

Cutting the cost of recurrent electronic insurance payments

AS ONE of the great, untapped markets for electronic payments, insurers are suddenly a hot target for EBPP. Insurance is a natural for electronic payments: the payer typically is staring at an impending deadline, payment must clear before the product is in force, and the customer base is eager to ease the payments process.

Having proven itself to all sorts of recurring billers, the EBPP industry is now gaining the attention of insurers, mortgage and auto lenders and other related financial services companies as well. Critical to that effort is a nine-month pilot recently completed by Star and payments processor BillMatrix, in which customers made insurance payments either on the telephone or over the internet with their Star-branded debit cards.

"Nothing was holding back the insurance billers but us getting to them and proving to them that it works," said Barbara Span, vice-president of brand management for Star, a subsidiary of Concord EFS. "It has tremendous appeal for their customers, and for their agents as well."

The PIN-less bill payment transaction is processed by STAR just like a point-of-sale debit purchase and is routed online to the cardholder's financial institution for approval. The debit appears on the customer's next checking account statement as an ATM/debit card transaction. The billing organisation or its payments processor must also authenticate the customer by validating data that the biller has provided to the customer.

The pilot clearly showed that consumers were willing to make insurance payments on the telephone or over the internet, particularly as their current policies were about to expire. The potential for linking e-mail alerts with electronic bill pay are tremendous, and the insurer stands to gain tremendous goodwill from speeding such last-second payments.

Another goal of the pilot was to directly address fears that such payments could lead to fraudulent transactions. "There was absolutely no fraud," Span said. "In fact, we were able to demonstrate time and again that EBPP actually reduces fraud."

Span said that electronic insurance payments offer several advantages over cheques. "It's fast and easy for consumers, provides a real-time funds payment solution to the billers – reducing insufficient funds returns and expanding their payment

acceptance channels – and brings more transactions and revenue to issuers," she said. "What's more, requiring billers to verify their relationship with their customers means a secure transaction without the level of fraud associated with traditional cheque payment."

Star's pilot for insurance companies began in December 2002 and was completed last month. Four insurance companies that sell car, life and homeowners' insurance, all clients of BillMatrix's outsourced payment processing service participated in the pilot: Civil Service Employees Insurance Company; Western United Insurance Company; Western United Insurance Company Alaska; and Superior Insurance Company.

Since the pilot ended, three more insurance companies have agreed to let Star process last-minute payments. Span added that 'several' more unnamed insurers are ready to offer the service in the next month or two.

"BillMatrix provided the toll-free numbers, telephone voice response units and bill payment websites as well as authenticating the payments before sending them over Star's network," said Jerry Portocalis, senior vice-president of sales and marketing at BillMatrix. "We're really pleased with the pilot and think the insurance industry will see a lot of value from adopting electronic bill pay. It gives the insurer something that makes it stand out in the market, and it gives the insured a secure and convenient payment method."

With the insurance pilot and eight months of insurance payment transactions completed, STAR has already exceeded by 20 percent the number of billers in the US who are using STAR's service. STAR's bill payment transaction volume was 2.4 million in 2002, and based on current volumes is expected to more than double by the end of 2003. The network plans to expand beyond processing utility payments to handling insurance, secured loan, education and government transactions, Span says.

"Recurring payments are a pure convenience product," Span said. "It's ideal for any sort of payment that people typically put off until the last minute, and it is in that situation that customers really value this service."

The Star pilot is not the only move toward insurance EBPP. The Hartford recently announced EBPP functionality to its New York and New Jersey agent force.

"Our ongoing product and service innovations and enhancements are in direct response to our customers' needs," said Eric J Mendelsohn, director, customer service operations for the Hartford. "Staying competitive means staying ahead of the curve in terms of our ability to anticipate and understand the needs of the marketplace and swiftly respond with real solutions. In this case, electronic billing and electronic payment save our customers time and money – and make it easy for them to do business with the Hartford."

Employer View, the website through which electronic billing and payment is available, also provides customers with easy access to a range of information, including current benefit details, rate information, and access to booklet documents and forms.

Cigna Group Insurance has teamed up with the technology provider EDS to introduce an online EBPP for Cigna Group Insurance customers. Online billing and payment is expected to let Cigna Group Insurance customers calculate and submit monthly premium amounts to Cigna Group Insurance securely online, using only a browser and an internet connection. Customers also can pay electronically or through a 'print and pay' option, viewing invoice and electronic payment history online.

In the new service, employers will be e-mailed a link taking them directly to their invoice each billing period. This will be a prompting for employers to review and reconcile their bills.

Insurers throughout the US are moving cautiously toward EBPP after watching many other financial services companies pour millions into internet-only strategies that backfired, often spectacularly. The internet has evolved for insurers from being considered as an additional marketing channel to an integrated distribution channel critical to the development of electronic payments.

Portocalis of BillMatrix, which works with several insurers, said that the market is in its infancy.

"We've really only started in insurance," he said. "Fourteen percent of the 16.4 billion total recurring payments in the US are for insurance, so there is plenty of opportunity for these companies to reduce costs while getting better money, faster." ■

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