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Online Banking Bill Payments: A Vendor Performance Update

This document is an excerpt of an independent market research report published by Aite Group in October of 2009.

October 2009

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IMPACT POINTS

- The following Impact Report is based on an July-September 2009 survey of four leading consolidator bill payment processors in the United States: Fiserv, Fidelity Information Services' Metavante, Online Resources and iPay Technologies.
- Online banking bill payment continues to gain wider adoption among consumers and small businesses. In 2009, 2.07 billion online bill payments will be originated by banks.
- The growth rate for online bill payments originating through bank Web sites is slowing considerably, falling from 18% in 2007 to 13% in 2008. Aite Group expects the growth to fall to 8% in 2009.
- Fiserv has successfully completed its 2007 acquisition of leading consolidator bill payment processor CheckFree. Aite Group expects Fiserv's absolute market share by number of transactions to hit 66.7% this year, up from 66.5% in 2008.
- Processors have made only small inroads with emerging bill pay products, and no processor has thus far made any significant headway with card-based bill payment. Expedited bill payments and transactions originating from small-business-specific applications still account for a tiny fraction of the overall market.
- Emerging products are growing at a faster rate than overall consolidator volumes, however. Between 2007 and 2008, expedited transactions originating from online banking grew 78%, and small-business application-based transactions grew 29%.
- Despite Fiserv's dominant market share, the market remains very competitive. Nimble iPay Technologies, for instance, has managed to increase market share consistently over the past decade.
- Fiserv and iPay Technologies top our assessment of consolidators' business performance.

INTRODUCTION

The following Impact Report assesses the performance levels of leading online banking bill payment processors' — aka consolidator processors¹ — from 2006 to the first half of 2009. Data for this report was collected by Aite Group from the vendors themselves between July and September 2009.

The goal of this report is to provide a picture of the level of performance achieved by leading U.S. processors, including Fiserv, Metavante (now part of Fidelity Information Services), Online Resources and iPay Technologies. The report should be of use to financial institution clients as well as vendors themselves and their resell partners. The report also provides insight into the performance of MasterCard RPPs, the leading independent network ("switch")² for online banking bill payments.

Due to the pending closing of the Metavante acquisition, Fidelity Information Services (FIS) did not participate in this report. We do not believe that this materially affects the sizing and direction provided by the report given that FIS had a very small market share prior to the merger with Metavante. Further, Aite Group's 2008 analysis of the sector estimated that Fidelity had only 0.3% market share.³ As of October 1, 2009, Metavante is part of FIS. Also absent from our study is Yodlee, which declined to participate.

The first section of this report provides an overview of how leading consolidator processors score on 21 key performance indicators selected by Aite Group. The subsequent sections discuss in more detail their market penetration performance, transaction performance, network performance and emerging-product performance.

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1. By "consolidator processors" or "online banking bill payment processors," we refer to vendors that provide online bill payment business process outsourcing to banks offering online bill payment to consumers and small-business customers through their online banking front-end.
 2. By "switch" or "network," we refer to the portion of the online banking bill pay business process that allows processors or banks to route payments from banks to billers.
 3. See Aite Group's report, *Online Bill Payment: The Elusive Goal of Cost Recouping*, September 2009.

MARKET PENETRATION PERFORMANCE

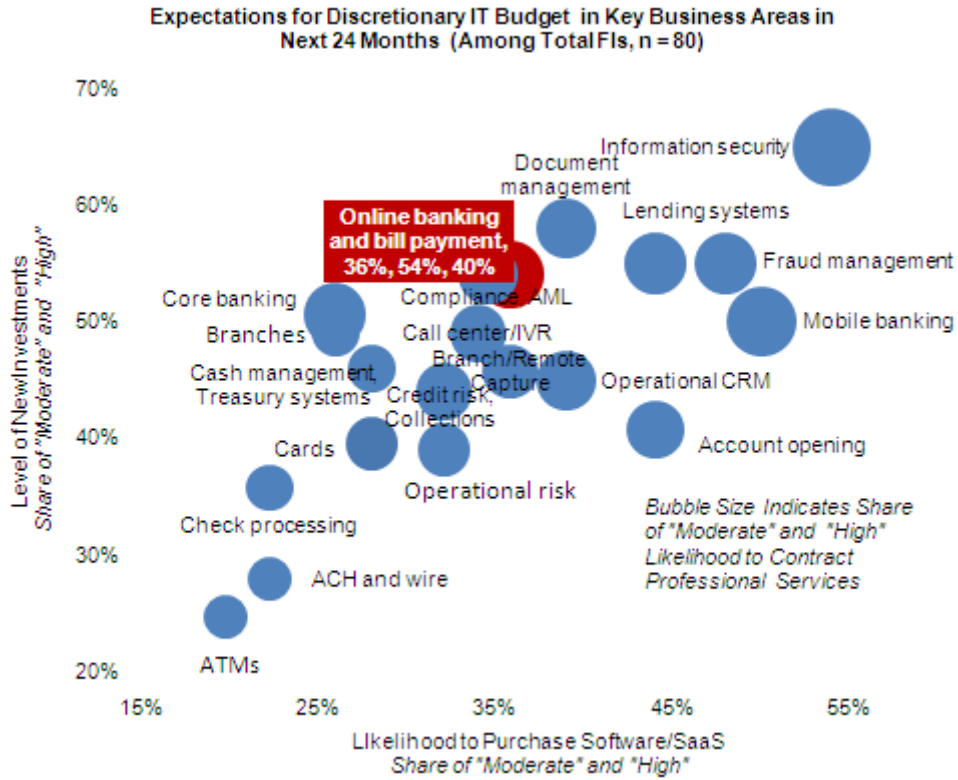
The following section assesses consolidator processors' level of market penetration among U.S. financial institutions and their end-users.

FINANCIAL INSTITUTION PENETRATION

Offering a robust online bill payment experience continues to be a top priority for banks. In a recent survey among 80 Chief Information Officers (CIOs) and technology executives at large banks, community banks and credit unions in North America, 34% said they have a moderate to high likelihood of purchasing a new online banking and bill payment technology in the next 24 months. Separately, 54% expected the investment to be moderate to high in online banking and bill payment. In addition, 40% expected to contract professional IT services to support online banking and bill pay initiatives (Figure 1 on page 6).⁴

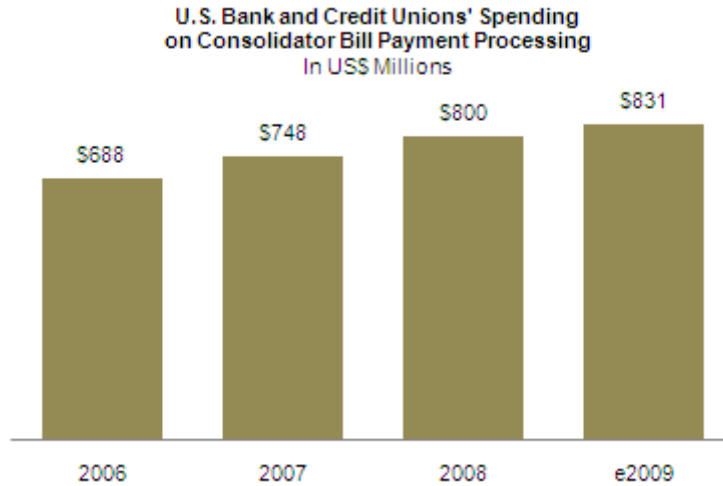
4. See Aite Group's report, *North American Bank CIOs: Managing in Thrifty Times*, September 2009.

FIGURE 1: BANK IT SPENDING PRIORITIES



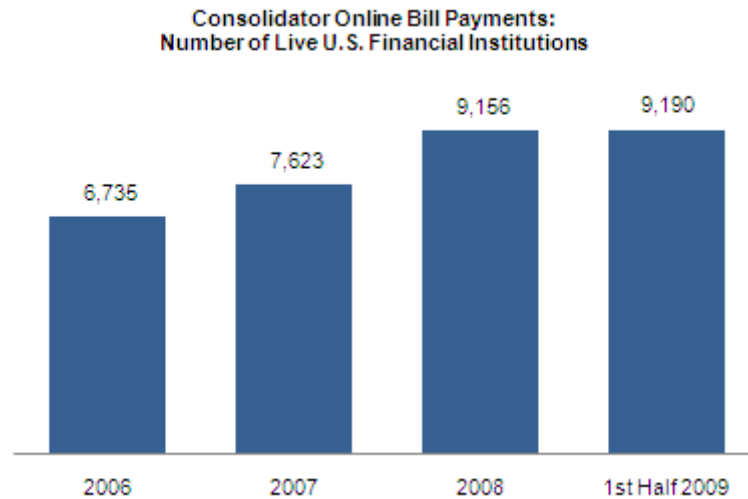
Source: Aite Group's Survey of 80 North American Bank CIOs/Technology Executives, July-August 2009

We expect U.S. banks and credit unions to spend more than US\$830 million on consolidator bill payment processing in 2009, including in-house and third-party processors (Figure 2 on page 7).

FIGURE 2: U.S. FINANCIAL INSTITUTIONS' SPENDING ON ONLINE BANKING BILL PAYMENT*

Source: Company data, Aite Group *excluding presentment

The number of U.S. financial institutions live with a consolidator online bill payment offering grew 0.4% during the first half of 2009 over calendar-year 2008. About 9,200 U.S. financial institutions offer online bill payment today (Figure 3 on page 8).

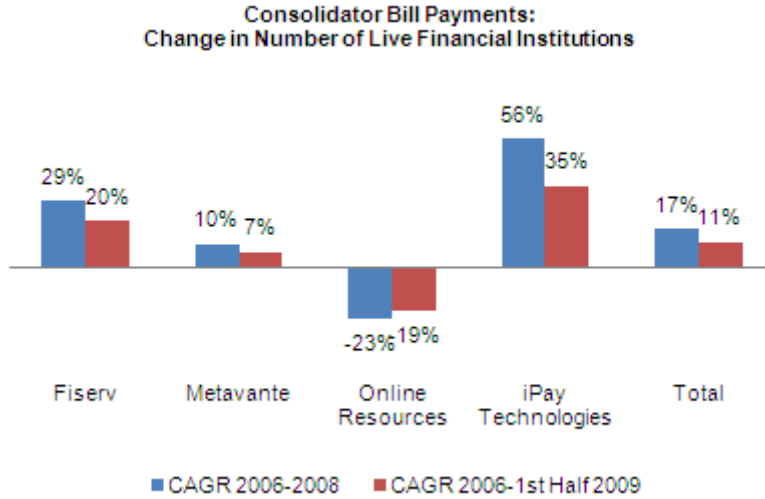
FIGURE 3: NUMBER OF LIVE FINANCIAL INSTITUTIONS

Source: Company data, Aite Group

Over the past few years, iPay Technologies has experienced the fastest growth among respondents in the number of customers. Between 2006 and the first half of 2009, iPay Technologies grew the number of live institutions by a 35% compound annual growth rate (CAGR), while Fiserv grew 20% CAGR, Metavante grew 7% CAGR and Online Resources experienced a 19% drop in its financial institution customer base.⁵ iPay Technologies' projects continued rapid growth during 2009, with an expected 31% growth in the number of live institutions over 2008. Fiserv has grown the most consistently year over year, however, in the past few years (Figure 4 on page 9; Figure 5 on page 9).

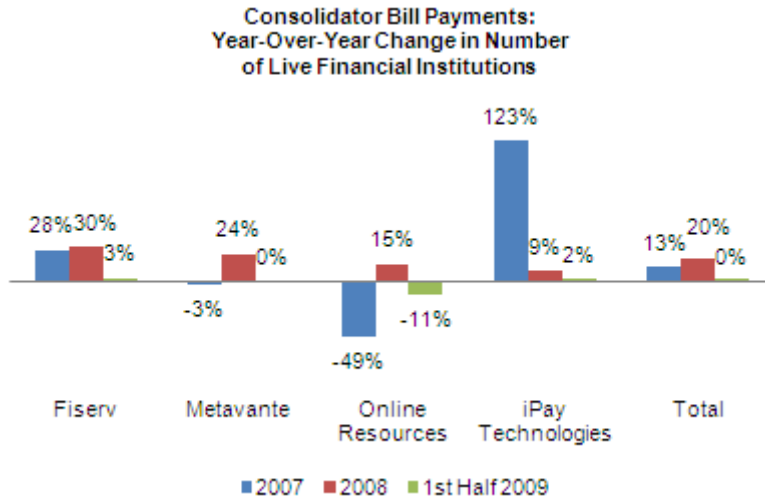
5. Princeton eCom and Online Resources data are aggregated throughout this report for consistency of reporting. Online Resources acquired Princeton eCom in 2006.

FIGURE 4: CHANGE IN NUMBER OF INSTITUTIONS (1/2)



Source: Company data, Aite Group

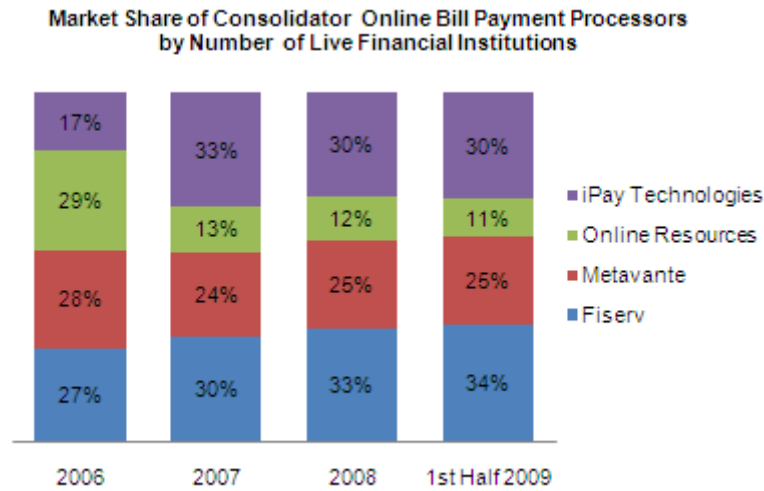
FIGURE 5: CHANGE IN NUMBER OF INSTITUTIONS (2/2)



Source: Company data, Aite Group

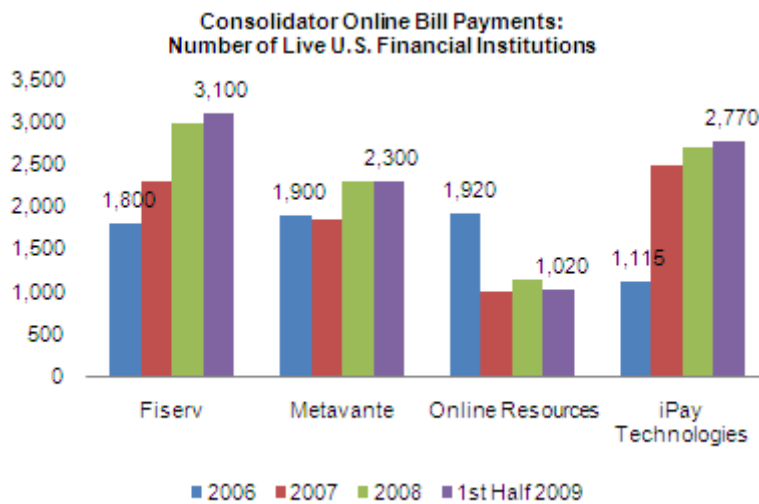
Fiserv has grown its relative market share by number of live financial institutions consistently in the past few years. Its share has grown from 27% in 2006 to 34% by the first half of 2009. 2007's dramatic increase in relative market share for iPay Technologies was remarkable; its share hit 33%, compared with 17% in 2006. That rapid growth has propelled iPay Technologies to the second spot among survey respondents by number of financial institutions, ahead of Metavante (25%) and Online Resources (11%). (Figure 6; Figure 7.)

FIGURE 6: RELATIVE MARKET SHARE BY NUMBER OF INSTITUTIONS



Source: Company data, Aite Group

FIGURE 7: NUMBER OF LIVE INSTITUTIONS

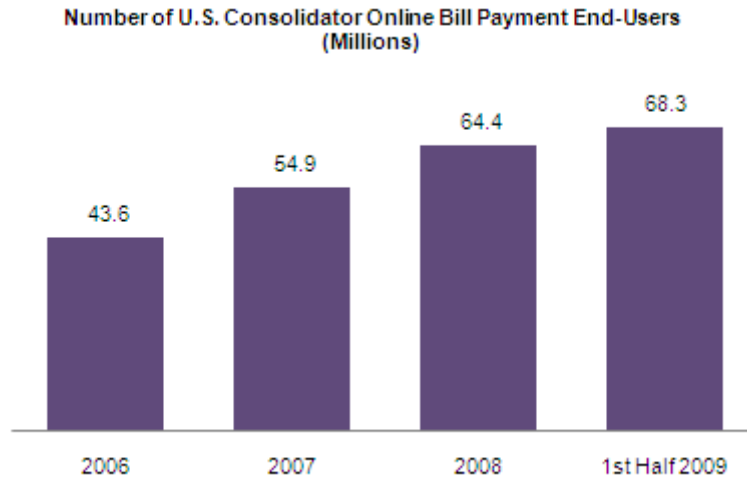


Source: Company data, Aite Group

END-USER PENETRATION

The number of online banking bill payment end-users grew 6% during the first half of 2009 over calendar-year 2008. Full-service processors support nearly 70 million end-users in the United States (Figure 8).

FIGURE 8: NUMBER OF CONSOLIDATOR END-USERS IN THE UNITED STATES

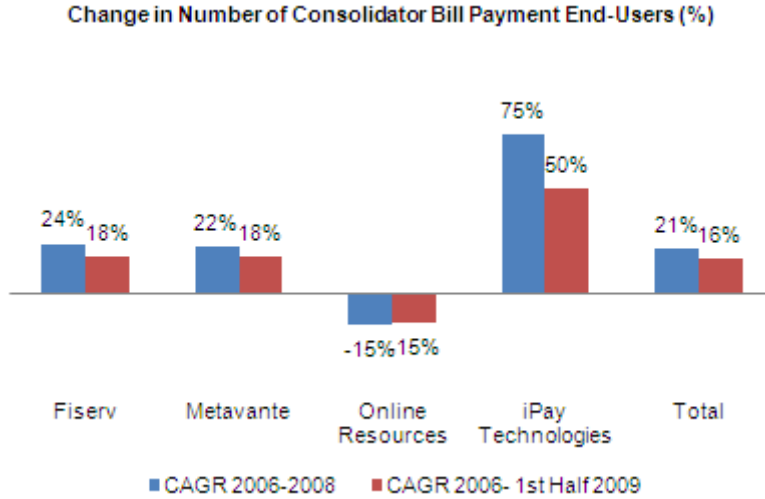


Source: Company data, Aite Group

Between 2006 and the first half of 2009, the number of end-users grew at 16% CAGR across full-service processors. IPay Technologies dramatically outperformed peers with a 50% CAGR growth in end-users during that period. Fiserv and Metavante had a strong growth at 18% CAGR, while Online Resources had negative growth (-15% CAGR). (Figure 9 on page 12.)

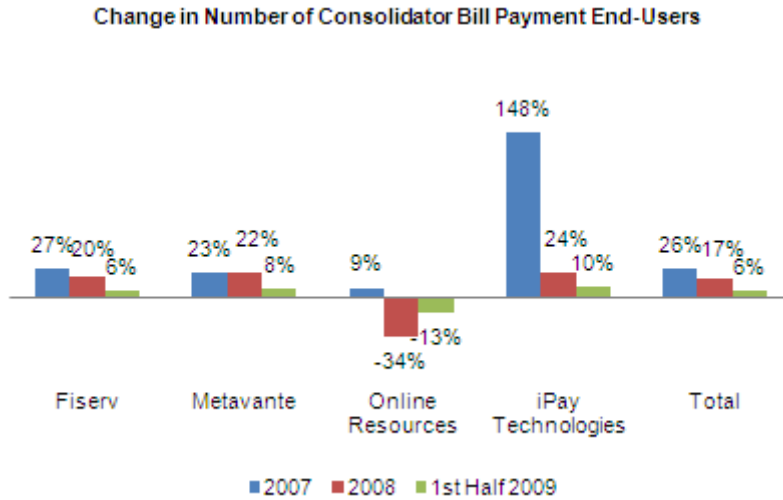
Across vendors, growth in the number of end-users has slowed in the past few years. In 2007, the total number of end-users across full-service processors had grown 26%, while the growth rate fell to 17% in 2008. During the first half of 2009, the total number of end-users grew only 6% compared to calendar-year 2008 (Figure 10 on page 12).

FIGURE 9: CHANGE IN NUMBER OF END-USERS (1/2)



Source: Company data, Aite Group

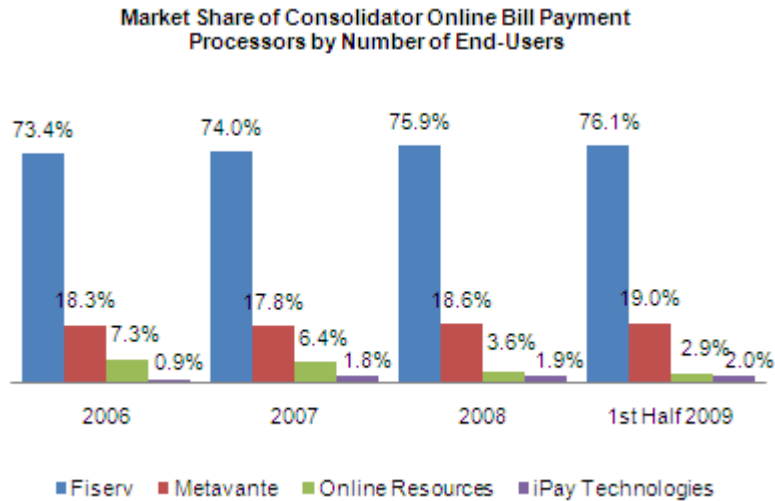
FIGURE 10: CHANGE IN NUMBER OF END-USERS (2/2)



Source: Company data, Aite Group

By a wide margin, Fiserv commands the largest market share among consolidator processors by number of end-users. Still, Fiserv has managed to steadily increase its relative market share⁶ by number of end-users over the past few years, from 73.4% in 2006 to 76.1% in the first half of 2009. Fiserv continues to benefit from a focus on large institutions, and does not appear to have been affected by the demise of some of its large bank clients. The second largest processor by number of end-users, Metavante, has also managed to grow relative market share, from 18.3% in 2006 to 19.0% during the first half of 2009. Both companies's growth between July and September 2009 has been at the expense of Online Resources, whose relative market share by end-users fell from 7.3% in 2006 down to 2.9% in the first half of 2009. Meanwhile, nimble iPay Technologies has managed to grow its relative market share by end-users from 0.9% in 2006 to 2.0% in the first half of 2009 (Figure 11; Figure 12 on page 14).

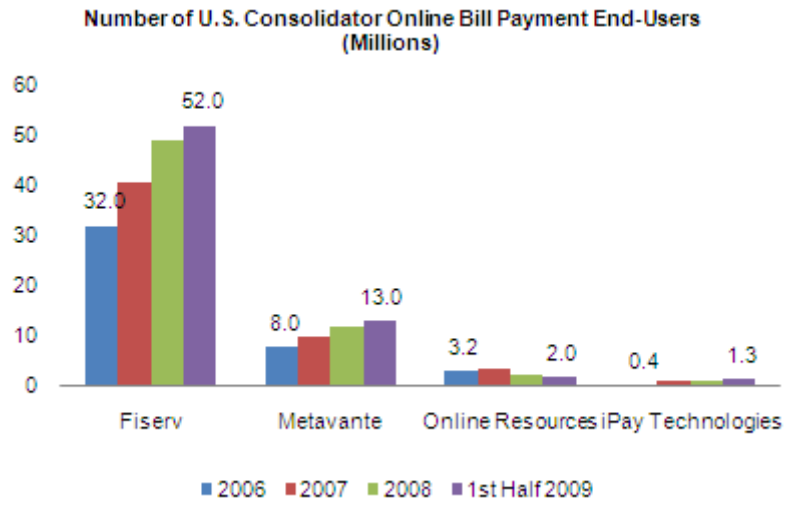
FIGURE 11: RELATIVE MARKET SHARE BY NUMBER OF END-USERS



Source: Company data, Aite Group

6. Relative market share is calculated based on the aggregate performance of the four leading processors.

FIGURE 12: NUMBER OF END-USERS



Source: Company data, Aite Group

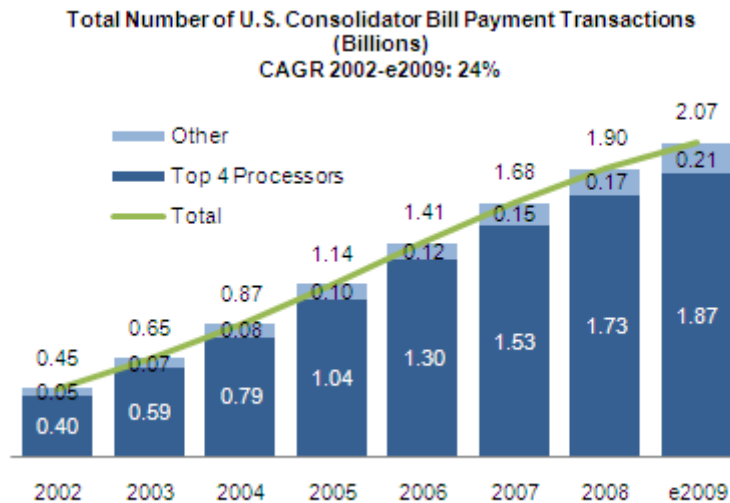
TRANSACTION PERFORMANCE

In this section, Aite Group assesses vendors' performance at growing the number and dollar amount of transactions they handle.

NUMBER OF BILL PAYMENTS

We estimate that the total number of consolidator bill payments in the United States will grow from about 1.90 billion in 2008 to 2.07 billion in 2009. For the period 2002 to 2009, we expect consolidator bill payments to grow 24% CAGR. Most of the bill payments are handled by the top four U.S. consolidator processors: Fiserv, Metavante, Online Resources and iPay Technologies. We estimate that only about 10% of total consolidator bill payments are processed through other venues, including when banks process payments by cutting checks themselves or sending transactions directly to the MasterCard RPPS switch (Figure 13).

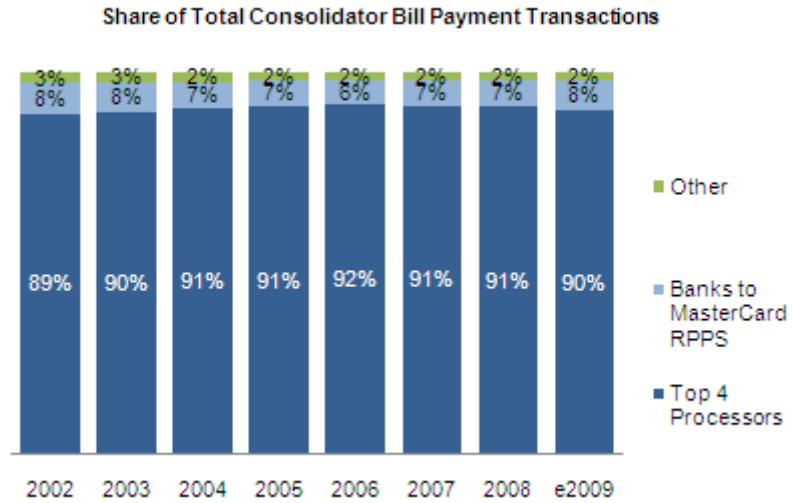
FIGURE 13: TOTAL NUMBER OF CONSOLIDATOR TRANSACTIONS



Source: Company data, Aite Group

We expect that 90% of consolidator bill payments in 2009 will be routed through the top four processors. An additional 8% will be sent directly to MasterCard RPPS, and an additional 2% will be processed via other means (e.g., banks cutting checks themselves) (Figure 14 on page 16).

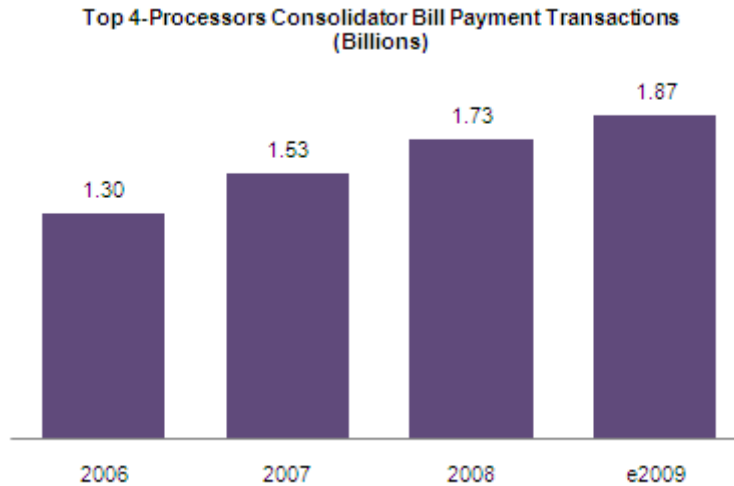
FIGURE 14: ABSOLUTE MARKET SHARES BY NUMBER OF TRANSACTIONS



Source: Company data, Aite Group

The four leading consolidator processors handled 1.73 billion consolidator online bill payments in 2008, up from 1.53 billion in 2007. For the full year 2009, we expect they will process 1.87 billion transactions (Figure 15).

FIGURE 15: NUMBER OF TRANSACTIONS AT TOP FOUR PROCESSORS

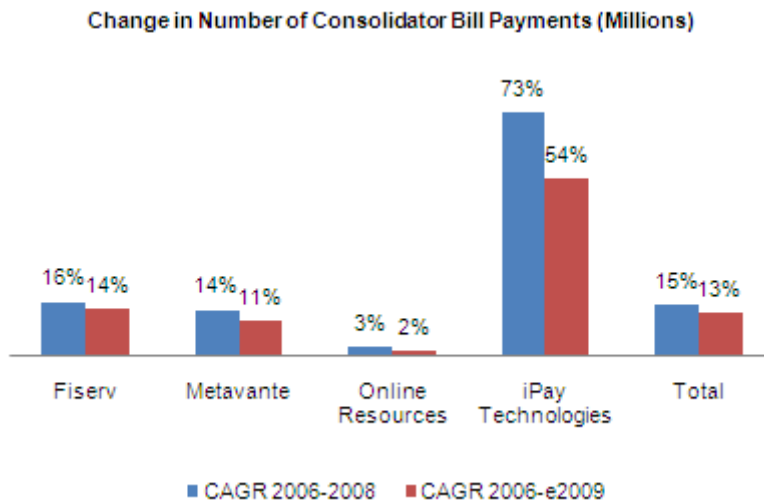


Source: Company data, Aite Group

Over the past few years, iPay Technologies has been the fastest growing full-service processor, with a 73% CAGR between 2006 and 2008. We expect iPay Technologies to continue to lead in transaction growth throughout the end of 2009 (Figure 16).

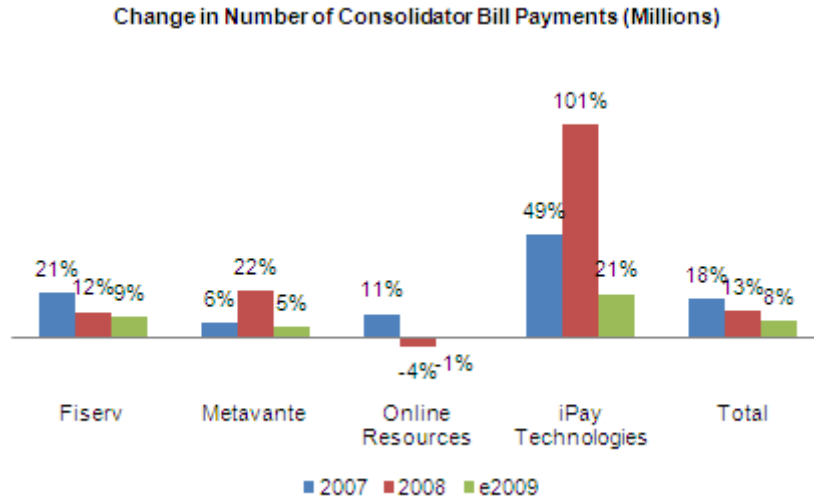
Online bill payments processed by consolidator processors are expected to grow 8% for the calendar-year 2009, a sharp drop compared to the 13% growth in 2008 and the 18% growth in 2007. Based on results from the first half of 2009, we project that iPay Technologies will be the only vendor with double-digit growth in transaction volumes, at 21%. Second to iPay Technologies, Fiserv is expected to grow 9% in 2009, and Metavante 5%. We anticipate Online Resources will decline by 1% (Figure 17 on page 18).

FIGURE 16: CHANGE IN NUMBER OF TRANSACTIONS (1/2)



Source: Company data, Aite Group

FIGURE 17: CHANGE IN NUMBER OF TRANSACTIONS (2/2)



Source: Company data, Aite Group

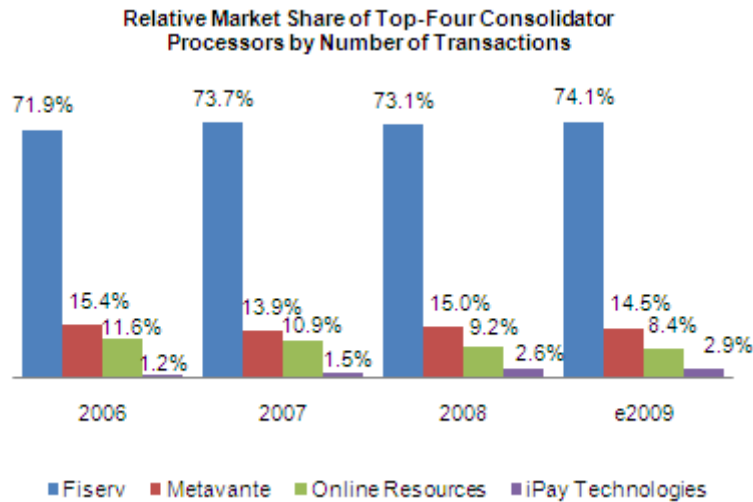
Based on first-half 2009 performance, we expect Fiserv’s relative market share by number of transactions to go up from 73.1% in 2008 to 74.1% in 2009. IPay Technologies’ relative market share by transactions should go up from 2.6% in 2008 to 2.9% in 2009. Metavante’s relative market share by transactions should drop from 15.0% in 2008 to 14.5% in 2009, while Online Resources’ relative market share by transaction is expected to slide from 9.2% to 8.4% during the same period (Figure 18 on page 19; Figure 20 on page 20).

In Figure 19 on page 19, we present market share in absolute terms⁷ and stretch the view to the period 2002 to estimated 2009, based on first half 2009 performance. Readers should note that we combined all transactions volume under the names of the firms that still exist as independent entities in 2009. Therefore, CheckFree volumes are attributed to Fiserv, Princeton eCom to Online Resources. Leaving mergers and acquisitions (M&A) aside, the chart provides a picture of organic growth. It primarily shows that there hasn’t been any major change in market share in the past decade, and confirms the progress of Fiserv/CheckFree as well as the rise of nimble iPay Technologies and the erosion of Online Resources/ Princeton eCom over that time period. It also suggests that Metavante has in fact seen its market share erode.

7. Absolute market share refers to estimated overall market share in consolidator bill payment, including the four leading processors examined and other sources of transactions such as in-house processing.

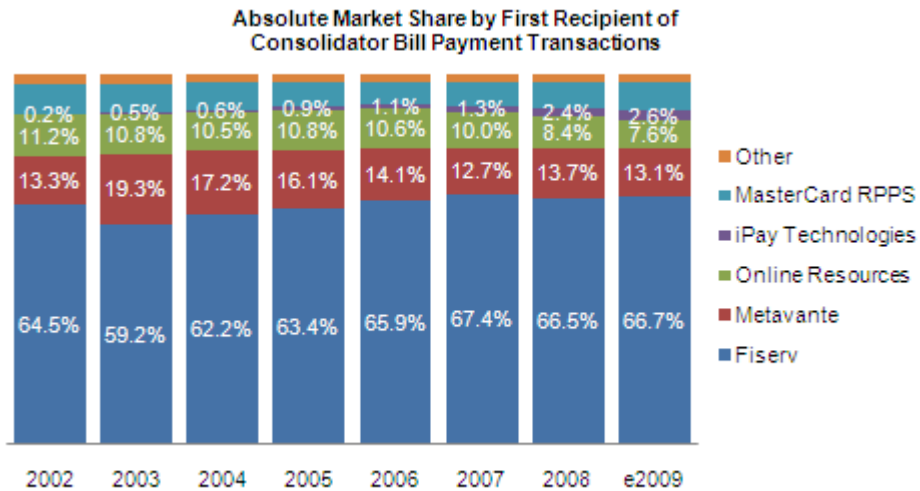
For the full year 2009, we expect Fiserv's absolute market share by number of consolidator bill payment transactions to hit 66.7%, up from 64.5% in 2002. Meanwhile, iPay Technologies should go from 0.2% in 2002 to 2.6% in 2009, Metavante from 13.3% in 2002 to 13.1% in 2009, and Online Resources from 11.2% in 2002 to 7.6% in 2009 (Figure 19 on page 19).

FIGURE 18: RELATIVE MARKET SHARE BY NUMBER OF TRANSACTIONS



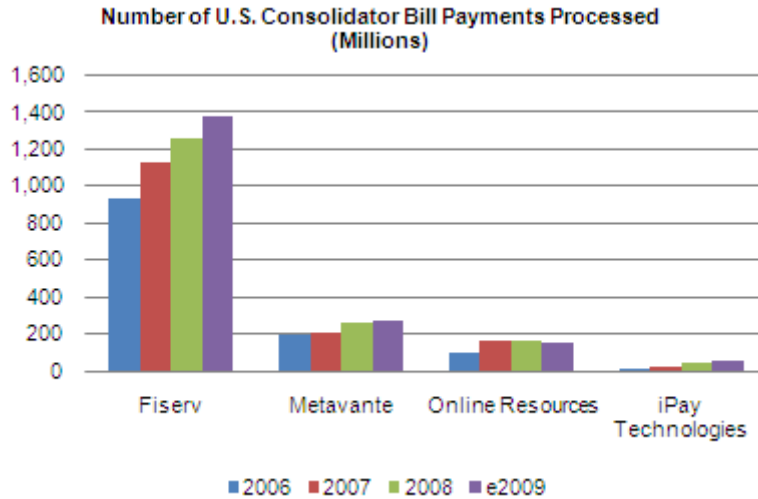
Source: Company data, Aite Group

FIGURE 19: ABSOLUTE MARKET SHARE BY NUMBER OF TRANSACTIONS



Source: Company data, Aite Group

FIGURE 20: NUMBER OF TRANSACTIONS



Source: Company data, Aite Group

Over the past few years, the average number of bills paid by U.S. households has continued to trend upward. According to the USPS Household Diary studies, the average number of bills paid by U.S. households monthly went up from 11.5 in 2003 to 12.4 in 2008. According to our own research, the average number of bills paid through the consolidator channel per household has also trended up, going from 0.5 monthly bills in 2003 to 1.5 monthly bills in the first half of 2009.

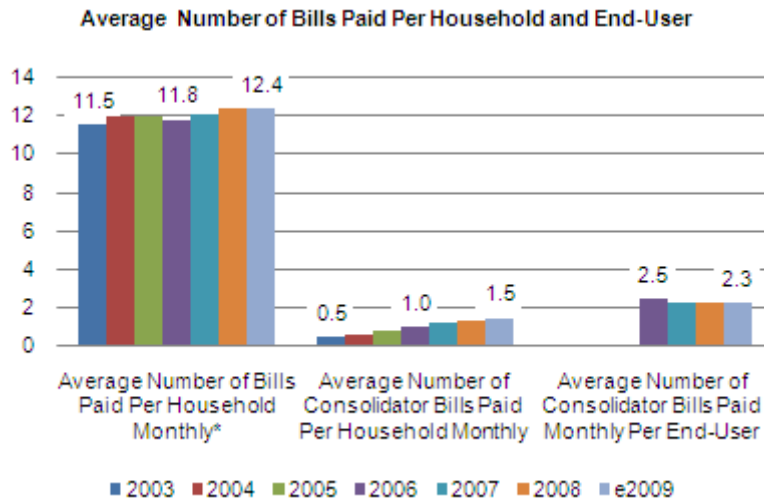
On a per end-user basis, however, the average number of bills paid through the consolidator channel is slightly eroding, from 2.4 monthly bills in 2006 to 2.3 monthly bills in the first half of 2009. We attribute that trend to several factors: First, banks have made a push to enroll users in bill pay early on, like during the new-account opening process. While this has helped drive up the number of end-users, it also increases the number of end-users being mildly active. Second, there are so many people paying bills in a household. If a bank enrolls two heads of households, it counts as two end-users; one of the two might not be the primary bill payer however, so that individual may have a low activity profile, even though the overall household online bill payment activity may be up.

Based on the data at hand, it does not appear that the recession has pushed average bill payments per household down. That said, we wouldn't be surprised if that number was flat for 2009, however. Bill bundling, such as when consumers consolidate their high-speed Internet, TV cable, landline, and wireless phone invoices on a single bill, don't seem to have played a major role so far. Also, we

have yet to see any signs that consumers' pulling back from credit card use has impacted overall bill payment flows (Figure 21).

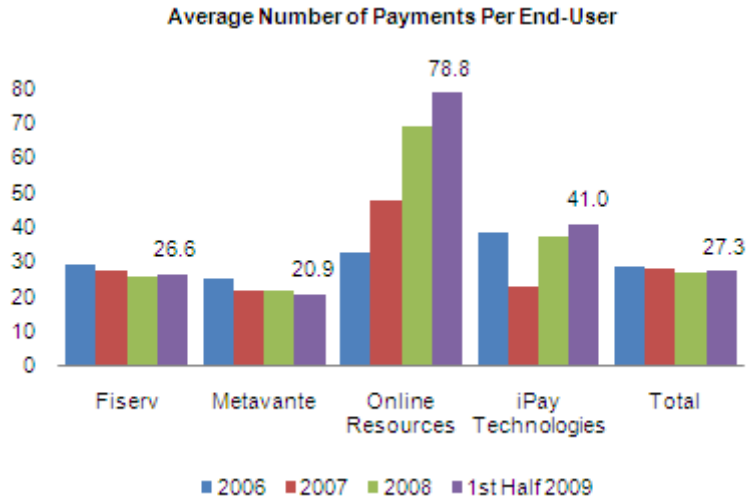
We attribute the variations between vendors' average number of payments per end-user to differences in how vendors count their end-users. Online Resources, for example, does not count as end-users the customers pushing bills from banks that process in-house and use Online Resources only as a switch (Figure 22 on page 22).

FIGURE 21: AVERAGE BILL PAYMENTS PER HOUSEHOLD AND END-USER



Source: Company data, Aite Group and *USPS Household Diary Studies with the exception of e2009, which is an Aite Group estimate

FIGURE 22: AVERAGE NUMBER OF PAYMENTS PER END-USER

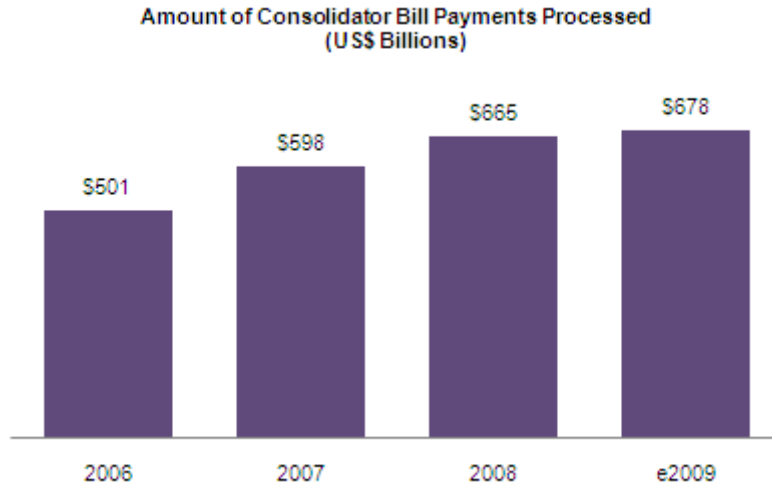


Source: Company data, Aite Group

BILL PAYMENT VALUE

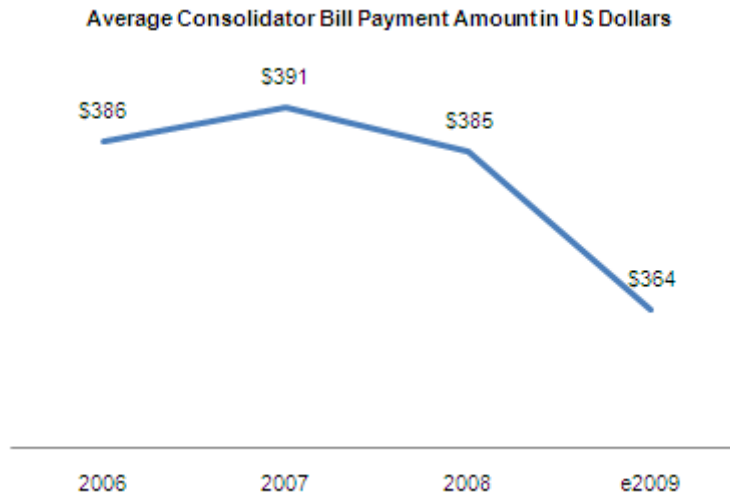
The aggregate amount of consolidator bill payments will rise from US\$665 billion in 2008 to US\$678 billion in 2009 (Figure 23 on page 23), while the average amount of consolidator bill payments should continue to decline this year. In 2007, the average amount was US\$391. In 2009, the average amount should be US\$364 (Figure 24 on page 23).

FIGURE 23: TOTAL AMOUNTS PROCESSED BY THE TOP FOUR U.S. VENDORS



Source: Company data, Aite Group

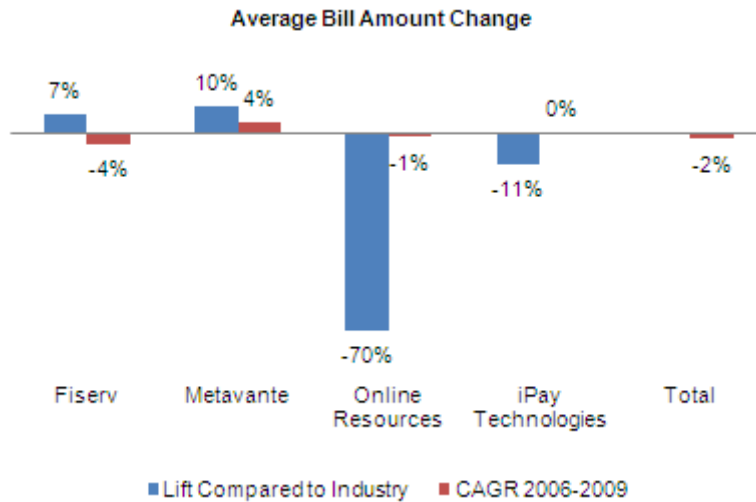
FIGURE 24: AVERAGE CONSOLIDATOR BILL PAYMENT FACE AMOUNT



Source: Company data, Aite Group

Between 2006 and 2009, Metavante has managed to increase the average bill amount (up 4%), whereas peers have seen declining or flat average face amounts. This year, Metavante and Fiserv continue to deliver a lift in average amount compared to the industry average. Metavante delivers a 10% lift over the industry average face amount, and Fiserv a 7% lift (Figure 25).

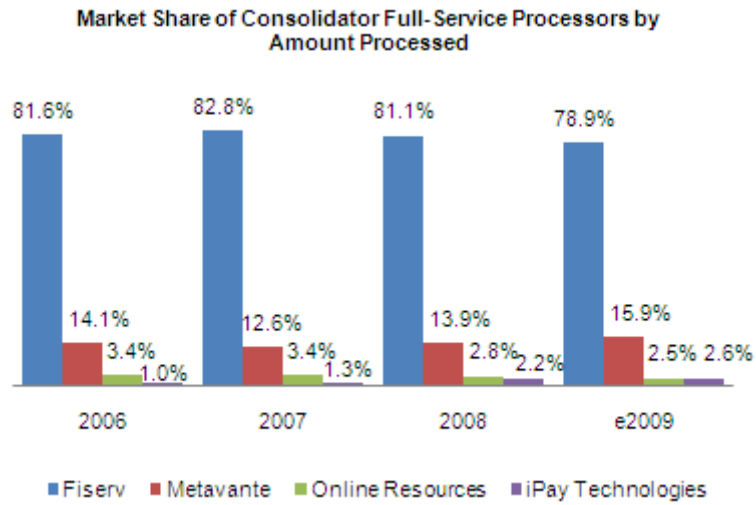
FIGURE 25: CHANGE IN AVERAGE BILL PAYMENT FACE AMOUNT (1/2)



Source: Company data, Aite Group

Based on first-half 2009 performance, we expect Metavante’s relative market by transaction amounts to jump from 13.9% in 2008 to 15.9% in 2009. IPay Technologies’ relative market share by transaction amount is also expected to go up, from 2.2% in 2008 to 2.6% in 2009. For the same period, Fiserv and Online Resources’ relative market shares by transaction amount is expected to slide from 81.1% to 78.9% for Fiserv, and from 2.8% to 2.5% for Online Resources (Figure 26 on page 25).

FIGURE 26: CHANGE IN AVERAGE BILL PAYMENT FACE AMOUNT (1/2)



Source: Company data, Aite Group

NETWORK PERFORMANCE

In this section, we review the performance of the network, or “switch” component of consolidator processors. We review processors’ funding model, bill presentment capability, electronic rate, claims rate, processing speed and proprietary switching penetration. We also provide some insight into the outlook for MasterCard RPPS, which acts as a switch of last resort for the four surveyed processors.

FUNDING MODEL

A traditional distinction between processors lies in their ability to use a due-date model as opposed to the less consumer-friendly good-funds model. The due-date model meets consumers’ expectations to have a debit hit their account on the same day the payment is delivered to the merchant. The good-funds model usually delivers an inferior customer experience, since the customers’ money is typically taken out of their account several days before the payment is delivered to the biller.

Fiserv leads in this regard, with 90% of its payments being delivered via a due-date model. Other vendors, such as iPay, don’t have that capability, though iPay has a due-date model in development with expected delivery in late Q4 2009.

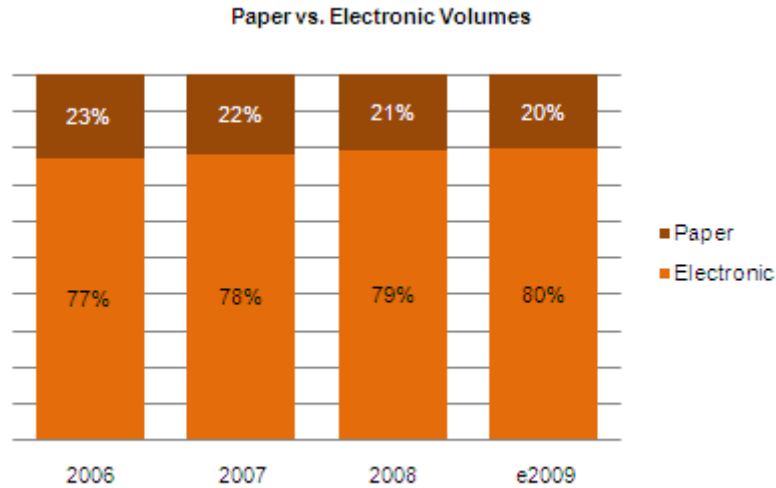
BILL PRESENTMENT

Processors’ ability to present a large number of bills is disparate. Fiserv dominates other vendors with the volume of bills it presents every year, with an estimated 93% market share of e-bills as of 2008. iPay is the only among the four vendors not offering bill presentment today. The firm says it will launch in late Q4 2009-early Q1 2010 a bill presentment service with over 2,600 billers.

ELECTRONIC RATE

The electronic rate, aka the percentage of consolidator bill payments that are sent electronically or via checks to billers, is an important measure of network performance. The weighted average electronic rate among consolidator processors was 80% during the first half of 2009, up from 79% in 2008, 78% in 2007 and 77% in 2006. The very slow drop in this percentage the board suggests processors have hit a wall in their effort to do away with paper in the back-end (Figure 27 on page 27).

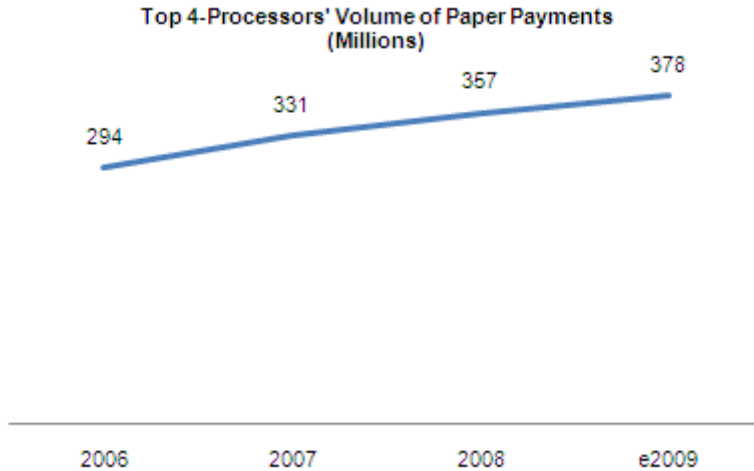
FIGURE 27: PAPER VS. ELECTRONIC SHARES



Source: Company data, Aite Group

As a result, the volume of paper transactions handled by consolidator processors continue to grow steadily year over year. In 2009, we expect that consolidator processors will handle 378 million paper transactions, up from 283 million in 2006 (Figure 28 on page 28).

FIGURE 28: TOP FOUR PROCESSORS' PAPER VOLUME



Source: Company data, Aite Group

Various factors continue to prop up paper in consolidator processors. The primary factor is that a number of payees cannot be reached electronically. The top payees that cannot be reached electronically are small billers or other types of small businesses (Figure 29).

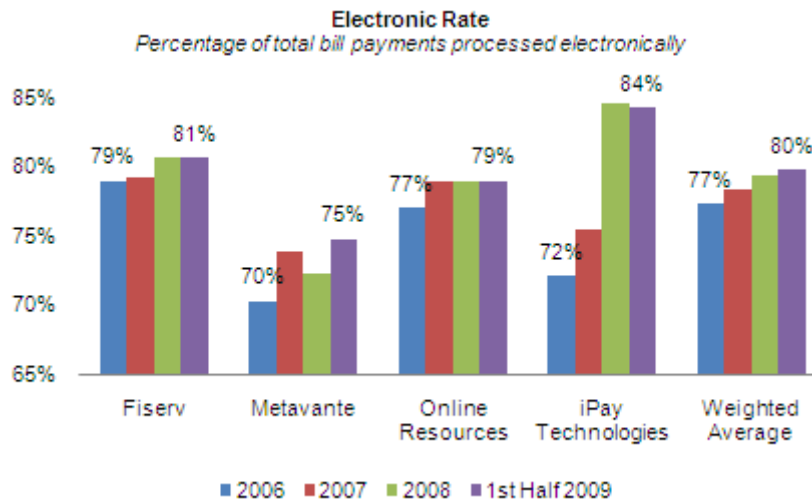
FIGURE 29: FACTORS OF PAPER RESILIENCE IN CONSOLIDATOR BILL PAYMENT PROCESS

Factors of Paper Payments in Consolidator Bill Payments			
Electronic	80%		
Paper	20%		
		↓	
Payees Not Yet Electronic	38%	→	Small Business 40%
Bad Data Entered by Users	33%		Me-to-You 25%
Matching Logic Failure	22%		Me-to-Me 25%
Risk Management Drafts	7%		Small Office/Home Office 10%

Source: eCom Advisors

Individual processors' electronic rate varies. iPay Technologies reports the best electronic rate, at 84%, compared with 81% for Fiserv, 79% for Online Resources, and 75% for Metavante. Financial institutions looking for a bill payment processor should use such comparison carefully, however. The variations are likely driven by the client mix the processors have. Processors that report lower electronic rate, like Metavante, do so because an important part of their volumes is driven by financial institutions that manage payment processing in-house and heavily rely on Metavante for the paper portion of their volumes. Fiserv, Metavante and Online Resources fall into that category (Figure 30).

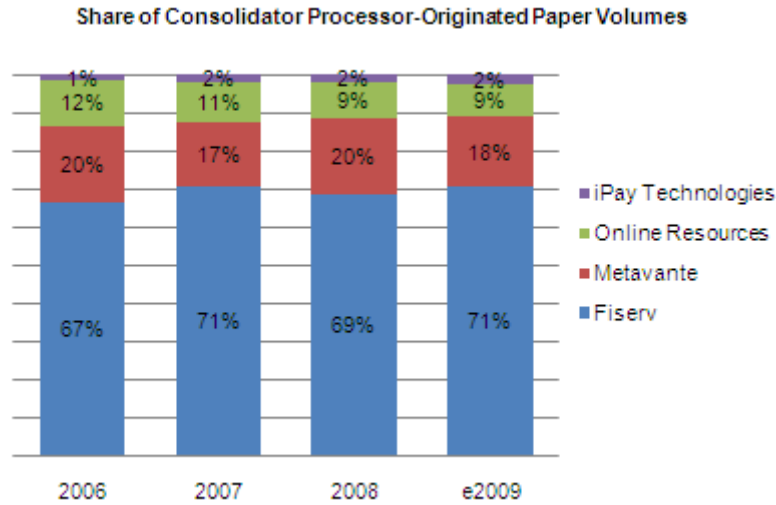
FIGURE 30: VENDORS' ELECTRONIC RATES



Source: Company data, Aite Group

Since vendors are roughly on par with their electronic rate, the sheer output of paper is largely driven by overall scale. Not surprisingly, Fiserv has the majority of the paper issued to process consolidator bill payments, at 71% in the first half of 2009 (Figure 31 on page 30).

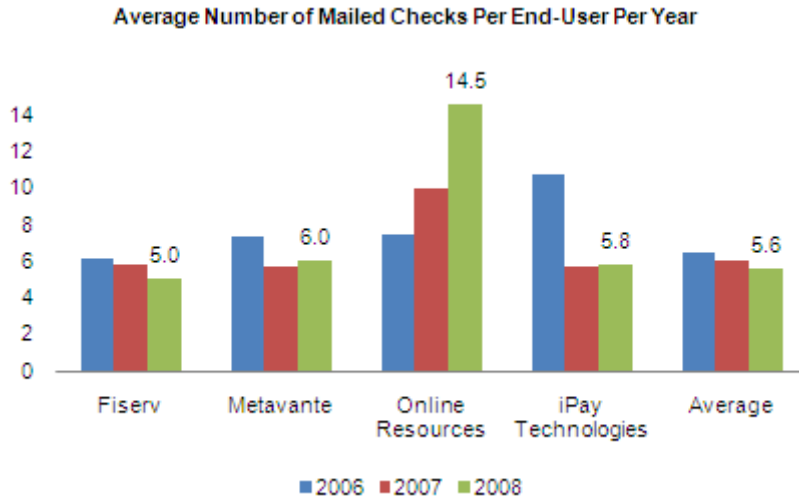
FIGURE 31: VENDORS' SHARE OF PAPER OUTPUT



Source: Company data, Aite Group

There are slight variations in the average number of checks printed by end-user. Again, we suspect the high number of checks printed per end-user for Online Resources is driven by the fact that end-users at institutions that use Online Resources only as a switch are not reported (Figure 32 on page 31).

FIGURE 32: PIECES OF PAPER PER END-USER, BY VENDOR

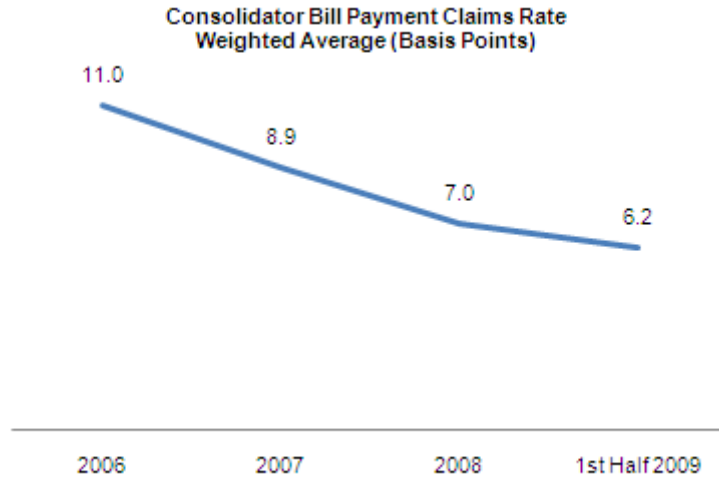


Source: Company data, Aite Group

CLAIMS RATE

Processors have continued to improve their processing quality in the past few years. The weighted average claims rate among consolidator processors has fallen from 11.0 basis points in 2006 to 6.2 basis points in the first half of 2009 (Figure 33 on page 32).

FIGURE 33: WEIGHTED CLAIMS RATE

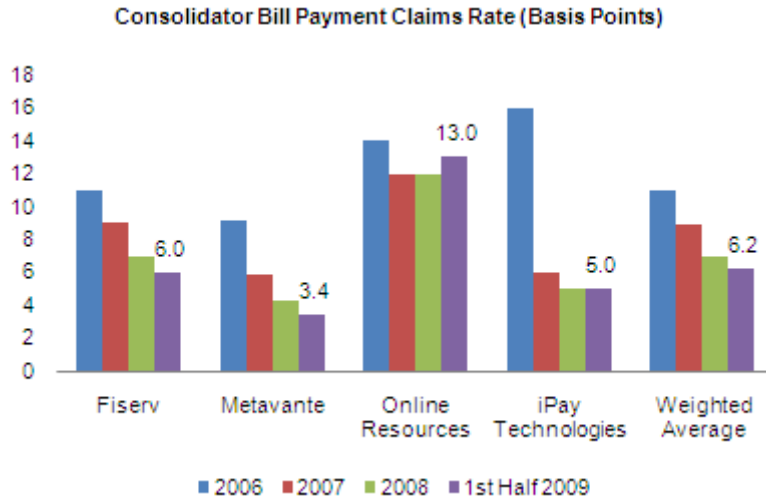


Source: Company data, Aite Group

The vendors that have been the most consistent, year over year, in reducing their claims rate are Fiserv and Metavante. The vendor with the most impressive drop in its claims rate since 2006 is iPay Technologies.

Online Resources has not dramatically curtailed its claims rate in the past few years. While the firm appears to have a much higher claims rate than its peer group, it's important to note that their reporting may differ significantly. Online Resources indicates that it counts its payment claims differently than other providers. Online Resources says it counts a payment claim anytime a user inquires about a payment, even if the payment is posted on time, and without error. Online Resources says check payments are predominantly corporate drafts in which Online Resources provides tier-one customer service. The firm says other providers' paper items are predominantly consumer drafts for which processors don't offer tier-one customer service. As a result, Online Resources says any issues associated with those transactions may not show up in competitors' official claim rate. Additionally, the firm says that other providers count only the claims they receive as part of their tier-two customer service. That excludes calls that a customer makes to the bank's call center, and includes only claims brought up when the bank calls the bill pay provider (Figure 34 on page 33).

FIGURE 34: CLAIMS RATE BY VENDOR



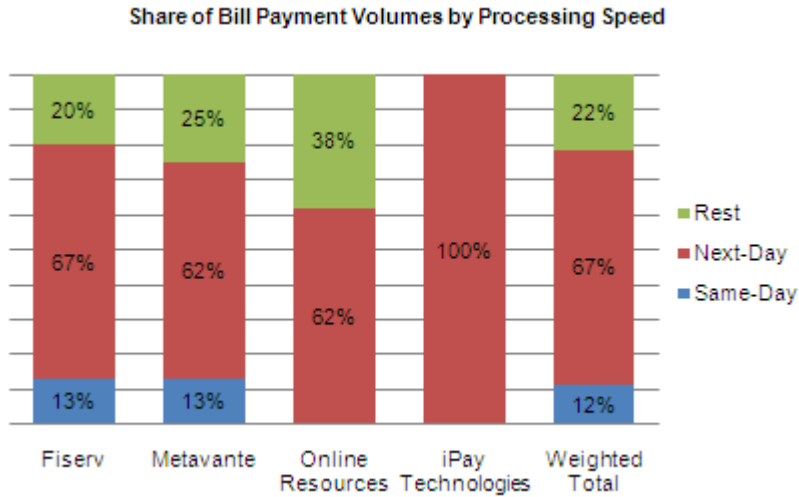
Source: Company data, Aite Group

PROCESSING SPEED

In the past few years, some processors have made much noise around their ability to process transactions faster than the competition. Despite this, the share of items processed same-day has remained relatively flat. In 2009, 12% of consolidator processors' transactions have been processed same-day, while 67% have been processed next-day, and 22% later on.

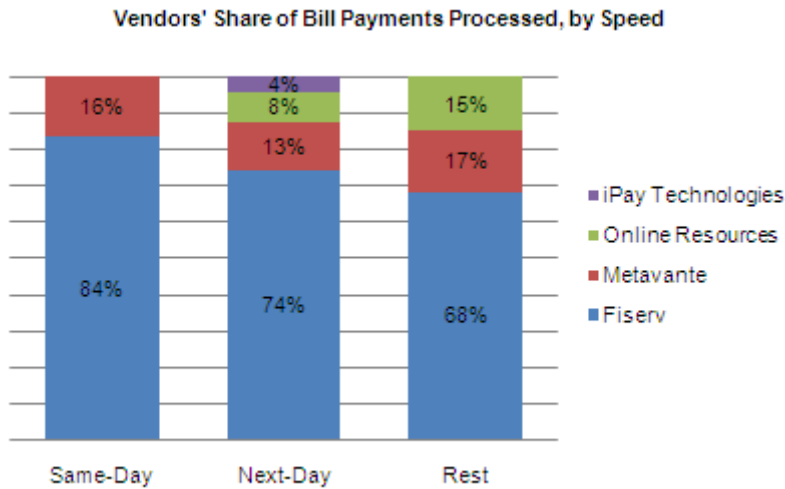
Fiserv and Metavante lead the pack in processing speed. Thirteen percent of their volumes are processed same-day, with an additional 67% next-day for Fiserv, and 62% next-day for Metavante. Because of the sheer scale of its operations, Fiserv currently processes 84% of vendors' total same-day payments, while Metavante processes 16% of those (Figure 35 on page 34; Figure 36 on page 34).

FIGURE 35: PROCESSING SPEED, BY VENDOR



Source: Company data, Aite Group

FIGURE 36: VENDORS' SHARES OF BILL PAYMENT TRANSACTIONS CATEGORIZED BY SPEED



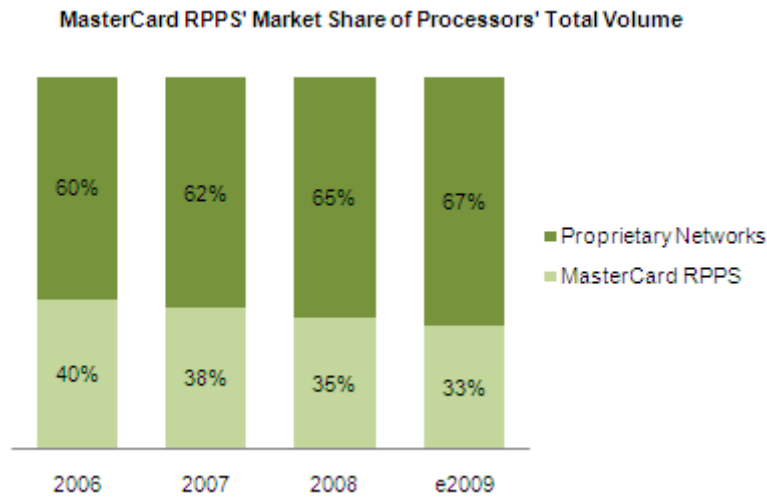
Source: Company data, Aite Group

PROPRIETARY SWITCHING

Consolidator processors have two primary ways of sending transactions to billers: They use either their own connection with billers, aka their proprietary network, or they rely on third-party networks. MasterCard RPPS is the dominant of such independent switches in the United States for consolidator bill payments. The other provider, Visa ePay, has a negligible presence and is not a priority of Visa Inc.

Over the past few years, consolidator processors have continued to actively seek to lower their reliance on MasterCard RPPS. In 2009, we expect that 67% of consolidator processors' transaction volume will have been processed through their proprietary connections with billers, up from 60% in 2006. MasterCard RPPS' share of consolidator processors' transactions will fall from 40% in 2006 down to 33% in 2009 (Figure 37).

FIGURE 37: MASTERCARD RPPS' SHARE OF TOP FOUR PROCESSORS' VOLUMES

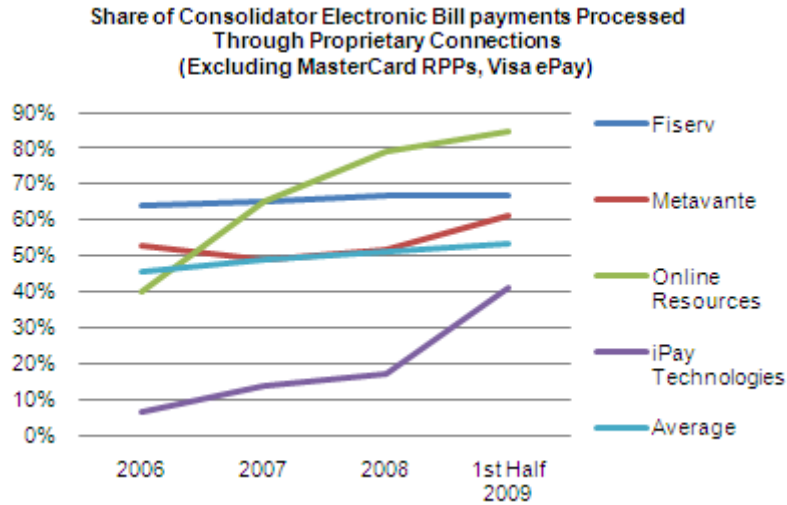


Source: Company data, Aite Group

As of the first half of 2009, Online Resources (85%) and Fiserv (67%) are the two processors that rely the most on their proprietary connections with billers, followed by Metavante (61%) and iPay Technologies (41%).

In the past few years, however, some processors have been more aggressive than other at lowering their reliance on MasterCard RPPS. Both Online Resources and iPay Technologies have been the most aggressive at increasing the share of their volumes routed through their own connections (Figure 38 on page 36).

FIGURE 38: SHARE OF PROPRIETARY SWITCHING, BY VENDOR

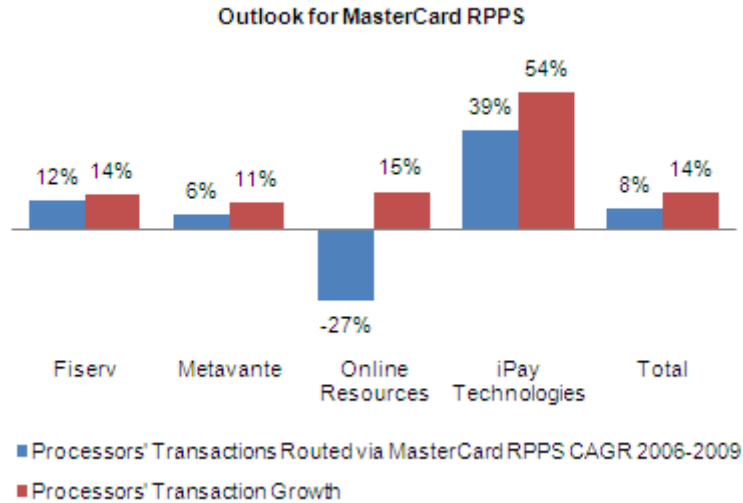


Source: Company data, Aite Group

OUTLOOK FOR MASTERCARD RPPS

In the past few years, the volume of transactions captured by processors has grown faster than the volume they sent to MasterCard RPPS for posting. Processors' transactions are expected to grow at a 14% CAGR between 2006 and 2009, while the items sent to MasterCard RPPS are expected to grow only 8% CAGR (Figure 39 on page 37).

FIGURE 39: CHANGE IN TRANSACTION VOLUMES PROCESSED



Source: Company data, Aite Group

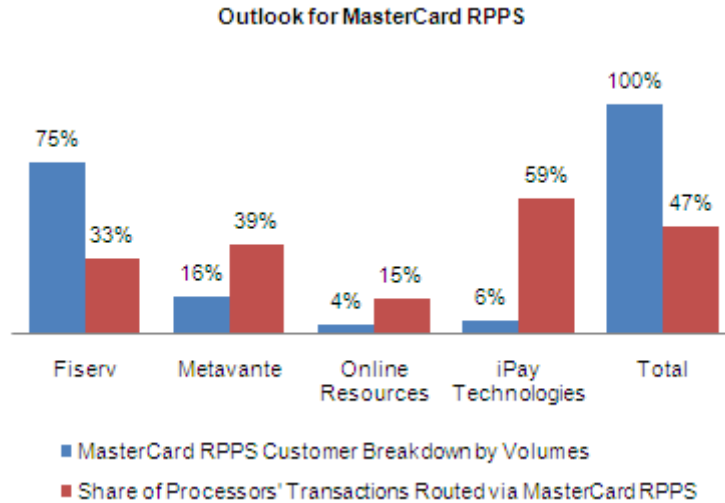
The situation creates moderate challenges for MasterCard RPPS.

First, its biggest customer — Fiserv, which accounts for 75% of the volume sent by processors to MasterCard RPPS — is one of the least reliant on it. Indeed, only 33% of Fiserv’s volume is sent to MasterCard RPPS (Figure 40 on page 38). But that share has not dramatically diminished in the past few years. It only lost three percentage points, from 36% in 2006 to 33% in 2009. In other words, MasterCard RPPS’ biggest customer is not seeking to reduce its business with the network as aggressively as some smaller processors (Figure 41 on page 38).

Second, MasterCard RPPS does not solely depend on processors. Indeed, some large banks send items directly to MasterCard RPPS, bypassing the processors. In 2009, we expect that transactions sent directly by banks to MasterCard RPPS will account for 25% of its total volumes, up from 20% in 2006 (Figure 42 on page 39). The firm’s total transactions will reach 657 million items in 2009, up from 621 million in 2008 (Figure 43 on page 39).

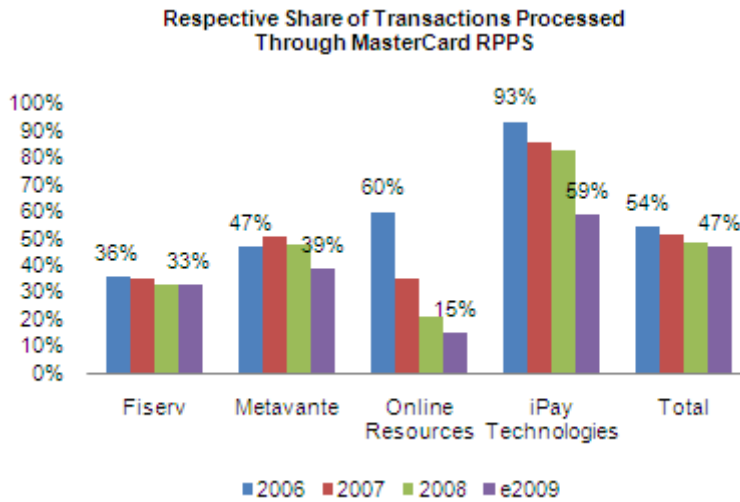
In the past few years, however, direct-send items have not fully compensated for processors’ effort to lessen their reliance on MasterCard RPPS. MasterCard RPPS’ transaction growth has been consistently outpaced by processors’ growth. Although banks continue to show strong interest in managing their bill payment costs, lack of capital to enable in-house processing suggests that MasterCard RPPS is unlikely to catch up and start growing faster than consolidator processors in the coming few years (Figure 44 on page 40; Figure 45 on page 40).

FIGURE 40: UNDERSTANDING THE IMPORTANCE OF SELECTED PROCESSORS FOR MASTERCARD RPPS



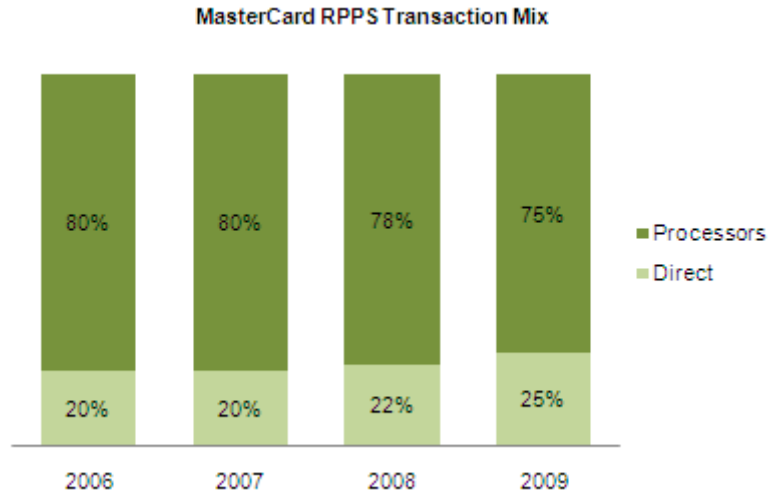
Source: Company data, Aite Group

FIGURE 41: TOP FOUR PROCESSORS' LEVEL OF USAGE OF MASTERCARD RPPS



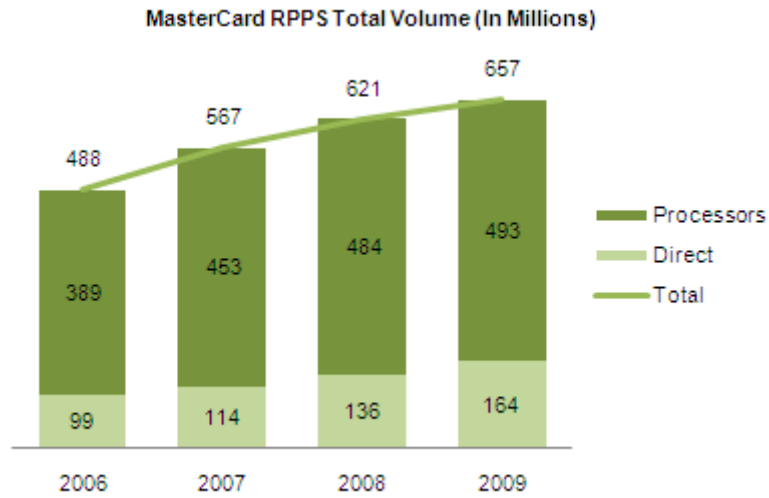
Source: Company data, Aite Group

FIGURE 42: OVERVIEW OF MASTERCARD RPPS TRANSACTION SOURCES



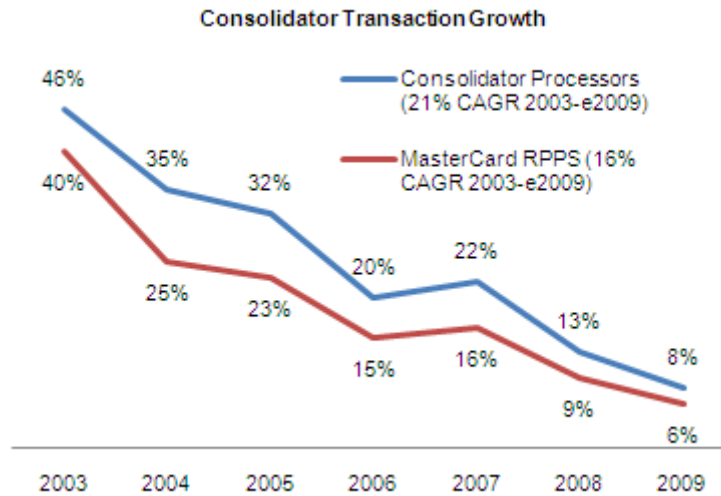
Source: Company data, Aite Group

FIGURE 43: NUMBER OF TRANSACTIONS SWITCHED BY MASTERCARD RPPS



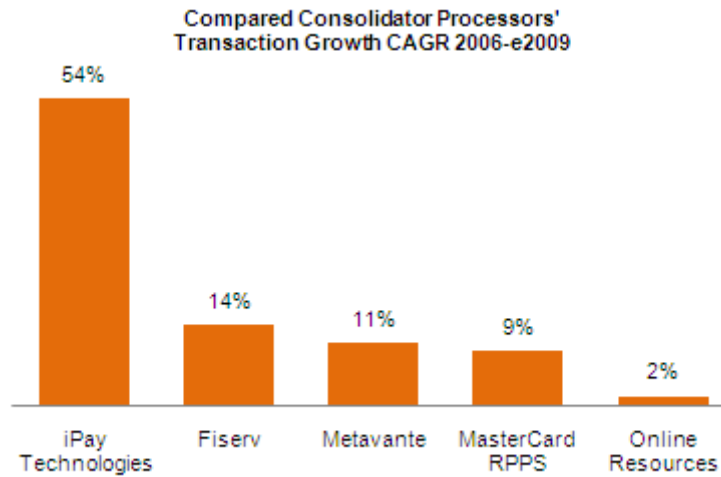
Source: Company data, Aite Group

FIGURE 44: COMPARISON OF GROWTH TRENDS (1/2)



Source: Company data, Aite Group

FIGURE 45: COMPARISON OF GROWTH TRENDS (2/2)



Source: Company data, Aite Group

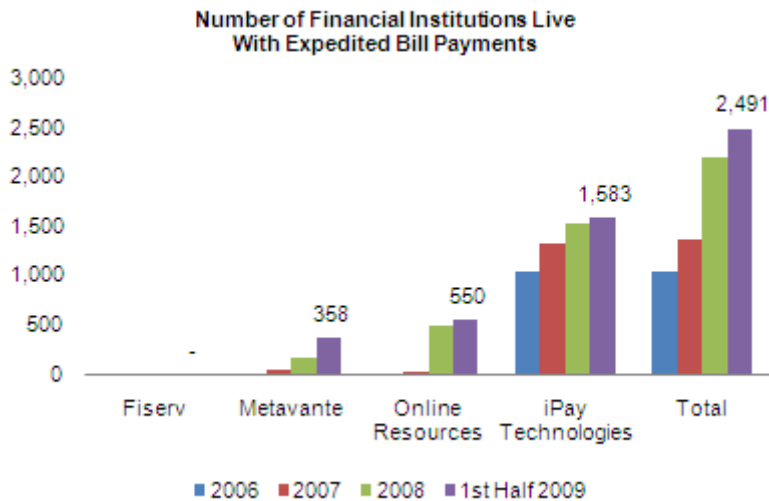
EMERGING PRODUCT PERFORMANCE

This section explores processors' progress with emerging products, including expedited bill payment via the consolidator channel and small-business-specific bill payment solutions. None of the processors we surveyed had any metrics to share about card-based bill payment via the consolidator channel. Therefore, we conclude that processors are still very early stage with card-based bill payment.

EXPEDITED BILL PAYMENT

By the end of the first half of 2009, nearly 2,500 financial institutions were offering expedited bill payments to their retail customers in the United States, up from slightly more than 1,000 in 2006. While the largest processors have been relatively slow at deploying expedited bill payment, nimble iPay Technologies has managed to be a first mover in that space, still accounting for 64% of the total number of institutions offering expedited bill payment through online banking (Figure 46; Figure 47 on page 42).

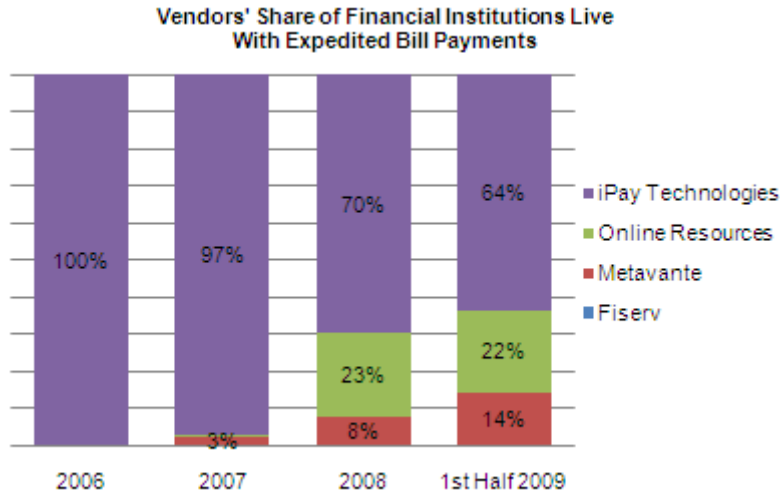
FIGURE 46: EXPEDITED BILL PAYMENT ADOPTION



Source: Company data, Aite Group

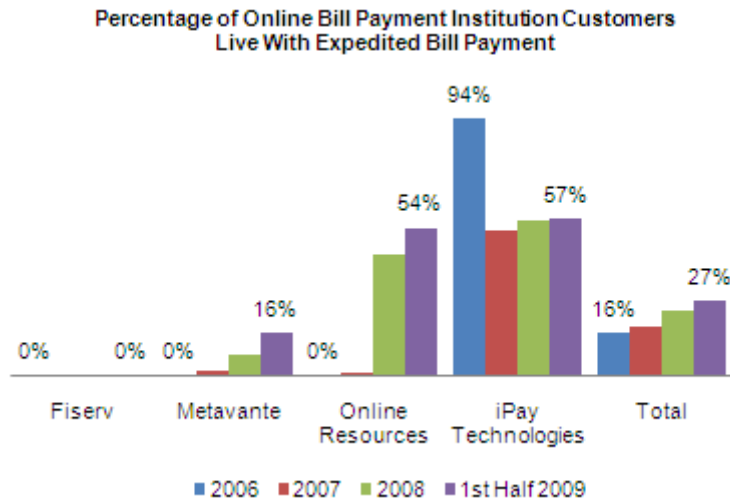
iPay Technologies is, in fact, the only vendor to have turned-on expedited bill pay at the majority of its regular bill payment customers as of the first half of 2009 (Figure 48 on page 42).

FIGURE 47: VENDORS' SHARE OF LIVE EXPEDITED BILL PAYMENT DEPLOYMENTS



Source: Company data, Aite Group

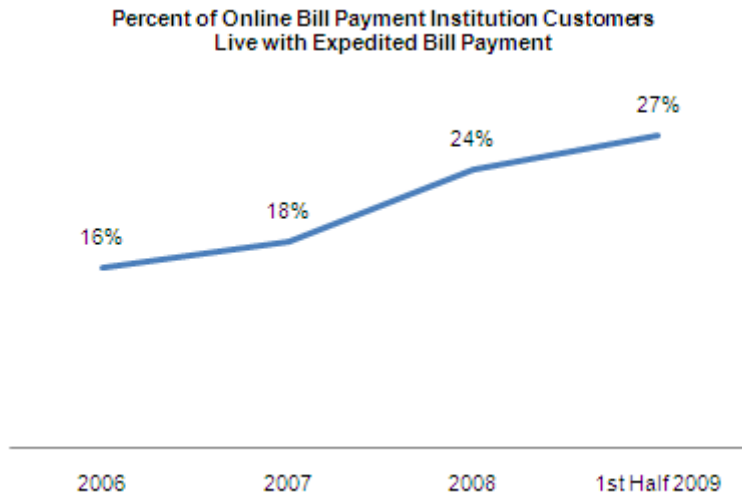
FIGURE 48: EXPEDITED BILL PAY ADOPTION LEVEL PER CUSTOMER BASE



Source: Company data, Aite Group

Interestingly, despite the buzz surrounding expedited bill pay, the share of bill payment-offering institutions that also offer an expedited function has not dramatically grown in the past few years. The share of bill pay offering institutions accommodating expedited bill pay went from 16% in 2006 to 27% in the first half of 2009. This has been driven by the fact that vendors have signed new institutions for their basic service pretty much as quickly as they have rolled out expedited billy pay, and the fact that the leading vendor, Fiserv, only launched its own expedited service in 2009 (Figure 49).

FIGURE 49: OVERALL EXPEDITED BILL PAY ADOPTION TREND



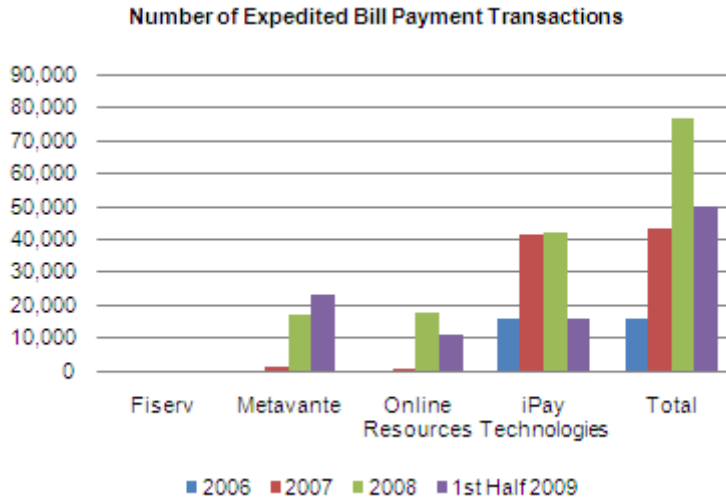
Source: Company data, Aite Group

Beyond adoption by financial institutions, expedited bill payments remain an even smaller piece of the transaction pie. Slightly more than 50,000 expedited bill payments were processed in the first half of 2009 by consolidator processors, compared with more than 76,000 for the full year 2008 (Figure 50 on page 44).

This means expedited bill payments represent a tiny portion of consolidators' volumes, 0.03% of iPay Technologies volumes, and 0.01% of Metavante and Online Resources' volumes (Figure 51 on page 44).

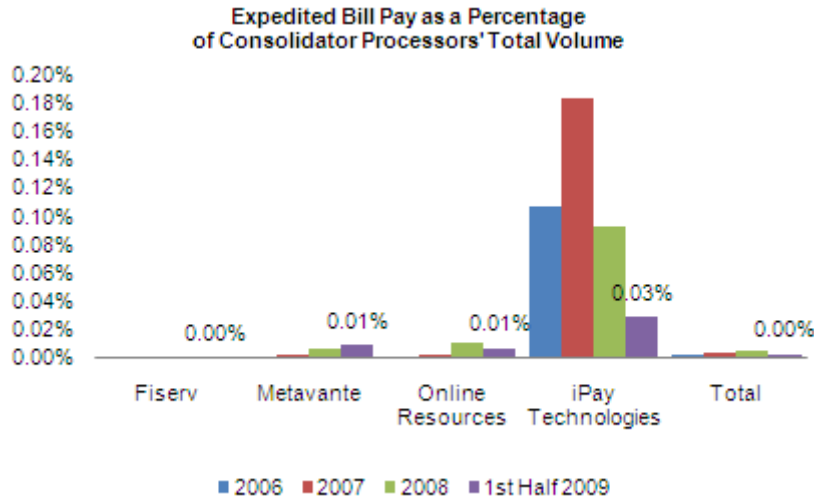
During the first half of 2009, Metavante processed 46% of the total vendors' expedited bill pay volume, followed by iPay Technologies (32%), and Online Resources (22%). (Figure 52 on page 45.)

FIGURE 50: EXPEDITED BILL PAY VOLUMES



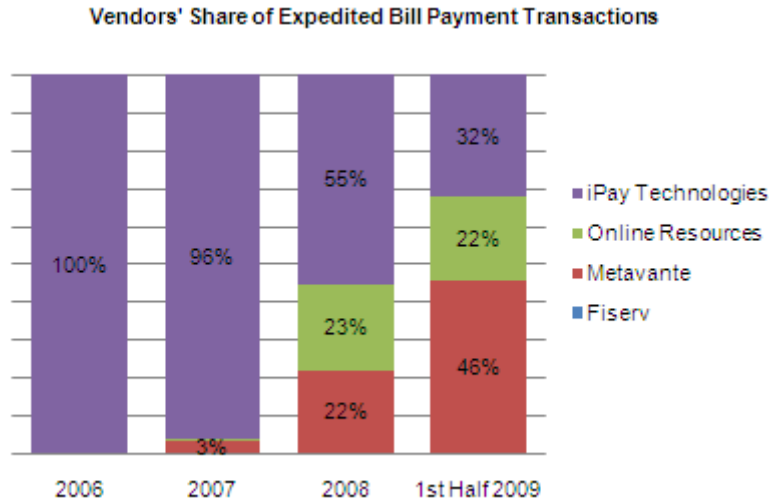
Source: Company data, Aite Group

FIGURE 51: EXPEDITED BILL PAY IN CONSOLIDATOR PROCESSORS' TRANSACTION MIX



Source: Company data, Aite Group

FIGURE 52: VENDORS' SHARE OF TOTAL CONSOLIDATOR EXPEDITED BILL PAY

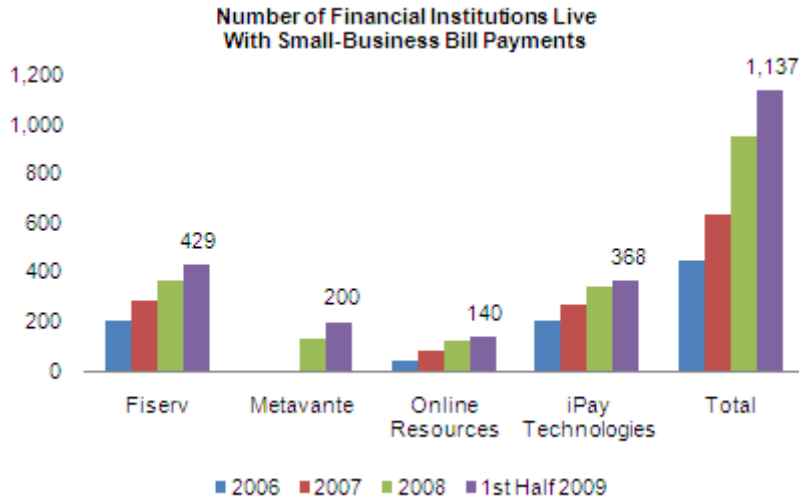


Source: Company data, Aite Group

SMALL-BUSINESS BILL PAYMENTS

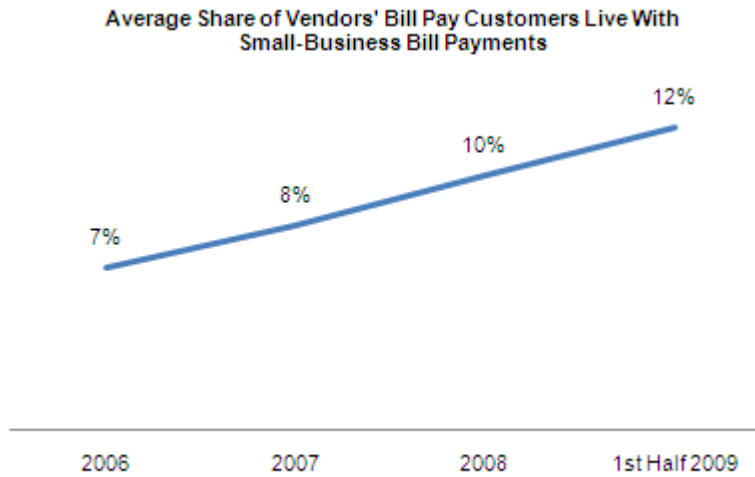
The number of financial institutions offering small-business-specific bill payment solutions was slightly more than 1,100 by the end of the first half of 2009, up from more than 950 at the end of 2008 (Figure 53 on page 46). The share of institutions offering small-business bill pay has not dramatically increased in recent years for the same reasons highlighted in the expedited bill pay section. The share of processors' consumer bill pay customers offering a small-business version has grown from 7% in 2006 to 12% in the first half of 2009 (Figure 54 on page 46).

FIGURE 53: SMALL-BUSINESS BILL PAY APPLICATIONS ADOPTION



Source: Company data, Aite Group

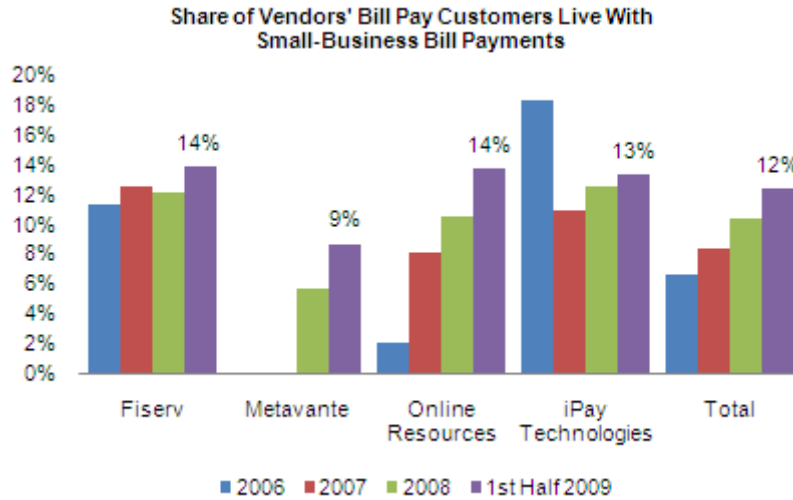
FIGURE 54: SMALL-BUSINESS BILL PAYMENT ADOPTION TRENDS



Source: Company data, Aite Group

Unlike with expedited bill pay, processors have been able to consistently penetrate their customer base with small-business applications. The penetration is at 14% among Fiserv and Online Resources consumer bill pay customers, 13% among iPay Technologies customers, and 9% among Metavante consumer bill pay customers (Figure 55).

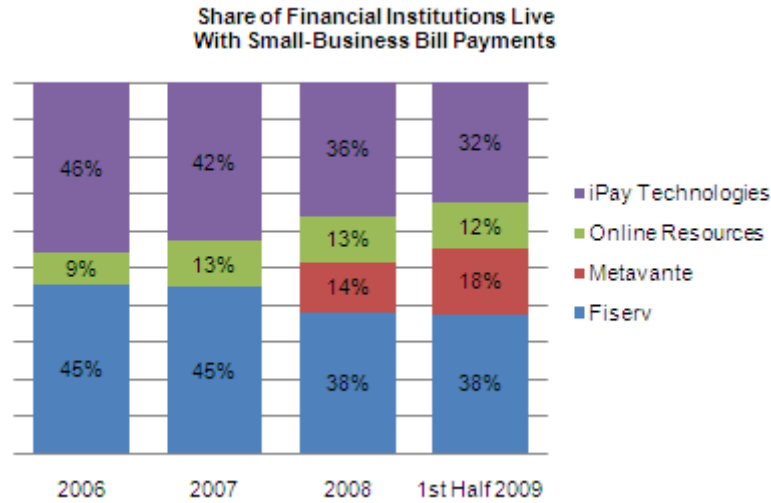
FIGURE 55: LEVEL OF ADOPTION OF SMALL-BUSINESS BILL PAY APPLICATIONS, BY VENDOR



Source: Company data, Aite Group

Of total institutions carrying a small-business bill payment application, 38% use Fiserv, 32% iPay Technologies, 18% Metavante, and 12% Online Resources (Figure 56 on page 48).

FIGURE 56: VENDORS' MARKET SHARE OF LIVE SMALL-BUSINESS BILL PAY DEPLOYMENTS



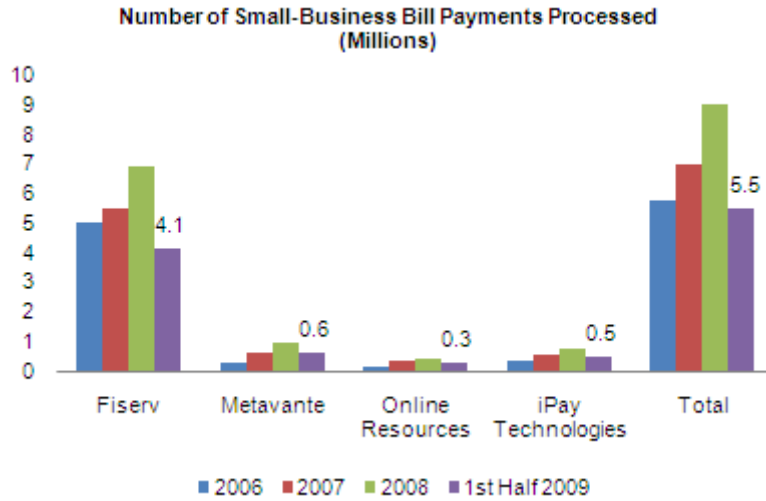
Source: Company data, Aite Group

Consolidator transactions initiated through small-business bill payment applications reached 5.5 million items by the first half of 2009. In 2008, 9 million of such transactions were processed by consolidators, up from 7 million in 2007 (Figure 57 on page 49).

Fiserv dominates small-business bill payments by transaction volumes, with 75% market share in the first half of 2009 compared with 11% for Metavante, 8% of iPay Technologies, and 5% for Online Resources. Fiserv, however, has been steadily losing market share in this corner of the market, with its share sliding 13 points from 87% in 2006 (Figure 58 on page 49).

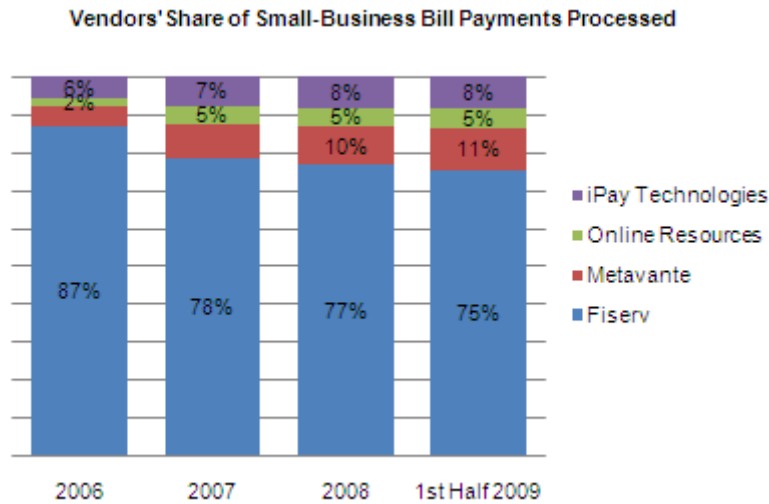
Small-business application-originated transactions represent a small share of processors' total business. By the end of the first half of 2009, that share was 0.6%. IPay Technologies is the vendor with the greatest share of transactions originating from such small-business applications, at 1.7%, followed by Fiserv (0.6%), Metavante (0.5%) and Online Resources (0.4%). (See Figure 59 on page 50.)

FIGURE 57: SMALL-BUSINESS BILL PAYMENT APPLICATIONS-ORIGINATED TRANSACTIONS



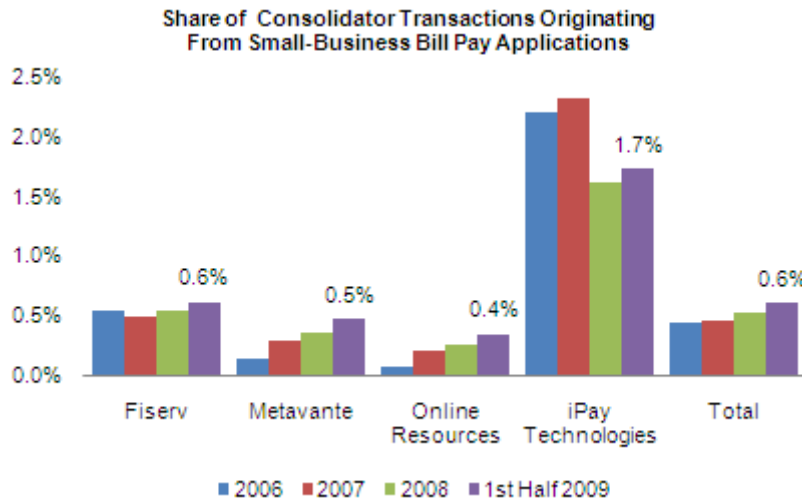
Source: Company data, Aite Group

FIGURE 58: VENDORS' SHARE OF SMALL-BUSINESS APPLICATIONS-ORIGINATED TRANSACTIONS



Source: Company data, Aite Group

FIGURE 59: SMALL-BUSINESS APPLICATIONS-ORIGINATED TRANSACTIONS' SHARE OF VENDORS' TOTAL CONSOLIDATOR BILL PAYMENT VOLUME



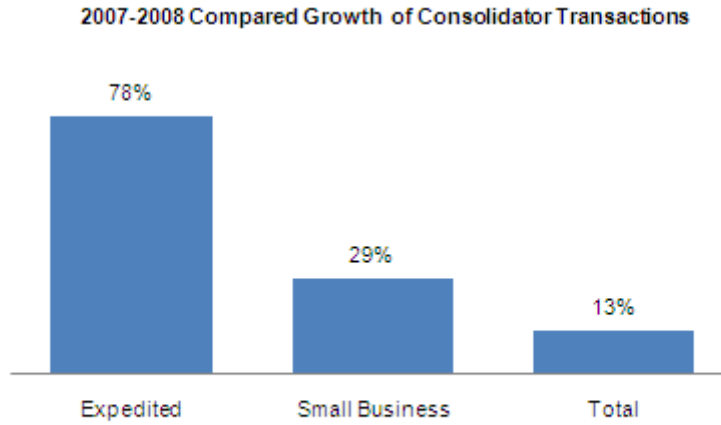
Source: Company data, Aite Group

TAKEAWAY ON EMERGING TRANSACTIONS

Emerging products are in a very early stage. None of the vendors we surveyed was able to share data on card-based bill payment, a feature hotly discussed in recent years within the industry. On the positive side, emerging products are growing at a much faster pace than processors' overall volumes. Between 2007 and 2008, expedited transactions grew 78%, while small-business application-based transactions grew 29%. In contrast, processors' total business grew only 13%. Yet, emerging products are doing so from a tiny base. As such, they are unlikely to add much value to processors' bottom line for the foreseeable future, as warned by our previous analysis of this matter (Figure 60 on page 51).⁸

8. See Aite Group's report, *Online Bill Payment: The Elusive Goal of Cost Recouping*, October 2008.

FIGURE 60: EMERGING PRODUCT GROWTH COMPARISON



Source: Company data, Aite Group

CONCLUSION

- Consolidator processors' offering is more critical than ever to banks. The online channel is a critical factor for customers when selecting a bank, and bill payment adoption continues to play an important role in engaging customers with the bank.⁹
- Processors' concerns over insourcing trends from a few years ago continue to prove unfounded. Although financial institutions' interest in cutting their bill payment processing cost via insourcing remains, the practicality of that strategy is low in current market conditions.
- Despite consolidation among processors over the past few years, the market has remained competitive. The remarkable progress of iPay Technologies is a reminder that bigger is not always better when it comes to achieving superior business performance.
- The four major vendors examined in this report offer robust and reliable business process outsourcing in the bill payment realm to banks. That said, no vendor has managed to make emerging products a large portion of their business. The core consumer online bill payment application remains the cash cow of their consolidator bill payment business.
- Because of the limited gains consolidator processors have been able to achieve in key areas, including the removal of paper from the entire process, we believe the industry remains exposed to potential disruptive business models and/or technologies.
- With transaction growth slowing and financial institutions making a top priority to renegotiate deals with existing vendors to get better terms,¹⁰ it's time for processors to get serious about innovation.

9. See Aite Group's reports, *Measuring Customer Engagement: Making the Metric Matter*, June 2009; *Checking Accounts: Who's Winning the Online Battle?*, October 2008.

10. Renegotiating deals with existing vendors is a top priority among bank CIOs for the next 24 months. See Aite Group report, *North American Bank CIOs: Managing in Thrifty Times*, September 2009.

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How to (Re)Build Consumer Trust in Banks, April 2009.

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Mobile Banking Vendor Evaluation: The Slightly Maturing U.S. Landscape, January 2009.

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Online and Mobile Banking Product Development Roadmap, May 2008.

Usage Trends in Mobile and Online Banking: Upping the Ante, April 2008.

Online and Mobile Banking Technology Supplier Update, April 2008.