Why Consumer Lenders Cannot Ignore Current Trends In Consumer Payment Preferences

Kris Messner, CCM, AAP and Cheryl Yaeger
BenchMark Consulting International

Payments to financial institutions comprise over 20% of all US consumer payments. Financial institutions expecting monthly payments from their customers may soon find that the check is no longer in the mail. Consumers are increasingly choosing not to write a check when paying bills. Internet usage continues to increase and paying bills online is becoming a mainstream activity, no longer the province of the technology fanatics. Several new electronic payment types have been developed and are being quickly adopted by billers looking to increase payment collection rates. These new payment types cannot be processed through traditional paper processing systems, and may become exceptions during processing. If lenders are not working on incorporating new payment types into their regular payment processing streams, they will experience increased costs to process exception payments and increased customer service and collection costs due to delayed payment postings.

**Overview**

The universe of consumer payments includes payments made for remittances and those made at the point of sale. The term “remittances” includes payments issued by consumers in response to a statement or bill received from a biller, or provider of services. These are often recurring payments (utilities, telecom payments, mortgages and loans, and other monthly bills). Point-of-sale payments include payments made for purchases where the customer is present at the merchant (retail stores, dining and entertainment venues, lodging and transportation), or is making a purchase over the telephone or the Internet.

Although checks are still a significant payment method for both general categories of payments, consumers now have a variety of payment methods available to them, and their choice varies depending on whether the payment is for a point of sale or remittance payment. For in-person payments, cash, checks, and credit/debit cards are used most frequently. For online or telephone purchases, credit/debit cards represent nearly all of the payments. For remittances, checks are still the dominant payment method, despite a measurable and growing shift toward electronic payments. The payments industry is focusing significant attention on this shift away from check usage for good reasons: US banking and payments networks are heavily invested in infrastructure to support the check as the dominant payment vehicle. As check volume declines and electronic payment volume increases, changes in that
infrastructure must be planned and executed by the players in the industry to maintain profitability and market share. Large financial institutions are already experiencing fee income declines for paper-based payment services. Even though there is partial offset from increases in electronic payment services fee income, the net effect has been a decline in total fee income.

This article will focus on the recurring payment stream and the implications of changes for billers, including consumer lenders, particularly as it relates to exception payments. Lenders may not consider themselves direct shareholders in the payments industry, since they are often the source rather than the recipient of the fee income for payment processing and funds clearing. However, all billers must consider that changes in strategy by payments processors (financial institutions, the Federal Reserve Banks, and third party vendors of software and payments services) will impact their costs for processing and posting payments from consumers. Billers should consider the importance of developing a payments strategy and ensure they have implemented cost-effective methods of receiving and processing payments from consumers. Understanding the current state of payments and the emerging trends is necessary for developing such a strategy.

**Consumer Payment Market Size and Methods of Payment**

There are approximately 15 billion consumer payments made annually in the United States. Current consumer use of checks for remittances is somewhere between 7.3 billion and 10.1 billion checks annually, as measured by the Federal Reserve Retail Payments research project in 2002. This corresponds to large billers’ actual experiences of receiving about 70% of their monthly payments via mailed checks.

In addition to checks, other payment methods currently used by consumers for remittances include:

- Electronic direct debits, or Direct Payment.
- Telephone-initiated payments using biller Voice Response Units or Call Centers.
- Web-initiated payments via Biller biller Website.
- Third-party bill payments, including bill payment services as well as agents such as Western Union. The biller may receive these payments as checks or electronic payments.
- Bank bill payment services. The biller may receive these payments as checks or electronic payments.
- Cash.
- Credit/debit cards. The biller may initiate recurring debits to these cards, or may accept them at a branch facility.

Given the long predominance of checks as the preferred consumer payment method, billers have created efficient payment processing streams for checks received in the mail. The use of OCR scannable documents is widely employed as a means of capturing remittance information, and many billers have implemented high-speed, image-based systems for payment processing (either internally or through outsourcing vendors). Such systems process so-called “clean” payments (where the customer has provided a check and the remittance document in the envelope) extremely efficiently. Until recently, the major problems encountered in payment processing were handling those payments received without sufficient information to post the payment to a customer's account. Those payments are considered “exception payments”, and are usually handled manually, on a delayed basis.
In order to provide alternatives to consumers, many billers have also established alternative payment options for consumers. Methods such as telephone-initiated payments, web-based payments, direct debits, and recurring credit cards payments, when properly implemented by the biller, provide consumers with alternatives that result in clean electronic payments. For all of the methods above, the biller, often working with a third party payment processor, is actually initiating the payment on behalf of the consumer. The biller is usually able to process a file directly to their accounts receivable system to reflect the consumer payment information. We can think of these alternatives, as well as the clean check payments, as being part of a biller’s planned method of receipt.

Since exception payments result when consumers deviate from paying the biller according to the biller’s planned receipt, any movement by consumers away from paying by mailed check can result in increased exception payments. Consumers are being offered ways to make payments by third parties outside the biller-consumer relationship. Banks offer online and telephone bill-paying services. Other companies offer online bill payment (and bill viewing) services via websites, and software companies offer online payment through the use of their software. These services provide convenience and sometimes cost-reduction to the consumer.

However, if a consumer chooses a payment method that is not offered by the biller, such as an online bill payment service, an agent payment, or a bank bill payment service, the potential for that payment to become an exception exists. In these scenarios, the consumer is in effect, authorizing the third party to initiate the payment on their behalf. If the biller does not have a relationship with this third party, it is possible that the third party will present the payment to the biller in such a way that it becomes an exception payment for the biller. A common result of such a scenario is the dreaded “check and list”, whereby a third party provides the biller with a single check representing multiple consumer payments, along with a printed listing of the accounts to be credited for payment. These have long been a source of exception payments for billers. The Tower Group and NACHA recently released data that indicates 37% of online bill payments result in a paper-based payment when received by the biller.

A few years ago, significant attention was focused on Electronic Bill Presentment and Payment (EBPP). Projections of rapid consumer adoption were rampant, and many entrepreneurs rushed software and services to market. For a biller, EBPP presents a significant cost reduction opportunity: presenting bills online to consumers should reduce billing costs by eliminating printing and mailing costs, and receiving electronic payments initiated by consumers would be less expensive than opening mail and processing mailed payments. However, consumer adoption of EBPP has been significantly slower than originally anticipated. This is partly due to technical difficulties in presenting bills online, but is in large part due to consumer reluctance to stop receiving paper bills in the mail.

From the biller’s perspective, an ideal EBPP environment is represented by the Biller Direct model, in which the consumer visits the biller’s website to view their bill and initiate payment. Because the biller is involved in the payment transaction, posting the electronic payment to the biller’s receivables system is facilitated. These are low-cost, low-exception payments for billers. The majority of consumers using EBPP today are visiting biller websites to view and pay bills. Billers may thus be satisfied that their efforts to establish EBPP through their websites have been rewarded. However, if the customer does not actually pay their bill through the biller’s website, perhaps paying...
via another online service, the biller may actually find they have a new monthly exception payment from that consumer.

In studies conducted by BenchMark Consulting International for consumer lending applications, it is assumed that parity has been achieved for high-speed payment processing. However, processing of exception payments, which are labor-intensive, varies among lenders warranting review and commentary. In a 2001 study, BenchMark discovered exception rates (number of exception payments as a percentage of total payments) ranging from 2% to over 10%. Subsequent evidence in the industry indicates exception payment percentages are on the rise.

**Emerging Payment Channels**

A checkless society has long been predicted for the US, yet consumers continue to write checks to satisfy payments. Until recently, US check volume continued to climb steadily even as electronic payment volume showed consistent annual growth. However, a study completed in 2002 by the Federal Reserve confirmed suspicions that the total volume of checks written in the US has finally begun to decline. Although EBPP growth has been markedly less than predicted, consumers have begun to select electronic payment methods over check writing at increasing rates. A study by Jupiter Research of fastest growing online applications has ranked “Paying Bills” in the top five for the past three years; and number one for the past year. Another study, by Forrester Research, projects that consumer adoption of EBPP by 2004 will finally reach levels that will attract significant numbers of billers to the market.

NACHA, the standards-setting organization for electronic payments in the United States, has created several new transaction types over the past few years. Companies and banks have implemented services using these and existing transaction types, resulting in a proliferation of choices for consumers to pay remittances. While the current volumes of these new payment types are very low today, the rate of growth for these types is significant. If this growth continues, as predicted, the payments landscape of the future will look radically different than it does today.

The chart shows electronic payment transaction types typically associated with consumer payments. The volumes (shown in millions) as reported by NACHA, are available at www.nacha.org.

Many billers have long offered consumers the option to pay recurring bills through a Direct Payment option, represented above by the PPD Debit transaction type. In this payment method, the consumer provides the biller with authorization to debit a checking or savings account for the amount owed. The biller then creates an electronic file containing the account information and amount to be debited, and sends the file to a financial institution or third party to initiate the payment. This low-cost transaction offers billers, or in this case, lenders, new opportunity to increase their use of this payment method given consumers’ increasing acceptance of electronic payments. Although hardly a new payment type, this payment method continues to show steady growth, as
evidenced by the 10% volume growth from 2001 to 2002.

While the CIE transaction code, used by third party bill payment vendors to initiate payments on behalf of consumers, has been in existence nearly as long as the PPD, the volume of transactions has remained very low until recently. CIE payments have grown over 50% from 2001 to 2002. Although the total volume is still small compared to the total number of payments, this growth is significant as an indication of the growth in consumer use of online bill payments.

New consumer payment transaction types TEL and WEB were initiated in 2001. TEL is used to designate one-time electronic payments authorized by consumers via telephone. This payment type is intended to provide a means for a consumer to effect a quick, low cost payment to a biller. It is being used by lenders for collection or late pay scenarios as an alternative to costlier vehicles (Quick Collect). The NACHA rules require an existing relationship between the payer and the payee. This requirement restricts the use of this payment type predominantly to a remittance environment. The growth rate of this relatively new payment method is significant.

The WEB transaction code is used to designate electronic payments initiated by consumers via a (secured) website. It is not typically used by on-line merchants for one-time purchases, but rather by billers to enable consumers to initiate payments via the biller’s website. This is the transaction code that represents a consumer clicking on the “pay now” button when they view their account online, or in the customer service area of the biller’s website. As with the other new payment methods, total payment volume is relatively low, but increasing rapidly.

The other transaction codes shown in the chart above, RCK and ARC, do not represent consumer-initiated electronic payments. The ARC code is used when billers convert checks received in a lockbox to an electronic debit for clearing. The RCK code is used to convert checks returned for insufficient funds into electronic debits for re-presentation. The increased usage of these codes represent significant trends in how billers are handling payments received via check and will be addressed in more detail later in this discussion.

The implications for billers from these growth statistics is the potential for increased payment processing costs if the consumer behavior change results in increased exception payments. Payment exceptions will increase if the biller is not able to post the payment from a new method as part of their current payment processing stream(s).

**Payments Turbulence**

We are entering a time of payments turbulence as use of new payment methods grows and consumers become more comfortable with alternatives to writing checks. Even those consumers who continue mailing checks for remittances may soon find their efforts to retain their cancelled checks as proof of payment are being thwarted by several initiatives:

- **Image Safekeeping.** A number of banks (30% according to testimony presented to the Senate Banking Committee earlier this year), and nearly all credit unions no longer send cancelled checks back to their customers with their statements. The cost savings for the financial institution are significant. The customer can request images of their checks from the financial institution if needed, since they must retain the images for seven years. Some institutions offer consumers a choice
regarding whether to receive paid checks; others charge for the service, and still others do not offer the option at all.

- **Accounts Receivable Conversion (ARC).**
  The ARC transaction code mentioned earlier in this article provides billers or their payment processors a means to convert a check received as payment into an electronic debit for clearing. The consumer’s check is destroyed after an image of it has been captured. An electronic debit is posted to the consumer’s account in lieu of the check. This transaction code only became effective in March 2002, and the total volume in 2002 was 24 million transactions. Growth in ARC use continued to explode in the first quarter of 2003, with total transaction volume 152% over the fourth quarter 2002. While it is still early for conclusive projections regarding adoption of the process, it is clear that billers are keenly interested in the potential advantages of ARC usage. One early projection from the American Bankers Association is that volume could exceed 3.5 billion transactions by 2005. Billers are not required to give consumers the option to not have their checks converted, although most early adopters are doing so. The experience to date is that very few consumers are actually exercising their option to not participate. The low opt-out rate raises an interesting question: *if these consumers are willing to let their check be converted to an electronic debit, would they be willing to initiate an electronic payment rather than a check? And if so, how can billers capitalize on that willingness?*

- **Check Truncation Legislation (Check 21).** Legislation now before Congress would permit financial institutions to stop sending the actual checks from the depository bank to the institution on which they are drawn for payment. Instead, electronic exchange would be permitted. Images of the checks would be retained as required by regulations. Financial institutions may opt not to receive electronic images; in this case an Image Replacement Document (IRD) will be printed and presented for payment. If this legislation passes, (and it is likely that it will), even those consumers whose banks still return paid checks will receive an image of any checks truncated as a result of this legislation, rather than their actual check.

The result of these initiatives will result in fewer original paid checks being received by consumers who continue writing checks. It remains to be seen how much consumers will be influenced to stop writing checks as a result of these initiatives. Nonetheless, the proliferation of payment options for consumers is likely to continue. Players in the payments industry will continue to seek ways to capture their share of the revenue pie. Financial institutions, in particular, are beginning to look for ways to recover revenue that will be lost in reduced fees for processing payments (check clearing and lockbox fees). Providing additional billing and electronic payment services is an attractive option for recouping fee revenue. If billers are not engaged in proactive adoption of new planned methods of receipt, the result of these new services could be higher levels of exception payments.
**A Payments Receipt Strategy**

Given that the payment landscape will continue to show multiple sources of payments from consumers, lenders need to be thinking about a payments receipt strategy. This may be an unfamiliar concept, since payment processing is often viewed as a back office function, and not a strategic function. Payment receipt is generally a key performance measurement, monitored by reviewing cash receipts and/or managing accounts receivables levels. However, many lenders do not focus significant management attention on the payment receipt process. The lender whose strategy now includes only a reasonably efficient lockbox process and a direct payment option may soon find themselves adrift in a sea of exceptions, if they are not already. The key to minimizing exception payments is controlling the payment flow from consumer to billing system. Consider these factors as imperatives for developing a Payments Receipt Strategy:

- Consumers will choose payment options based on convenience and cost to them, without regard for impact to the lender.
- Exception payments are expensive to process, perhaps as much as 20 times more expensive than clean payments.
- High levels of exception payments can result in additional customer service costs.
- Third party vendors and banks are actively marketing services to consumers and are not concerned about the impact to the biller (lender).

**Assessing Current State**

The first step for a lender is to assess the current state of payments in the company. This may prove to be the most difficult step in the process, as many lenders will find that initiatives to offer new payment options may have come from various departments. The justification for those payment options may not be well documented, nor based on lowering payment costs. Many companies do not measure payment processing costs across various products and channels. Significant effort may be required to obtain the data needed to calculate such costs. Additionally, depending on corporate structure, responsibility for managing payment costs may not be clearly defined. However, the following questions should be answered in preparation for developing a payments strategy:

- What consumer payment options does the company currently offer?
- What is the percentage of total payments received from each option?
- What is the cost of processing each of these payment types?
- What is the additional cost of processing exception payments from each option?
- What types of payments are being received from customers that have resulted in exception payments?
- What efforts are made to mitigate the volume of these exception payments?
- What efforts, if any, are underway to provide new payment options to customers?
- Who is currently managing the costs and volumes described above?

Since the strategy will involve efforts to minimize the total cost of payments, it will be important to begin regularly collecting payment volume and cost data. Then, a baseline average payment cost (total of all payment costs/total payments) can be set as a benchmark for improvement. Management accountability for reducing that cost should be assigned and tools for reporting the results of efforts can be developed.
Determining the strategy

The strategy should focus on several key elements, with the overall goal of minimizing Average Payment Cost:

- Minimizing Exception Payments
- Marketing Low Cost Payment Methods to Customers
- Minimizing Risk

Minimizing Exception Payments

A key element of the strategy will be to minimize the volume of exception payments. If consumers are paying through bill payment vendors, for example, a lender needs to ensure that most of those payments are being received electronically, in a format that can be posted directly to the billing system. This can be accomplished through a bank or a third party payment consolidator, and current relationships will often dictate the better course of action. If the billing system cannot accept a separate feed for electronic payments, then determine whether the system can be modified to accept such a feed. If not, and a bank is being used for lockbox processing, the bank may be able to consolidate the electronic payments into the daily lockbox posting file. Or, a file consolidation process (to combine the lockbox and electronic payments into a single feed to the billing system) may be possible prior to system posting.

Exception management is an ongoing process. New or existing customers may choose to pay through bill payment channels not previously used by customers; thus regular review of exception payments sources should be part of a payment receipt strategy. This review is particularly critical whenever a biller lender acquires significant numbers of new customers, as in portfolio acquisition or as a result of a significant marketing effort. Review can consist of sampling exception payments and researching to determine the root cause for the payment becoming an exception. A simple example is to determine the vendor issuing a “check and list” and then working with the vendor to convert that check to an electronic payment.

Knowing the cost of processing exception payments can justify allocating resources to reducing the volumes of exception payments. It is not uncommon for an exception payment to cost a lender $2.00 incrementally. That is simply the cost for the additional labor involved in researching account information and manually posting the payment to a customer account. If a regular payment costs $0.20 to process, then each exception payment represents $1.80 in additional processing costs. For a customer portfolio of 500,000 accounts, with a 5% exception rate, the monthly cost to process those exceptions would be $45,000. If the lender were able to reduce and maintain their exception rate at 2%, $27,000 per month, or $324,000 annually could be saved. Alternatively, each 1% increase in payment exceptions will cost an additional $9,000 per month or $108,000 annually to process. Even for a lender that has not been actively managing exceptions (where the cost of an initial effort may include programming or establishing a third party processing relationship), short-term financial payback for this type of resource investment would be typical.
Marketing Low Cost Payment Options to Customers
In addition to managing exceptions, lenders should have a plan to proactively offer payment options that will entice customers to pay via least-cost alternatives. Knowing the cost of various payment options is essential for determining which options to promote and which to de-emphasize. Most lenders already offer a Direct Payment option, which tends to be among the least expensive payment methods to process. If not, then scheduling a project to begin offering this option should be a priority for the payment receipt strategy. Among those billers that do offer this option, some do not actively market this payment option to customers. The most successful billers have participation rates of 40-60%. These billers offer the option to the customer during the acquisition process (loan closing, insurance underwriting process, telephone service setup). They present the option to customers via website, as a message on their Voice Response Unit and via targeted mailings. They make it easy for customers to register for the option. And, they often provide incentives to their customer service staff for new enrollments (offered when customers initiate calls to Call Centers or visit branches). Consumer acceptance of Direct Debit is high for lending applications, and those lenders actively marketing this option can achieve high participation rates.

Online bill payment is a fast-growing Internet application. Lenders who offer customers the option of paying on their website can ensure that those online payments do not become an exception during processing, by controlling the payment flow. The rationale for providing online payment options for financial institutions extends beyond the business units concerned with processing those payments. Financial institutions are a major source of recurring bills to consumers (loans, mortgages, credit cards). Many of those same financial institutions also want to capture other bills for that consumer, to offer them one-stop shopping — and avert the consumer’s use of a third party for bill payment services. For a financial institution, then, various departments should have a mutual goal of enrolling the customer in EBPP services for their own products, as a step toward offering such services for corporate customers of the bank. The average consumer pays between 15 and 20 bills per month. According to research by the Gartner Group, consumers are somewhat divided regarding whether they would prefer to view and pay a bill at their bank’s website, or their biller’s website. Either way, the bank can be the winner when the bank is the biller, as may be the case in consumer lending.

A lender’s customer service staff can be a source of information regarding customer preferences. If customers are calling and asking for payment options not currently provided, those requests should be captured and forwarded for review and possible implementation. For loan payments, the collections department may want to offer Quick-Pay options for delinquent customers. These can be offered through third parties, and convenience fees can be charged to offset processing costs. In collection applications, these payment types can essentially pay for themselves through improved collection of delinquent accounts.

It is important to ensure that customers are aware of current payment alternatives. This is especially true when determining whether to launch a marketing effort to increase usage of a particular method, or to cease offering an alternate method. A survey conducted by a utility provider asked customers to name the payment options offered by the biller. The results indicated that 94% of their customers did not know that they could pay via telephone, and 84% did not know they could pay via the biller’s website. Obviously, consumer usage of these low-cost options was lower than desired. Telephone payments, offered through a voice response unit, are a low-cost option. These are a fast-growing option, and may dominate the next-generation of payment
choices. According to internal research reported by Bank One, some billers are achieving adoption rates in excess of 15% of total payments made through this channel.

Determining which payment alternatives to offer and how to offer them will require input from various areas of expertise. Technical resources will be required to help determine feasibility of implementing new payment alternatives. Marketing resources will be needed to determine how to promote new and existing alternatives. Operations resources will be needed to assist in quantifying impact of new alternatives. It will also be helpful for financial institutions to work with other departments marketing services to the same consumer base, to ensure that strategies are consistent and eliminate duplicate efforts.

Minimizing Risk

Several types of risk are inherent in payment processing. There is the risk that a customer will not initiate payments regularly, resulting in additional costs for collection. There is the risk that customers will initiate payments, but the funds will not be available in the customer's demand account when the payment is settled. There is the risk that the lender has invested in infrastructure to support particular payment alternatives, and consumer payment behavior changes so that those alternatives become more costly, or even obsolete.

An element of the Payment Receipt Strategy should be to ensure that payment alternatives are developed to help mitigate each of these risks. For payment initiation risk, the most obvious mitigator is the direct payment option, since consumers enrolled in direct payment cannot forget to initiate payment. But other payment alternatives, such as telephone payments can also help increase payment initiation. For the customer that is late in paying, collection rates increase when the Collector can initiate a payment while the customer is on the phone, rather than waiting for them to mail a check. Or, collectors can leave a toll-free number where payments can be initiated on an answering machine when they do not reach a customer. For customers who are not late paying, but who may be reluctant to write a check because it may not clear (and the customer would incur late fees on the loan and overdraft fees on the demand account), or who may not be able to pay in person when they have funds available, telephone payments can offer a solution. If the alternative is designed so by the lender, customers can call in their payment and designate the date on which it should be posted. This method enables the customer to be sure they have funds available when the payment will post.

For funds clearing risk, use of electronic payment methods are generally superior to paper payment methods. This is true for several reasons. First, electronic debits are often posted before checks at paying banks. If this is the case, then a biller’s electronic debit will have a higher chance of clearing than a check when limited funds are available in the demand account. Additionally, electronic debits are usually cleared faster than paper checks, so the biller’s debit may get to the paying bank a day or two before a check payment initiated on the same day. The higher probability of electronic funds clearing has been a factor in some biller’s desire to use ARC check conversion for those checks mailed to them. And even when electronic debits cannot be collected after all permitted attempts, the lender knows earlier in the process that the funds are not good and the payment credit must be reversed. It is not uncommon for the gap between original deposit date and receipt of a Final Return check (one that has been presented twice and returned for insufficient funds) to be in excess of 10 business days. The same transaction as an electronic debit would be received within 5 business days.
The new transaction code RCK previously mentioned can be a tactic to reduce funds clearing risk. This code is used to convert a check that is returned unpaid for insufficient funds into an electronic debit for future presentments. The advantages of converting the check to an electronic debit are that the debit can then be presented two more times, if needed, in order to attempt to secure payment. This gives the biller a total of three attempts to obtain the funds, rather than the two attempts permitted for unpaid checks. Additionally, the timing of posting for debits can be controlled. Checks must be physically routed back to the paying bank for the second attempt to post. It is not possible for the lender to precisely time the date of the second posting attempt. However, electronic debits can be scheduled to post on dates when the consumer is likely to have funds in the account (Fridays, mid- or end-of-month, or any other likely payday). Additionally, if proper authorization has been secured, billers can electronically collect returns fees, to the extent permitted by state laws. These fees can be used to offset costs involved in the RCK conversion processes. Billers using RCK have reported 25-40% reductions in check losses, and 35-50% reductions in collection costs, according to information released by NACHA.

Finally, the strategy should include measures to minimize the risk of increasing payment processing costs as customer payment behavior shifts. A major concern here is for those lenders managing in-house lockbox operations. While they may be cost-effective at current volumes, the cost per item will increase as volumes decrease (since fixed costs must be spread over a declining volume base). Lenders that do not outsource lockboxes need to consider how they can downscale operations as needed. While the capital investment for lockbox processing does not exist for lenders who outsource this service, they cannot ignore this risk. Their service providers will also be facing rising costs, and they will seek to pass them along to their customers. Since the effects will be industry-wide, it may not be possible to obtain price discounts as volumes decrease. Lenders that outsource must ensure they partner with providers that can also offer next generation payment services. Those providers may be less likely to push for lockbox fee increases if they believe they can replace lockbox services with other payment processing services. Declines in lockbox volumes are being felt by large processors already. One large consumer finance company studied their lockbox and electronic payment volumes in 2002 and found that electronic volume had grown 18.7% during the twelve-month period studied, while lockbox volume decreased 6.3% during the same period, to about 70% of total payment volume.

**The Bottom Line**

Lenders, like other large volume billers, are faced with increasing numbers of payments from consumers that cannot be posted through traditional paper processing systems. Lenders can take advantage of new electronic payment types for general and specialized (late payment or collections) payment offerings. Lenders should be adopting a proactive approach to handling multiple payment streams, through the adoption of a Payment Receipt Strategy. Assessing the current situation, knowing your total costs for payment processing, focusing on your customer’s needs for payment offerings, and minimizing your payment risk are key components of an effective strategy. Lenders who fail to take action may find themselves with both declining customer satisfaction ratings and increasing costs in payment processing, customer service, and collections.
**Kris Messner** is a senior consultant at BenchMark Consulting International and is a Certified Cash Manager (AFP) and Accredited ACH Professional (NACHA). She specialized in the areas of Treasury Management, Payment Processing, and associated business process design.

**Cheryl Yaeger** is the Engagement Delivery Director for BenchMark, and is also the Practice Manager for Retail and Deposits Operations.

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