

ELECTRONIC BANKING

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**Market
Intelligence
Strategy Centre**



Collecting and processing your bills is a 1 billion hidden transaction business says MISC (sister group to MINTEL Australia). Of total retail goods and services spending in Australia of \$422 billion, Australians choose to pay \$146 billion (ie. 35%) via regular bills. Collecting fees on this 1 billion transaction business has attracted both major Australian Corporates and other third party service providers.

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Market Intelligence Strategy Centre(MISC) MEDIA RELEASE

Collecting and processing your bills is a 1 billion¹ hidden transaction business says MISC (sister group to MINTEL Australia). Out of total retail goods and services spending in Australia of \$422 billion, Australians choose to pay \$146 billion² (ie. 35%) via regular bills³. Collecting fees on this 1 billion transaction business has attracted both major Australian Corporates and other third party service providers.

Although cash payments and occasional bills (eg. once off accountant, tax returns and upfront payments or some delayed payment -lay buy) still form the majority of Australian consumers retail goods and services purchases, new research from the Market Intelligence Strategy Centre (MISC) shows that this is changing and for the year ending December 2000, nearly 1 billion regular bills captured 35% share of all spending. Goods and services purchased in this way were worth some \$146 billion. This is the first full measurement of the regular Bill Payment market that across all merchandise and services the transactions that pass through Vendors, direct (eg. direct payment to Optus) and those where the payment passes through a third party. MISC says that the research shows that nearly 1 billion transactions (projected to date) have grown because of, an increasing reward card-led consumer credit acceptance (which attracts regular Bill Payments) as well as the changing provision of some Biller products and services, which now better accommodate more frequent billing cycles. At the same time, Bill Payment regimes have offered greater flexibility. The proliferation of a multitude of payment options including over the phone-automated payments (IVR) to Internet-transacted Bill Payment and even pre-payment using virtual money, has no doubt encouraged many to avoid the immediate cash exchange and payment options. MISC says commonly available regular Bill Payment options now number more than 26 variations and subsequently provide the consumer with unprecedented level of bill payment choices.

The transaction volume size of the regular Bill Payment market can be compared favourably alongside the 650 million Credit Card transactions and the loyalty scheme led Credit Card revolution which has seen consumer Credit Card debt rise to \$17.4 billion. This has been fuelled by changing attitudes, a more relaxed regulatory environment and the rapid growth of reward schemes. However, such Credit Card activity pales in significance alongside regular Bill Payments which clearly overshadow the number of Credit Card transactions says MISC.

Traditionally the processing of bills has attracted little attention as it inherently has been considered by most Vendors as an administrative cost to be borne in the normal process of collection. With greater awareness of the value of out-sourcing and a better realisation of actual cost as well as an expansion in the number and form of Bill Payment options this is changing.

¹ Year to Date December 2000 \$146 billion regular Bill Payments ie. 875 million regular bill transactions. 1 Billion regular bill transactions projected to June 2001.

² Ditto

³ A regular Bill is defined as a Bill from the same Vendor that occurs once or more than once a year but excludes professional service bills.

In addition, a host of miscellaneous Billers (eg. Ambulances, Rental Companies) are all restructuring or may have already done so with a combination of 3rd Party and direct Bill Payment processing. While MISC says this is an inevitable trend directly related to both a greater level of sophistication in back office servicing and the growth in cheaper Biller options, it is also because of 3rd party pressure, as this sector becomes more and more financially attractive.

Third parties have observed the massive transactional throughputs that the industry currently embraces with envy. As a consequence, the industry now also attracts some of the largest financial and service corporations in Australia as 3rd Party service providers. Third party providers functioning behind the scenes include: Australia Post, Telstra, Optus and most of the Banks through their own BPAY consortium. Now even large retailers like Coles Myer have joined this group. With bill processing costs ranging from 25 cents to \$2.00 (indicative measures only) the revenue that can be generated from 1 billion transactions clearly is huge and growing. Increasingly too, Bill Payment provides “an invaluable interaction process” which promises to change the bill from a simple payment mechanism into a powerful platform for service-oriented care and marketing. 3rd Party processors clearly appreciate this. The Financial services institutions clearly regard the potential revenue opportunity of Bill Payment as significant enough to have established their own jointly owned and funded BPAY scheme which now numbers over 100 Banks, Credit Unions and Building Societies. BankWest is also currently trialing an OTC Bill Payment service for selected large retail network via its pilot initiative with the Australian Newsagents Federation. Large retailers like Coles Myer see the provision of Bill Payment services via its for its 15 million weekly customers as an effective means of leveraging its own technical capability (eg. via its own Transaction Switch & EFTPOS network) and physical distribution ie. 400 Cole’s stores provide Bill Payment services along with banking. Likewise for Australia Post, Bill Payment provides not only a further revenue platform, it also maximises their distribution capability through more than 4,000 outlets and around 400 different Billers. Furthermore, some Billers are now providing the infrastructure for other Merchants to provide extended Bill Payment options. A case in point is both Telstra and Optus, which now offers an Internet and IVR payment platform to Merchants.

In terms of growth opportunity, the long- term potential of this market is highly attractive says MISC. Aside from the growth which coincides with advances in Bill Payment technology, MISC says the potential is clearly evident by the 65% of merchandise and services that are currently purchased without regular bills. This includes once-off bills (eg. Accountant) and is just too enticing to be ignored. An additional 5% share gain of all consumer spending says MISC in this burgeoning market would add some 140 million transactions on which fees could be charged.

APPENDIX 1:

MISC has traced the flow of Bill Payments across more than 150 vendor groups and surveyed the structure of retail and service purchasing behaviours to measure for the first time the total Bill Payment market. This is a critical dimension lacking in market measurement, as greater variations exist in the Biller sector in the way they transact and exploit this market opportunity. This year-long study provides MISC Subscribers with regular, quarterly Monitors including measures of market share by Biller sector.

Examples of the Regularly Issued Bill Payments Market Measured by MISC

Sector	Common Bill Cycle	Examples
Telecommunications	Monthly to Quarterly	ISP, Pay TV, Mobile Phone
Electricity	Quarterly	Electricity usage
Gas	Quarterly	Gas usage
Water	Quarterly	Water and Sewage usage
Council	Quarterly to Annual	Property rates
Federal & State Government:	Fortnightly to Annual	State housing
Finance Companies	Fortnightly to Monthly	Car Finance repayment
Credit Cards	Monthly	Standard bank payments
Retail store cards	Monthly	Myer card
Education	Annual	Higher education charges
Insurance	Monthly to Annual	Premiums
Banking Services (eg Mortgages)	Fortnightly to Monthly	Loan repayments

Telecommunications

The telecommunications sector provides a worthwhile example of some deviation from the common schema above. In isolated cases eg. the lack of up-front payment provisioning payment forms are mostly represented across this vendor sector. Bill Payment options are across many of the electronic and non-electronic forms with notable exceptions. Most Telcos fail to utilise Maxi and Austouch (the proxy's). While other sectors will accept stored value cards and bulk payments Telcos broadly do not. By the same token, an unusual further option afforded by some in the sector, is payment cards (eg. Pre-paid mobile phone cards very popular with young, non-credit rating people).

APPENDIX 2:

Electronic Bill Payment is the sum of a number of payment options identified by MISC including:

- Australia Post BillPay OTC Electronic (EFTPOS)
- Australia Post BillPay Telephone (IVR)
- Australia Post BillPay Internet
- Non-Australia Post OTC Electronic - Other OTC (ie. agency, own outlet or Bank - EFTPOS)
- Independent Phone (IVR)
- Independent Internet
- BPAY Phone Banking (incl. Mobile Phone)
- BPAY Internet Banking
- Maxi - Victoria only (i.e. kiosk, Phone or Internet)
- Austouch - ACT only (kiosk only)
- Direct debit (incl. direct deposit, payroll deductions)
- Other (incl. bulk payments, giroPost and ATM for Credit Card payments, other kiosks eg. Brisbane City Council, Coles, eBill, stored value cards, fax,etc)

Non-Electronic Bill Payment is the sum of a number payment options identified by MISC including:

- Australia Post BillPay OTC Non-Electronic (cash or cheque)
- Non-Australia Post OTC Non-Electronic - Other OTC (ie. agency, own outlet or Bank cash or cheque)
- Mail - cheque or money order

APPENDIX 3: FLOW DIAGRAM KEY

Bill Payment & Other Payment Forms – (Vendor)

NAME	DESCRIPTION	EXAMPLE
Vendor (Direct)	All payments/purchases made directly to the vendor providing the goods or services	Telstra shop
Vendor - Immediate - Other Payments	As exchange of the goods or service occurs at the same time as payment/purchase all Vendor Immediate payments are by definition Other (not billed)	Groceries
Vendor - Delayed - OBP	Any retail transaction in which the payment for the goods or services occurs after the goods or services have been received or consumed	Professional services
Vendor - Delayed - Regular Bill Payment	Any Bill Payment in which the payment for the goods or services occurs after the goods or services have been received or consumed	Telephone Bill
Vendor - Prior - OBP	Any retail transaction in which payment for the goods or services occurs before the goods or services have been received or consumed	Furniture or Car
Vendor - Prior - Regular Bill Payment	Any Bill Payment in which payment for the goods or services occurs before the goods or services have been received or consumed	Insurance or Council

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Bill Payment & Other Payment Forms – (3rd Party)

NAME	<i>DESCRIPTION</i>	EXAMPLE
3rd Party (Non-Direct)	All payments/purchases for a vendor's goods or services made through a third party	Australia Post
3rd Party - Immediate - Other Payments	As exchange of the goods or service occurs at the same time as payment/purchase all Vendor Immediate payments are by definition Other (not billed)	Stockbroking or Auction Houses
3rd Party - Delayed - OBP	Any retail transaction in which the payment for the goods or services occurs after the goods or services have been received or consumed	Housing rental or purchases through agent
3rd Party - Delayed - Regular Bill Payment	Any bill payment in which the payment for the goods or services occurs after the goods or services have been received or consumed	Telephone Bill or Insurance or Mortgage Broking
3rd Party - Prior – OBP	Any retail transaction in which payment for the goods or services occurs before the goods or services have been received or consumed	Smartcards (prepaid phonecards) purchased at third party or concert tickets
3rd Party - Prior - Regular Bill Payment	Any Bill Payment in which payment for the goods or services occurs before the goods or services have been received or consumed	Insurance or Council