapping the potential of the Internet channel to build relationships with consumers and promote growth is bill pay adoption. The Online Resources survey points to a number of arguments you can make for bill pay at your site that will resonate with consumers:

- Promote the security of online services.
- Promote a payment delivery guarantee, assuring consumers that their payments will arrive on time.
- Promote consumers' ability to pay all their bills from your site, not just those from large billers.

Our survey also shows that a number of features you can add to your site will increase its attractiveness:

- Offer Expedited Payments, a feature that the top six banks currently do not offer.
- Offer bill presentment, giving consumers the ability to review and pay bills with just a few mouse clicks.
- Offer incentives for enrollment in bill pay and for increased usage.

Whatever your approach, the key is to get your marketing messages in front of consumers as often as possible through as many channels as possible. The volume of these messages can overcome the inertia that our survey reveals is the single biggest obstacle to using bill pay on financial institutions' sites and can effectively differentiate your bill pay site from the other forms of bill payment vying for the online banking user's attention.

Survey Methodology

This report is the result of an Online Resources survey of 14,791 US residents who use online banking at a community bank or credit union with less than \$20 billion in assets conducted from September 19, 2007 to January 29, 2008. Community banks and credit unions whose consumers participated in the survey had average assets of \$134 million. The survey was administered via the Internet and no incentive was offered to respondents. There is 95% confidence that the results have a statistical precision of plus or minus 0.8% of what they would be if the entire population of online bankers at community banks and credit unions had been surveyed.

About Online Resources Corporation



Online Resources powers financial technology services for thousands of financial institutions, billers and credit service providers. Its proprietary suite of account presentation and payment services are branded to its clients, and augmented by marketing services to drive consumer and business end-user adoption. The Company serves more than 10 million end-users and processes \$100 billion in bill payments annually. Founded in 1989, Online Resources (www.orcc.com) is recognized as one of the nation's fastest growing companies.

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