SWIVEL
An SWBC Company

WHITEPAPER

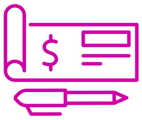
Meeting the **Payment Preferences** of Today's Consumers

With new tech solutions, you can meet consumer demand for easy payments

Why Consumers Want to Use **Debit**

30% It's Easier | **14%** Instant/No Wait to Clear | **11%** Convenience | **8%** Cheaper

Why Consumers Use **Checks**



27% Only accepted payment method | **17%** It's Easiest | **11%** Rack Payment/ Records | **9%** Do Not Accept Cards\Online Pmt.

Source: Phoenix Bill Pay Choice Insights, 2015 Base: Bill payers who are card active.
*Average of preferred payment method across electric, gas, oil, water, rent, charity property/life/health insurance and auto loan.

Introduction

Companies in every industry have had to adapt to growing consumer expectations for financial interactions that are fast, easy, and secure. Experiences with online retail firms like Amazon have conditioned consumers to expect a seamless payment process where debit or credit cards can be used with the click of a button from any device—or even activated through voice commands. That retail experience has evolved into strong bill payment preferences that have influenced how consumers want to manage their loan payments.

To meet these consumer demands, financial institutions are seeking omnichannel payment solutions that put borrowers in the driver's seat. Because they spend years working with borrowers as they pay out their loans, institutions understand the benefits offered by omnichannel solutions, but are wary of the risks of opening self-service payment options to their customers, specifically, card payment acceptance functionality. They may also be intimidated by the complexities of rolling out a payments strategy, which involves technology, operations, marketing, compliance, finance, and legal departments.

But taking an approach that is too cautious has risks of its own, causing financial institutions to lose ground on two critical fronts: **customer satisfaction and operational efficiencies.**

Fortunately, launching a payment strategy doesn't have to remain a mystery. This white paper outlines tactics to help with strategic planning for implementing debit card payment options that make debit card acceptance more affordable than ever by leveraging solutions from SWBC and Visa.

Why Are **Debit Cards** So Relevant Now?

While many parts of the loan process have migrated from paper to digital, some financial institutions have been more resistant to payment automation. For example, it's not uncommon for lenders to send out paper payment coupon books to auto and mortgage loan borrowers, which requires them to send a physical check through the mail to make their monthly payments. Some institutions have evolved to offer ACH options, but that's only part of a successful payment program, since bill payers of all ages now overwhelmingly prefer to use debit cards.[1]

Debit has evolved from being a youth-focused payment method to being the payment option of choice for 171 million U.S. consumers,[2] becoming the number one most-used payment method across nearly all age segments. Of those consumers, 74% use Visa, making it the most frequently used payment method for all household and personal bills.[3]

Despite consumer preferences, checks remain a common method for bill payment—but only because no other method is typically accepted.[4] However, that reality is quickly changing, as consumers are voting with their feet and ditching their lenders when they don't get the convenience they expect. Studies reveal 41% of consumers cited a positive user experience (including convenience) as the reason they opened an account with a financial institution, eclipsing even the effect of an institution's rates and fees.[5] With such a strong disconnect between what consumers want and what is offered, financial institutions need to reevaluate the importance of the borrower experience and expand supported channels.

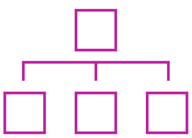
What's Blocking Lender Adoption of Debit Card Payment Options?

Cost to Implement

Given the overwhelming consumer preference for debit card payment options, why are some lenders still hesitating to provide the service? For many companies, it's the cost and complexity of implementing a large-scale, omnichannel payment acceptance deployment. But, this approach is just one of the options available to institutions.

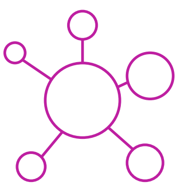
Lenders need to pinpoint the deployment path that will work best with their specific operations, which include:

The Top-Down Approach:



- C-Level Drive for Broad Acceptance
- Longer Deployment Schedule
- Risk of Analysis Paralysis
- Larger Upfront Resource Investment

The Infection Approach:



- Start Small & Address Biggest Needs
- Typically Starts in Collections
- Shows Results Quickly
- Grow as Organization is Ready

The reluctance institutions feel about expanding into debit card payment options is typically due to the risk that comes from the top-down approach. There are significant challenges with an enterprise-wide strategy deployment such as a longer deployment schedule, a bigger up-front cost, and a possible failure to launch.

Due to these valid risks, experts recommend starting a deployment strategy with the infection approach for best results. In particular, SWBC recommends beginning with the collections department, which can yield some immediate results, such as shorter call times due to optimizing the collecting agent's efforts. More than 1,000 lenders offer bill payment through debit, and almost all of them initiated a solution based on the advantages in the collection area.

One study found that implementing payment by debit in collections cut 80% from customer call times[6]—an incredible savings of time and resources.

Just as critical, lenders accepting card payments can realize a reduction in work from ACH returns. A typical ACH return cycle includes:

This collection cycle is very time- and resource-intensive, but it doesn't directly lead to an enhanced level of service or help the relationship with the account holder. Providing access to debit card bill pay avoids this cycle altogether— which saves time, is more efficient, and helps keep operation costs in check.

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Jason O'Brien
CEO
SWIVEL an SWBC Company

Starting small and addressing your biggest needs by deploying the benefits of cards and technology helps your organization recognize the positive returns of those solutions in their operations, enabling finance, operation, and management to become comfortable with something that may have in the past not been identified as a viable solution. We focus in on the biggest problems, finding the win and taking the infection approach so other channels benefit from the values that you uncovered in the early wins.

Replacing ACH

Another factor affecting adoption of debit card payment options is the fear that debit card payments would replace ACH. But, this fear is unfounded. Bill Dobbins, head of business development, merchant, sales and solutions at Visa, says that increased acceptance of cards doesn't result in fewer ACH payments.

Bill Dobbins
Head of Business Development
Visa

We believe that card acceptance is a complement to other electronic solutions. Think of checks as the enemy here. Servicers are saying to borrowers, 'We want you to pay electronically—whether it is through card or ACH.' It shouldn't matter which, because what we find in a successful program is that card and ACH usage increase exponentially at the expense of checks.

In fact, a consumer survey by the Aite Group found that when multiple online payment options were available, both card payments and ACH payments increased.[1] Moving consumers to self-serve payment choices is the goal, and offering omnichannel options delivers on that objective.

Cost of Transactions

Financial institutions are also worried about the cost of debit transactions themselves. O'Brien said institutions are often operating on an outdated understanding of those costs.

"Making the finances of cards work for your organization is seen as a big challenge, but the cost structure as it is today is significantly different than a few years ago," O'Brien said. "As service providers, we are able to leverage Visa's newest pricing initiative to provide savings on processing costs for lenders."

For the most part, debit card costs are regulated by the government: for 70% of debit transactions, the government regulates the cost at 22 cents and five basis points. For every regulated transaction under $1,200, the transaction cost would be below $1. What Visa has done is to create incentive pricing for the exempt 30% of debit transactions and capped their interchange at $2.

That means that any transaction combining the regulated and exempt charges up to $2,000 will result in a charge of $2 or less. This pricing structure effectively matches the cost of ACH.

The Benefits of **Implementing Debit Card Payment Options**

Both consumers and financial institutions benefit when lenders offer debit card payment options. Millennials, the largest generation at more than 75 million, have shown a definite preference for debit cards: only 50% have credit cards and 78% prefer using debit cards.[2] Providing them with an easy, seamless bill-paying experience is an opportunity to build relationships with a cohort that has less entrenched loyalties to name brand financial institutions—and a long runway for financial service needs.

Beyond the significant customer satisfaction gained from offering debit card payment options, there are efficiencies and real cost savings for lenders. In addition, setting up loan payments as a recurring debit transaction improves the efficiency of the payment process—giving borrowers a quick way to avoid delinquency in the first place.

Developing a superior payment strategy also represents an opportunity for lenders to distinguish themselves in a tight market. One report shows that financial institutions are struggling to meet consumers' basic demands online: Less than half of financial institutions surveyed had the capability to let borrowers open an account without visiting a branch, and less than 25% gave borrowers the ability to complete a mobile account opening on a smartphone.[8] "Seamless integration between channels is no longer optional in banking, representing 'table stakes' for any digital consumer. Despite the importance, Computer Services Inc. found that only 48% of bankers put developing a positive omnichannel experience as a top priority in 2018."

41% of consumers cited a positive user experience (including convenience) as the reason they opened an account with a financial institution

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Conclusion

Providing an exceptional loan payment experience for consumers will give your institution a competitive advantage, but not for long. The urgency of meeting consumer expectations, combined with the benefits lenders gain in the process, provide compelling reasons for financial institutions to adopt an omnichannel strategy now. "It's no longer an option to evaluate and weigh in if a positive customer experience on these payment channels is important or not. It now has measurably and identifiably a direct impact to your top-line financials," O'Brien said.

Schedule a Demo!

Click or call **866.316.1162**

Sources

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