Beyond Bill Pay

Creating a Smarter, More Engaging Payments Experience

A payrailz WHITE PAPER

Online bill pay debuted in the early 1980s,

but didn't really start to gain momentum until the early 2000s. Now, according to ACI Worldwide, of the approximately 15 billion bills that Americans pay each year, about 60% -- well more than half – are paid online in some manner, either through the biller, a financial institution or a third-party site.

Remarkably, even though the bill pay market as a whole has matured, the underlying technology that drives the consumer experience has remained relatively stagnant for most financial institutions. What's more, at most institutions, bill payment remains a separate feature from other methods of money transfer.

Take one of the big megabanks as an example. It's customer-facing website has a bill payment tab through which customers can set up new payees, establish recurring payments, and make one-time payments. These are the same features and functions that have been part of online bill pay for the past 30 years.

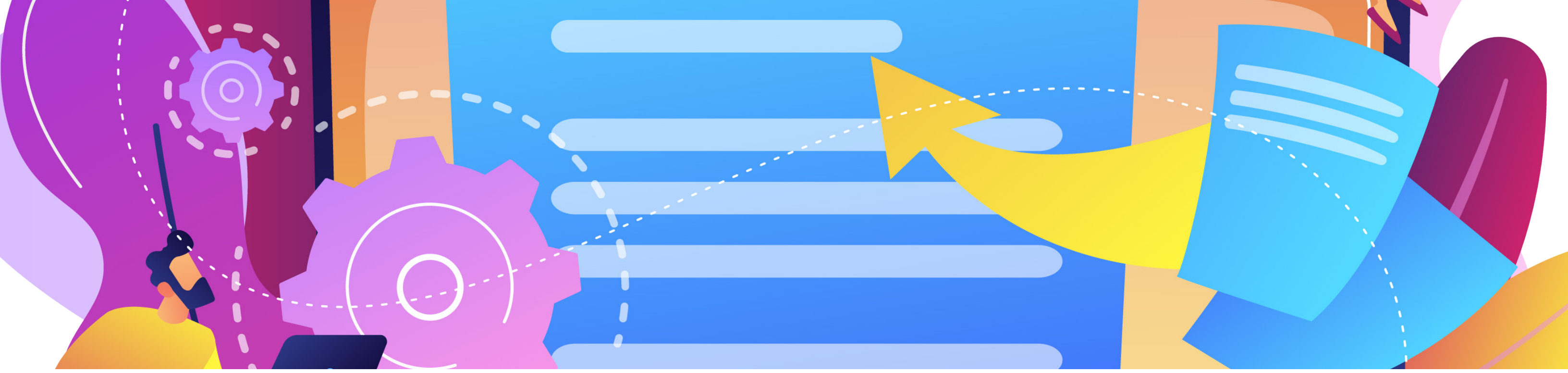
This same megabank also has a tab on its website for Send/Transfer. From that tab, a consumer must decide whether they want to transfer money between their own accounts at this bank, to their own external accounts, to someone using their email address (via Zelle), to another customer of this bank whose account number is known, or to someone whose account number at another institution is known (via ACH). Each option takes the consumer through an entirely different user experience. In essence, this disjointed approach requires each consumer to become somewhat of an expert at moving money around in the megabank system.

In a more consumer-centric environment, the consumer would need only be concerned with the "who" and the "how much." The financial institution would figure out how to get the money where it's going in the most efficient manner possible, all in the background, separate from the user experience.

Even if more robust, more unified payment technology were available (which it is), some institutions may wonder whether an upgraded payment experience is even worth pursuing, given the number of competitors in this space. For example, PayPal processes well over $150 billion in payments each quarter. That's just the actual PayPal service; the company's Venmo platform accounts for another $20 billion per quarter. It's also been estimated that at any given moment, over $2 billion is held in Venmo accounts. That's money that could be on deposit at your institution.

Likewise, virtually every biller in the country offers a direct online payment option on its own website. With so many payment options for consumers to consider, it may be tempting for a financial institution to cut costs and surrender payments (and an important part of the consumer relationship) to direct-payment merchants and various payment up-and-comers. This is a huge mistake. It's been proven time and time again that when your institution controls the user experience and owns the consumer data, consumer loyalty rises.

On the other hand, moving money from one place to another is central to any consumer's use of a financial institution. With a marketplace that's increasingly crowded by both



traditional competitors and non-traditional interlopers, further threatening each institution's relevance, does it really make sense to let your payments business slip away?

Doesn't it make more sense to offer a comprehensive, engaging, assistive payment experience that, thanks to your deep, meaningful relationship with the consumer, no other service or fintech startup can offer? Doesn't it make more sense to take back control of the consumer payments experience and become a leader in the field rather than a distant follower?

At Payrailz, we believe the answer is a resounding yes. If a financial institution gives up on payments, it's really giving up on the consumer, and its relevance will continue to erode. In short, if consumers are no longer using your financial institution for payments, they're no longer your customers/members.

If your financial institution decides to create a world-class payments experience, there are two factors to consider: 1) what will the user experience be like, and 2) how will it actually work, i.e., how much technology will it take?

In considering user experience, it's important to remember that a consumer's expectations for your financial institution are no longer just based on their experiences with previous financial institutions. Today, consumer expectations are shaped largely by GAFA (Google, Amazon, Facebook, Apple), which is just shorthand for all the major e-commerce players collectively.

For example, why do people love Amazon? In a word, it's easy to do business with Amazon. That's because, at its core, Amazon is not a retailer; it's a technology company. Selling merchandise is simply a means to convert that technology into revenue dollars. And because Amazon is a technology company, it leverages technology to create the easiest, most engaging user experience possible. We've reached the "do it for me" age, where technology is capable of much more than following simple commands. In the case of payments, it's about more than just moving money around; it's about empowering people and simplifying their lives.

For most financial institutions, this represents a fundamental shift in thinking. Consumer relationships have traditionally been built through face-to-face engagement at the branch level. However, today the typical consumer visits a branch only about seven times per year. What's more, according to CACI, that number is expected to dip to four visits by 2022. As a sub-group, millennials are expected to visit a branch twice per year. That doesn't leave much opportunity for face-to-face relationship building.

The challenge then is to create an effective, engaging, assistive, advisory, actionable user experience – in other words, a smart payments experience. This brings us to the "how" part of this discussion.

Creating a smart payments experience requires two key components. The first is data. The second is true artificial intelligence (AI) and machine learning technology. AI/machine learning makes sense of all this data and leverages it to provide each member with a more personalized payment experience, one that goes beyond simply executing transactions.

Fortunately, no other organization has more financial data about your consumers than your financial institution does. Data is the fuel that feeds the AI engine and enables it to continue growing stronger and more powerful.

If all this sounds expensive, don't worry. The cloud is the technology that has really changed the game and made AI more affordable. Because modern AI solutions are both developed in the cloud and delivered via the cloud, software companies can create solutions that are much more scalable and, therefore, much more affordable for a wider range of institutions.

What's more, in the long run, AI will have a measurable ROI. In fact, a study by Autonomous estimates that by 2030, financial institutions will have saved about $1 trillion in operating costs by deploying AI-based solutions. This is in line with Accenture's estimate of $1.2 trillion in savings by 2035.

What does a modern payments platform look like? A truly world-class system consists of the following four components:

- **A smart user experience.** The system must be assistive and engaging, simplifying the user's life. It must be able to develop insights to offer suggestions and take action based on the data you've accumulated for a particular consumer.

  For example, if a new bill comes in on Monday, the system can see that there's not enough money in the account to pay that bill now. However, it also knows that the user's direct-deposit paycheck goes in on Thursday. The system can then alert the user and can proactively ask the user if it should pay that bill on payday. The user can then schedule that payment by simply answering *yes*.
- **Smart routing.** Whether the consumer is paying a credit card bill or sending $20 to little Johnny for his birthday, they don't care how the money gets there, as long as it does actually get there on time. And quite frankly, even the financial institution shouldn't have to worry about how the payment is made, i.e., on what payment rail it's sent. A smart payments platform can choose the best payment rail for that particular payment at that particular moment in time. It can even split the credit and

debit portions of a transaction into different rails if appropriate.

- **Totally agnostic.** A smart payments platform doesn't favor any one technology or any one payment rail. In order to make the smartest routing decisions, the system must remain neutral.

- **API-first architecture.** There's one certainty in technology: It's going to change. The only way to future-proof your payments platform is to ensure that it's built on an open, API-centric architecture using modern tools. This ensures that as technology changes and new smart devices — watches, cars, refrigerators or whatever — become available, you can easily connect your payments platform and keep your institution relevant.

Artificial intelligence is changing the financial services landscape and it's happening very quickly. Ten years ago, one could look at payments as just another checkbox on a list. Those days are gone forever. Fortunately, the technology has never been more capable or more affordable. And of course, you're sitting on a treasure trove of financial data with which to feed the AI system.

In this "do it for me era," financial institutions are no longer just competing with other FIs for market share; they're competing with every other vendor and merchant for mind share. The organization that creates the simplest, most assistive consumer relationship will own that relationship. Financial institutions need to move past the idea of selling financial products to the idea of simplifying consumer's lives and adding value by creating deeper digital relationships.

It's simple. Financial institutions that ignore the current payments revolution are in peril. Technology like that described here empowers a financial institution to become each consumer's "financial Fitbit." If your institution isn't willing to take on this role, there are myriad other FIs and non-FIs that would be more than happy to relieve you of this burden – and also relieve you of loyal consumers.

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