

June 2024

Five Strategies for Biller Success



Prepared for:

ACI Worldwide[®]

Table of Contents

Introduction	2
Methodology	2
Marketplace	3
Five Strategies for Biller Success	5
Focus on Improving the Payment Experience	5
Invest in Modern Payment Capabilities	6
Seize the Opportunity to Automate and Streamline the Billing Process	8
Improve Integration With Systems of Record	9
Partner With Payment Experts.....	10
Conclusion	12

List of Figures

Figure 1: Delivering an Engaging Bill Payment Experience	6
Figure 2: Business Investment in Payments Technology	8

List of Tables

Table A: The Market	3
---------------------------	---

Introduction

U.S. consumers pay a lot of bills—approximately 16.8 billion bills in the last year, shelling out roughly US\$5.6 trillion. And over 63% of the 16.8 billion bills paid, are paid digitally. By some estimations, bill payments make up as much as 30% of U.S. consumer spending, making paying bills a central part of consumers' daily lives. As more and more of daily life has become digital, the consumer expectation for a one-click, frictionless bill payment experience has often been better addressed by a biller's solution rather than a bank solution, and therefore 77% of all online payments are made on billers' digital solutions.

However, paying bills remains a complicated task for consumers and one prone to friction. The market is due for improved bill pay solutions to better the customer experience and help billers capitalize on consumer experiences: According to Datos Insights research, Americans wrote slightly less than 1.9 billion checks to pay their bills in 2023. Many of those payments can be replaced with real-time payments. By sending bills directly to payers who are not enrolled in autopay, a biller can save on sending paper bills and receiving paper checks. The biller then has better visibility into when the payment will be received, and the payer controls when funds are taken from their account.

This white paper, commissioned by ACI Worldwide but independently authored by Datos Insights, highlights the strategies billers must adopt to attract new clients, deepen relationships, and generate new streams of revenue. Recommendations are supported by data-driven insights regarding consumers' needs and preferences and the capabilities required to attract and retain their business.

Methodology

This paper's content leverages the deep industry knowledge of the author as well as Datos Insights' vast library of studies. Specific findings from interviews with U.S. businesses are leveraged, as well as knowledge gained from data collected on an ongoing basis.

Marketplace

Payments’ innovation is advancing capabilities across every type of industry and payments use case, and bill payments are no exception. Bill payment capabilities are considered a critical part of the overall customer experience, with choice in payment method, frictionless payments experiences, and security as top of mind for billers and consumers. Table A summarizes the current market trends shaping the bill payment market and their implications.

Table A: The Market

Market trends	Market implications
Changing customer expectations	Digital transformation within the payments space is partially being driven by the need to create and improve customer experiences that meet the customer’s expectations. They are immersed in appealing, personalized, and efficient digital experiences every day from Starbucks, Amazon, and Target.
Billers of all sizes across every market sector want to improve the customer experience.	Regardless of size, companies are partnering with vendors that can support the build of a differentiated customer experience. Billers are looking for cloud-based solutions, which accommodate growth and varying bandwidth demands more easily while reducing outages and providing operational resilience. They are partnering with vendors that can provide a full range of payment capabilities.
Replacing legacy solutions with modern API-enabled architectures	APIs available through modern payment platforms can enable integration more rapidly. APIs are increasingly being viewed as a way to help billers enhance their technical architectures and align themselves with more innovative capabilities and technology partners. APIs offer a potential pathway to achieving their goal. In addition, cloud technology enables to run a more cost-efficient operating model while providing the agility and modernity that legacy on-premises models lack.
The future of bill pay is mobile first.	Accepting payments from mobile devices allow billers to drive customer engagement and loyalty while providing a convenient and easy payment experience. Additionally, mobile customers desire to consolidate their transactions to mobile wallets they already use such as Apple Wallet or Google Wallet, versus downloading additional apps.

Consumers want to use alternative payment methods for everything—including bill pay.

A proliferation of alternative payment methods is becoming available in the U.S., including digital wallets, and instant payments. Billers are becoming ever more sensitive to card processing costs and are increasingly open to payment schemes that reduce costs and improve cash flows. At the same time, consumers are demanding choices in payment methods and are favoring payment methods that provide convenience, ease, and security. Billers want to partner with vendors that facilitate payments acceptance across the wide range of leading-edge alternative payment methods in the market today.

Information security, data protection, and privacy are key imperatives.

Digital transformation in payments has resulted in more persistent and rapidly escalating threats, including fraud and cyberattacks. At the same time, there is more demand for data protection and privacy with a host of regulations designed to safeguard consumers. Billers are depending on their vendor partners to have a relentless focus on security in order to bring trustworthy bill payments capabilities to market. Additionally, billers are relying on their vendor partners to offload the burden and cost of compliance.

Source: Datos Insights

Five Strategies for Biller Success

Thanks to technological advances and a greater understanding of consumer needs, it is now possible for all billers, regardless of size, to accept and manage payments more effectively and efficiently. However, doing so requires the right combination of strategy, technology, and data. There are five key strategies billers must adopt to be more successful:

1. Focus on improving the payment experience
2. Invest in modern payment capabilities
3. Seize the opportunity to automate and streamline billing processes
4. Improve integration with systems of record
5. Partner with payment experts

Focus on Improving the Payment Experience

For many years, evolution in bill payment meant adding new channel support, particularly in the mobile space, and expanding the range of payment methods accepted. While these changes have been important, traditional methods such as ACH still dominate the bill pay space. Improving the customer experience now requires more than just tinkering with front-end services. Bill payments and billing data need to be integrated, seeing the bill details, understanding when the payment will actually be received by the biller, or having multiple payment options are a must.

The shift toward new technologies, real-time payments, APIs, and the implementation of the ISO 20022 standard, are building a framework against which billers can create new payment experiences for their customers and improve their front- and back-office capabilities. The standards provide transparency and efficiencies to the entire order-to-pay process and provide the ability to do the following:

- **Promote good payment behaviors:** Benefitting from a better payment experience, consumers are far more likely to use new tools and richer capabilities, ultimately resulting in good payment behaviors such as on-time payments, higher consumer satisfaction and diminished frustrations.

- **Automate the experience:** Automate certain tasks to reduce errors and deliver a more modern and user-friendly digital experience coupled with rich data and analytics is central to meeting consumer expectations and, thus, should be a critical component of any biller strategy.
- **Provide real-time information:** Offer real-time access to the data and payment confirmation, taking out the guesswork of when the payment will be received by the biller.
- **Proactively alert and notify:** Avoid late payments and fees by providing additional insights and context to the payment experience via improved messaging, including customer notifications, thus enhancing customer satisfaction.
- **Offer flexible payment options:** Provide a variety of payment options so that consumers can choose the payment methods that best fit their needs.

Providing a comprehensive and engaging bill payment experience means bridging the gap between payment and data.

Figure 1: Delivering an Engaging Bill Payment Experience



Invest in Modern Payment Capabilities

In a competitive economy with diminishing margins, billers of all sizes need to invest in modern payment tools that will provide the benefits of automation with an increased focus on working capital and cash flow management. The payment infrastructure of organizations has become more difficult to manage as businesses scale and payment

complexity has increased. If billers don't get rid of manual processes and do not improve their payment capabilities, their pain points will increase because of the following factors:

- **Multiple payment types:** Businesses can expect to receive payments through differing formats and on a variety of rails. As checks decline, digital payments are becoming the preferred method. Many billers need to accept electronic payments through ACH, same-day ACH, wires, credit cards, virtual cards, and RTP payments. Accepting physical checks and various types of electronic payments can also lead to interoperability challenges with data, payments applications, and integration.
- **Payment reconciliation complexity:** Reconciling payments with remittance information, especially when done manually or even when performed electronically through inoperable platforms, can lead to a high number of errors and exceptions. Beyond costly mistakes, reconciliation is a time-consuming endeavor. The time and human resources needed for reconciliation increase dramatically as businesses increase in size.
- **Siloed data:** Many businesses have a patchwork of manual processes and legacy systems that are lumped together to perform receivables management. Often, this includes one or more legacy software systems, numerous electronic and physical spreadsheets, and various reports from different parts of an organization. The outcome is siloed or missing data that has an adverse effect on sending invoices, receiving payments, handling disputes, and other functions.
- **Increased days sales outstanding (DSO):** One of the key performance indicators of a payment receivables manager is reducing the DSO. This is critical to a biller's financial health and a key component of effective cash flow management. Billers that are manually applying payments can add significant time to their DSO metrics.

Many organizations understand the impact of an efficient end-to-end payment strategy, improved cash flow position and forecasting, reduced DSO, stronger business relationships, and operational efficiencies—all of which can be competitive differentiators. Many are willing to invest in payments technology tools to achieve these benefits. Only 6% of businesses are not focused on payments technology as a significant area of investment (Figure 2).

Figure 2: Business Investment in Payments Technology

Seize the Opportunity to Automate and Streamline the Billing Process

The benefits of automation become increasingly transparent as organizations scale and have more payments coming from different channels in varying formats. Automation brings efficiency to an increasingly complicated ecosystem of payment types by helping to eliminate physical checks and offering a single point for varied forms of electronic payment. Automation speeds up invoicing processes, cuts reconciliation time, and helps eliminate unnecessary delays allowing billers to collect payments faster.

The automation and streamlining of the billing process is also facilitated by having an efficient exception process. Newer billing technology solutions now include robust machine learning and artificial intelligence capabilities that grow in efficiency over time. Any exceptions can have a clear workflow to reconcile issues, and the platform learns how to deal with similar exceptions without the need for or limited human intervention, allowing for straight-through processing.

The time spent on reconciliation, waiting for physical checks, and delays in sending bills and receiving payments also costs billers money and makes cash management more challenging. Automation reduces employee time spent on less important tasks, saves money, improves cash flow, and allows the receivables team to focus on more strategic

tasks. Finally, automation leads to standardized data and reporting, gathering all data sources and reports into a single source, such as payment histories and account information.

Seizing the opportunity to automate and streamline the billing process produces efficiencies across teams and can make data more accessible across the entire organization.

Improve Integration With Systems of Record

APIs have now been a resource to tightly integrate the billers' internal IT systems and the data within them. APIs are increasingly being viewed as a way to help billers enhance their technical architectures and align themselves with more innovative capabilities and technology partners. Priorities may vary by industry but data exchange and receiving real-time payments are high priorities for all, and in order to do so, billers must also offer tight integration with their systems of record and accounting systems.

Payment modernization can be viewed as an opportunity to take control of what data flows through a biller's systems and centralize faster payments to provide their customers with new market potential and differentiated capabilities. Industry demands are quickly moving in the direction of billers needing to provide an end-to-end payment solution that initiate payment requests and provides dynamic decisioning, actionable data insights, and the ability to adapt quickly to increasing payment rails demands.

A better integration with systems of records also leads to improved security; patch and vulnerability management is overly complex, and when vulnerabilities are discovered, either in homegrown or vendor-supplied software, they need to be fixed. There is also increasing focus on privacy standards. This process is neither quick nor easy, however, especially when customer-facing applications are involved. The acknowledged best practice among firms handling sensitive payment data is to deploy technologies, such as tokenization and encryption, that devalue the data. Tokenization replaces sensitive data at rest with a proxy value that is used as a surrogate, while encryption protects data in transit and at rest. While these technologies are highly effective, tokenization is often difficult to deploy within non-integrated platforms and rigid legacy-based environments. This is another driver for billers to move to more modern integrated technologies where security and compliance are designed from the ground up.

Partner With Payment Experts

The path to payment modernization involves engaging a diverse range of stakeholders within and outside the organization. This necessitates the establishment of a sophisticated framework to facilitate effective communication and the seamless implementation of personnel, technology, and procedures.

Navigating the intricate regulatory framework of fee rules and adhering to payment standards like ISO 20022 can be complex. Choosing an experienced vendor partner can offer significant advantages to billers, providing insights from past experiences, best practices, and more than just basic payment validation and translation services. Collaborating with skilled payment experts can simplify managing the frequently changing and state-specific fee rules. Utilizing features like API-driven ISO 20022 message processing, supporting appropriate message types and business processes, and ensuring seamless system integration are essential for efficient data exchange. Consequently, it is crucial to evaluate a comprehensive suite of functionalities that includes payment initiation, processing, clearing, and settlement, as well as capabilities for real-time payments, liquidity management, and fraud detection in real-time.

Billers are looking to user experience as a key point of differentiation and competitive advantage. Bill payment is a critical component of their strategy as it is often a critical touch point in a customer relationship. Thus, it is no surprise that this area is a high priority as organizations progress and invest in their digital transformation journeys. Billers should base their partnerships on several key criteria:

- **Partner's ability to support their specific growth strategy**
- **Robustness of functionality that aligns with their customer base**
- **User experience that better aligns with customer expectations**
- **Minimal technical expertise and resources required to manage the payments lifecycle**
- **Level of desired platform configurability without expending significant IT resources**
- **Open architecture for ease of integration with systems of records and other key platforms**
- **Desired strength of voice in roadmap priorities**
- **Desired level of service and on-going support**

- **Alignment of company cultures**
- **Partner's ability to demonstrate forward-looking strategies and payment leadership expertise**

Conclusion

While many billers may not be able to transform the consumer payment experience overnight, incremental steps can be taken: Improving the payment experience, providing consumers with the ability to tailor their payment experience, and promoting individual preference with new capabilities. Based on this, Datos Insights concludes the following:

- Consumer behaviors are shifting. By and large, modern consumers—consumers who, because of technology, have a whole new set of expectations—are likely to use richer capabilities that will improve their payment experience.
- Billers should attempt to remove friction and barriers from bill payment activities. With a better payment experience and systems integration, billers will ultimately benefit from an increased customer satisfaction and diminished frustrations.
- Modern payment capabilities and faster payments offer a great opportunity to billers. Billers at large have an opportunity to develop cost-effective, innovative payment solutions that take advantage of real-time processing and automation, which will help meet consumers' expectations for immediacy.
- Billers should partner with payments experts. They need to think strategically as to how and where they want to compete; they should look to partner with payment providers to fill out their offerings and to develop and implement these new payment experiences.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

Contact

Research, consulting, and events:

sales@datos-insights.com

Press inquiries:

pr@datos-insights.com

All other inquiries:

info@datos-insights.com

Global headquarters:

6 Liberty Square #2779

Boston, MA 02109

www.datos-insights.com

Author information

David Albertazzi

dalbertazzi@datos-insights.com

© 2024 Datos Insights or its affiliates. All rights reserved. This publication may not be reproduced or distributed in any form without Datos Insights' prior written permission. It consists of information collected by and the opinions of Datos Insights' research organization, which should not be construed as statements of fact. While we endeavor to provide the most accurate information, Datos Insights' recommendations are advisory only, and we disclaim all warranties as to the accuracy, completeness, adequacy, or fitness of such information. Datos Insights does not provide legal or investment advice, and its research should not be construed or used as such. Your access and use of this publication are further governed by Datos Insights' Terms of Use.