



**WHITE PAPER**

**MARCH 2023**

# Next-gen loan payments for the best customer experience



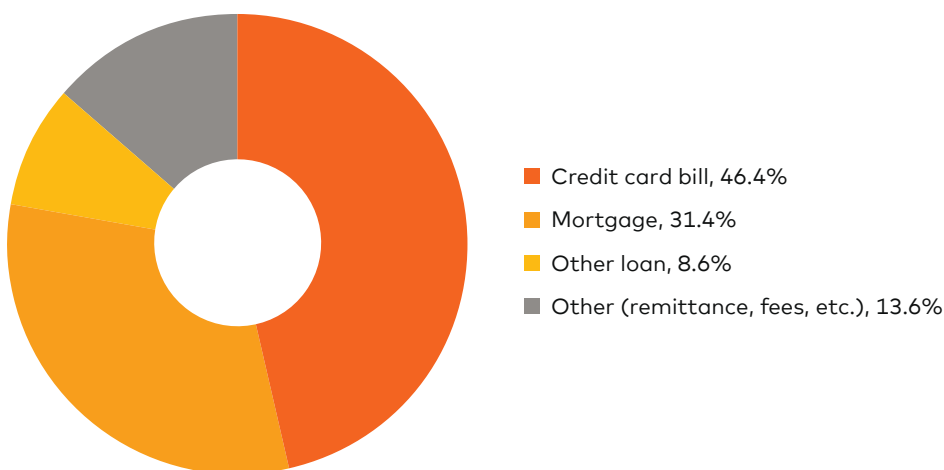
# Paying off loans is something everyone must do

Of all the money U.S. consumers spend each month, 40% are payments to financial institutions.<sup>1</sup> Despite the recurring and frequent nature of these payments, the experience for both payers and financial institutions can be complicated, cumbersome and time-consuming. Consumers want a simpler way to stay on top of their obligations, more control over how and when payments are made and greater assurance their account information is secure.

Consumers' monthly activity of repaying loans is a top opportunity for financial institutions to give their consumer and commercial customers an easy, streamlined user experience (UX) that builds confidence and deepens loyalty. Yet executives at regional banks and credit unions told us<sup>2</sup> their current legacy loan payment systems:

- Are not user friendly, with complex user interfaces (UIs)
- Are not customizable to the individual financial institution's needs
- Offer very limited reporting capabilities
- Are too reliant upon redundant, manual tasks
- Leave them exposed to security risks they find difficult to manage
- Lack the adaptability needed to introduce new payment options and other features

**40% of monthly consumer spending goes to financial institutions, and of that, 40% are for loan repayments**



Source: Federal Reserve Banks of Atlanta, Boston, and San Francisco, The Survey and Diary of Consumer Payment Choice, 2021.

The experience for both payers and financial institutions can be complicated, cumbersome and time-consuming



## **Strengthen customer engagement and loyalty with a seamless payment experience**

Until banks introduced online bill payment in the 1990s, consumers paid their bills by writing and mailing checks. Consumers gratefully embraced online bill pay services from their banks, but many debt payments are still made with legacy coupon books. Meanwhile, utilities, many other billers and eventually Fintechs introduced more user-friendly payment options via their websites or mobile apps. Today, many banks no longer offer the convenience and ease of use consumers have come to expect.

To help financial institutions enhance their loan repayment offerings, we interviewed executives at 25 regional banks and credit unions to understand:

- 1** How does loan payment functionality fit into their digital transformation goals, offering the seamless user experience that will attract new customers and ensure their competitiveness as new entrants raise the innovation quotient?
- 2** What new capabilities do financial providers need to meet these objectives, and what specific pain points or new features are most important to operating a nimble, best-in-class biller direct solution that meets their business objectives?
- 3** What strategies or best practices can help them make the best business decisions to enhance their bill pay operations, performance and results?

# Easy loan payments: Critical to being seen as digital leaders

Consumers frequently feel frustrated by the payment process, finding it difficult to keep on top of due dates, uncertain if or when their payment is received, and having few payment options, among other issues. And as consumers increasingly adopt online and mobile tools to manage more and more of their lives, navigating several different biller processes is exasperating.

Executives at regional banks and credit unions told us they are under constant pressure to update their technology and capabilities to remain competitive. Yet their ability to innovate is hampered by a shortage of technical resources and limited budgets. To offer such features as flexible payment terms and user-friendly mobile apps, banks must jettison their legacy technology to stay in the game. Offering speedy, convenient and secure repayments also fits into banks' strategic priority to be digital leaders. Executives spoke to three areas of importance to them:

## Consumers frequently complain to billers

Percent of billers receiving complaints about these aspects of their bill pay services\*

91% Convenience

34% Choice

26% Cost

25% Security

### Issues of importance as financial institutions pursue a digital transformation

#### Agility



"Fintechs are giving us a ton of angst these days as they are able to offer the technology and options needed to attract the very population of clients we want."

VP of commercial lending, regional bank

#### Digital offerings



"Digital is the main way for us to remain competitive with larger institutions, and we cannot afford to have a bill pay solution that does not allow us to respond to customer needs or complaints, either due to issues with the interface or the features themselves."

Chief payments officer, regional bank

#### Cybersecurity



"With the recent influx of data breaches, we are cognizant of our role in protecting client data so we can hold their trust and therefore keep their business."

Director of digital accounts, credit union

Most executives we interviewed are actively seeking new capabilities and features to meet both external customer needs and internal business objectives. We will now review their top needs.

\*Source: PYMNTS, The One-Stop Bill Pay Report, sponsored by Mastercard, November 2022.



# A streamlined UI is key to winning and keeping customers

A streamlined user interface would keep existing customers loyal, executives told us, because ease of payment and account access are consistent pain points they hear from customers, which can lead them to switch to Fintech competitors. Ease of use is a high priority in the ongoing effort to attract new, younger customers expecting a more modern banking experience.

A better UI would also enable consumers to keep track of their payments and limit errors – while reducing pressure on call centers for minor account inquiries. Finally, a better interface would provide customers better data on their account status, payment postings and account edits, with these benefits:

- Provide clients a detailed readout of their accounts, including recent payments, account remedies or changes to items like interest rates or ancillary fees
- Give their clients greater ability to control and customize their account preferences
- Serve as a cost-saver by reducing headcount needed for collections or call center staffing

A related feature banks are eager to adopt are text-based notifications. Executives believe text notifications would make it easier for them to reach clients faster than email on payment matters and give them greater peace of mind during payment processing. They also said texts would reduce late payments and delinquencies for borrowers, while reducing collection calls and the expense of vast collections units.

## **A streamlined UI**

“We know that if a customer cannot get on the bill pay website, find their loan, and pay their bill within 4 to 6 minutes, they are likely to not use the online banking system again and even worse, they may take their business elsewhere because they need to revert back to traditional bill payment.”

Chief technology officer,  
credit union

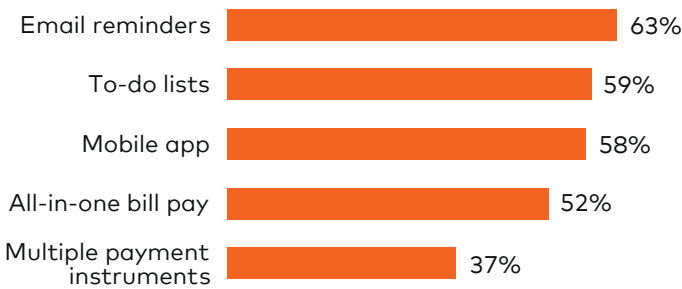
## **Direct account access**

“Banking executives are becoming more aware of the need to have better customer-facing interfaces because of how it can make it easy for customers to understand their accounts.”

VP of consumer insights,  
regional bank

As consumers have come to enjoy the simplicity of person-to-person payments, they clearly want more access, transparency, speed and convenience paying their debts. They have a number of suggestions banks and credit unions could leverage to improve this recurring chore:

**What would improve consumers' bill pay experience**



Source: doxoINSIGHTS, United States of Bill Pay: How Americans Pay their Bills, 2022.

**Key takeaways**



**Empower clients to self-manage accounts**

- Banks recognize that a streamlined UI empowers clients to easily access their accounts, get the details they need to keep track of payments, initiate remedies or see changes to payment terms, rates and fees, for example
- An advanced UI helps clients control and customize their account preferences



**Provide clients greater access to data**

- A powerful biller direct platform offers clients more accurate, real-time data about their loan payments, along with detailed payment histories
- Real-time access to payment status increases customer satisfaction while reducing unnecessary call center costs

**Text notifications**

“Text notifications would be great for reducing delinquency times and help us get cash-in-hand faster.”

Loan servicing specialist,  
credit union

# Needed: A loan payment solution they can customize to their needs

A major pain point for financial institutions that rely on third-party solutions is the difficulty and level of effort required to adapt the system to provide the products and features they want to offer. Executives told us their customers' profiles continually evolve, and they want to adapt their system to meet customer requirements. But most of today's solutions are difficult to modify, don't integrate well with their existing systems and require manual data entry.

Credit unions and regional banks see customization of any solution as central to strengthening their digital banking offerings and interfaces to meet changing customer profiles. They look to flexible third-party solutions to combat the lack of internal resources needed to add new capabilities or features.

## Key takeaways



### It's evolution, or extinction

- A loan payment solution that can be easily adapted to new offerings and new customer requests is a must-have feature today
- Many regional banks and credit unions, lacking the skill sets or resources to manually update their systems, often look to third parties to help them roll out new features



### A clear product roadmap helps banks adapt to evolving industry trends

- Financial institutions need to know the provider's product roadmap in advance so their IT team can anticipate system changes required for future capabilities

## Lack of customization

"With [our current provider], we cannot customize our bill pay website, which makes it hard to meet ever-changing customer needs."

Director of loan operations,  
credit union

## Need to scale up

"At one point, we were a very small credit union, but now we're on the larger end. Our goals are expanding to include more customers at a faster pace, so we need a bill pay system that can allow us to scale up."

VP of commercial lending,  
credit union

## Manual processes are needlessly repeated

"Many times, the current manual processes still in most systems lead to loan servicers doing repetitive tasks on the same account, since account edits are sometimes pending and do not post until the next business day."

VP of loan operations,  
credit union

# Enhanced reporting benefits both external and internal users

Executives called for enhanced reporting because it benefits both back-office personnel and end user clients — helping everyone extract relevant insights from financial data. Powerful reporting capabilities are a priority for many reasons:

- **Enable** clients to better understand the nature of their accounts.
- **Ensure** client-facing teams have the most accurate, up-to-date information about clients' accounts, allowing them to extract real-time trends, quickly answer customers' questions and make the customer servicing process more transparent.
- **Allow** loan servicing teams to understand clients' whole loan portfolio activity in one centralized place, rather than rely on multiple reports that cannot track synergies.
- **Enhance** cash flow management with better forecasting and inform key business decisions.
- **Boost** collection mechanisms without manual intervention as a cost-saving measure.
- **Mine** real-time customer insights to shape development of new products and services.

## CSR team suffers, too

"Many of the back-office interfaces are complex and visually unappealing, so not only is it hard for the individual customer to feel comfort in making a payment, but it also becomes a challenge for our teams to service accounts."

VP of embedded banking,  
regional bank

## Manual reporting is painful

"If we want to get customer data beyond 180 days for reporting purposes, we will have to manually get access to it by emailing the provider and having them pull the data from their data centers, which can take several days."

VP of commercial lending,  
regional bank



## Key takeaways



### Better serve clients

- Robust reporting capabilities give clients the ability to see all the details of their loans – such as escrow payments, interest and principal – so they better understand what they are paying
- Greater access to more detailed account data would enhance the customer service capabilities of banks and credit unions and speed up client queries



### Inform product development

- Enhanced reporting with more data would arm financial institutions with better client insights, leading to the development of products and services consumers are more likely to purchase
- These insights could also change the way they deploy new products to clients



### Accurate forecasting powers better business decisions

- Improved forecasting would help accounting and finance teams make growth projections and future recommendations more easily
- Payments forecasting helps mitigate balance sheet risk while providing precise insights for future business development activities

## Accurate forecasting

“Future forecasting would enable us to model our future cash flows better and gain an understanding of our ability to lend and which products may be safer for us in the long run.”

VP of commercial lending,  
regional bank

# Streamlined reconciliation would help eliminate manual processes

Credit unions and regional banks say a better reconciliation process will cut back redundant data entry tasks, reduce complexities during the reconciliation process and ensure more precise tracking of institutional cash flow. They want a platform that talks to their core system in real time. With fewer pending transactions in the system, they would be able to see cash flow events the minute they occur, making the closing process easier.

## Key takeaways



### Streamline payment processing

- Integration with core systems and automation improve data accuracy and reduce manual processes
- A refined reconciliation process decreases pressure on internal accounting teams, as well as the need to hire and train more personnel



### Speed up posting

- Reducing manual processes will accelerate posting payments and conducting daily or monthly book closings



### Easily track the flow of money

- When loan payment data easily integrates with core systems, financial institutions can track cash flow more precisely
- With fewer pending transactions, they gain clarity on cash flows to each loan account with real-time account updates

## Redundant data entry

“You will see people conduct the same task twice because the system cannot keep track of tasks done.”

Loan operations manager,  
regional bank

## Integration with core systems

“Integration with our core systems is crucial so that the posting of a payment can occur as fast as possible for both internal reconciliation and customer satisfaction purposes.”

Loan administration manager,  
regional bank

## Streamlined reconciliation

“Streamlined reconciliation would be great, especially if it provided features such as auto matching, the ability to sync posting data to the EBPP, as well as the ability for AR personnel to see exceptions in real time.”

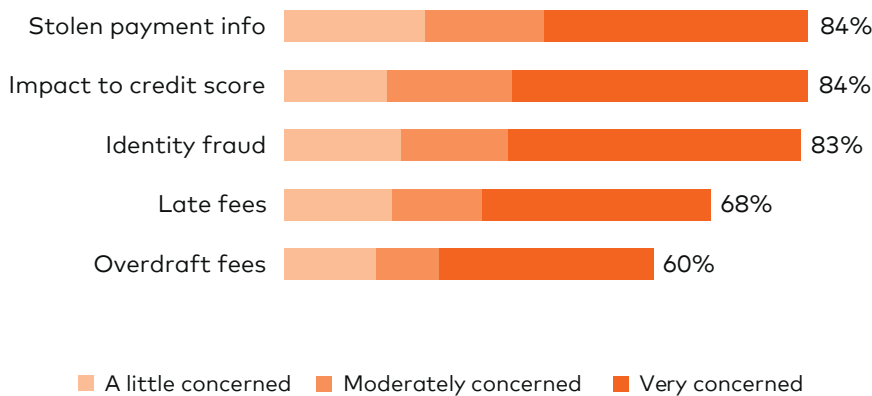
VP of embedded finance,  
regional bank

# Managing security risks is a priority for consumers and their providers

Concerns about the security of their loan payments is on the rise among consumers, especially when it comes to identity fraud, stolen payment information and impacts on their credit score. Indeed, security is the top concern among U.S. bill payers.<sup>3</sup> Executives we surveyed also said the proliferation of data breaches has increased their need to improve security to reduce monetary exposure and reputational risk.

Credit unions mentioned PCI compliance as a desired feature because increased regulatory requirements for IT security have stressed budgets and hindered their ability to expand their business.

## Consumers' top bill pay concerns



Source: doxoINSIGHTS, United States of Bill Pay: How Americans Pay their Bills, 2022.

## Security earns customers' trust

"With the recent influx of data breaches, we are cognizant of our role in protecting client data so we can hold their trust and therefore keep their business."

Director of digital accounts, credit union

## Manual processes raise security risks

"Manual processes can prove to be a major issue for data integrity and security since it is not automatic from the loan documentation to the bill pay system."

VP of payments, credit union

## Key takeaways



### Third-party solutions reduce the security burden

- Executives we interviewed believe a robust loan payment platform will simplify their requirements as a safe data custodian, while reducing their need for highly skilled in-house security personnel
- PCI compliance built into the biller direct service can reduce capital expenditure for IT infrastructure, compliance and the burden on employees to service these needs



### Outsourcing PCI compliance is a huge benefit

- With PCI management handled by the third party, credit unions can spend less on physical equipment or servers – steering those funds towards more client-facing digital assets
- PCI compliance included in a third-party solution frees up internal technical teams to dedicate their time to other priority items, given the elimination of manual system upgrades and software changes
- Working with a PCI compliant solution enables credit unions to direct budget to focus on development of more innovative roadmap items, resulting in faster go-to-market, a better competitive position against larger players and Fintech providers and ultimately increased customer acquisition

## PCI compliance is a burden

“Having the bill pay segregate the data would help us ensure that if there is a data breach in the core or other digital banking infrastructure, it would not impact the PII from the bill pay side.”

Digital accounts manager,  
credit union

# It's time to get ready for real-time payments

Financial institutions of all sizes view instant payments as a transformative force. Real-time payments offer more secure payment processing, enable easier reconciliation and provide clients greater transparency over their accounts through automatic posting. When it comes to bringing this capability to loan payments, most executives would welcome a third-party solution offering advanced security protocols with minimal integration requirements.

## Key takeaway



### Quickly adapting to future payment needs and solutions is business-critical

- Advanced biller direct platforms offer financial institutions the flexibility and speed to get new payments solutions and services to market quickly, in response to consumers' evolving needs

## RTP assures consumers' debts are paid

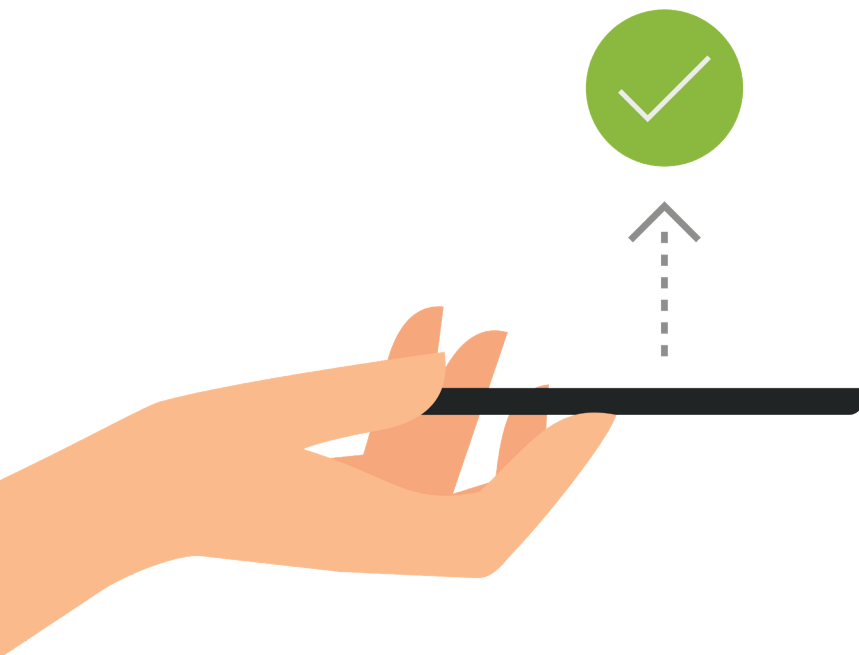
"Our customers want RTP as fast as possible to avoid the stress around pending transactions."

Chief technology officer,  
credit union

## Consumers want faster payment options

"Customers want more payment options because it moves the money faster, and they can see whether their payment posted in a much quicker manner."

Business operations manager,  
credit union





# Conclusion

Repaying loans to financial institutions — auto, personal, mortgage and others — are consumers' largest budget items. Naturally, staying on top of these monthly bills is paramount to consumers. They want to know how much is due, when, what their payment covers, that it's secure and when it is received. When consumers feel confident that their loan repayments are on time, incurred no late fees and their credit is good, they will feel good about themselves and satisfied with their financial institution.

Yet our survey of executives at regional banks and credit unions found that most recognize their current bill pay solutions are not user friendly. In fact, their user interfaces are complicated and confusing, for both consumers and back-office staff. Making matters worse, current biller direct solutions lack many of the features consumers want — text reminders, detailed loan information, faster payments and other benefits of the digital age. Time after time, executives also complained their current systems are kludgy, require repetitive and costly manual data entry, are impossible or difficult to customize to their needs and offer limited reporting capabilities.

Clearly, financial institutions need better loan repayment solutions to ensure a seamless flow of revenue, better anticipate and manage cash flow, provide detailed loan data to both borrowers and client-facing staff and reduce the time, effort and costs of managing these loans. Fortunately, an advanced Electronic Bill Presentment and Payment platform is available to meet all these needs, with little to no effort required by banks or credit unions.

**When consumers feel confident that their loan repayments are on time, incurred no late fees and their credit is good, they will feel good about themselves and satisfied with their financial institution.**



BillerIQ® is an advanced, innovative, multi-channel billing and payments platform that:

- Offers payers the **best user experience** so they can easily keep track of all their loans in one place; stay informed about account details, payments due and payment confirmation, while reducing the demand on call centers and costs
- Sends **alerts directly to payers' mobile devices** so they are always on top of payments due
- Provides robust, **real-time reporting**, delivering granular insights to greatly enhance customer service, better forecast cash flow and inform key business decisions
- Integrates seamlessly with other banking systems to streamline reconciliation, **limit manual work and reduce data errors** across multiple systems
- Gives clients **more payment choice** — via ACH, credit card, debit card and PayPal — through more channels: Web, IVR, CSR, mobile wallet, text and POS, plus recurring and future-dated options
- Easily **adapts to evolving client profiles and needs**, to provide new products and features and meet the requirements of the financial institution
- Built-in **PCI compliance and additional security features** ensure clients' information and payments are secure and meet industry standards, while taking the burden and cost off financial institutions

BillerIQ® was originally created and brought to market by Transactis, which was acquired by Mastercard in 2019. Transactis is a trusted industry trusted partner for moving money and data quickly and safely. Transactis transforms traditional billing and payment processing with innovative, reliable, and secure digital solutions.



For more information, contact  
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1. Federal Reserve Banks of Atlanta, Boston, and San Francisco, The Survey and Diary of Consumer Payment Choice, 2021.
2. Kaiser Associates, in-depth interviews with 25 U.S. senior financial operations managers, sponsored by Mastercard, Q3 2022.
3. PYMNTS, The One-Stop Bill Pay Report, sponsored by Mastercard, November 2022.



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