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Keeping Accounts Current as America Moves

Hundreds of thousands of American consumers are being displaced due to the ongoing mortgage crisis. Here are tools that will help billers reach their relocated customers and avoid payment delinquencies and defaults.

Americans are in the midst of an unprecedented credit and real estate crisis, perhaps the most severe financial downturn since the Great Depression. According to RealtyTrac, over 3 million foreclosure filings were made on U.S. properties in 2008. In January and February of 2009 alone, over a half million American borrowers received foreclosure filings. As corporate cutbacks and layoffs mount, it will be even more difficult for consumers to meet their mortgage obligations. In March 2009, the U.S. unemployment rate hit 8.5%, the highest rate since 1983. That means that millions of Americans are changing their addresses under financial duress as a result of foreclosure or downsizing.

It is not only homeowners who are being uprooted. A full quarter of the properties in foreclosure in February 2009 were not owner occupied. As a result, many unsuspecting renters are being evicted, often with minimal advance notification.

This widespread dislocation of American households presents special challenges for billers. Even for customers that have filed change of address forms, billing cycles may be missed or delayed. In the worst cases, billers may lose track of their customers entirely, resulting in payment default. Dislocated customers will often be in financial distress, unable to meet all of their payment obligations. For example, the number of U.S. households with loans 30 days or more past due increased 58% from December 2007 to December 2008 (Source: Online Resources Corporation 2008 survey data).

In this paper, we discuss how migrating consumers away from paper billings to some form of electronic bill payment can help avoid payment delinquencies and keep lines of communication open between billers and their displaced customers. Since, despite mounting efforts to convert consumers to electronic payments, many still prefer to pay bills with paper checks, we also describe some of the postal optimization tools that have proven effective for a proactive approach to change of address implementations.

Billers Nationwide Can Learn Valuable Lessons from Hurricane Katrina

Looking back at the effects of other large-scale relocations can be very instructive. The most recent sudden displacement of hundreds of thousands of Americans was in 2005 when Hurricane Katrina decimated much of the Gulf Coast. Referred to in a Washington Post article as “the largest displacement of Americans since the Civil War,” Katrina created a diaspora of massive proportion. According to a September 8, 2005, account in the Washington Post, many of those displaced by Katrina virtually disappeared: “It is hard to see and harder to quantify, but kinfolk from Louisiana ...are quietly sponging up the bulk of the people whose homes have been destroyed in and around New Orleans.” Reconnecting with customers was a tremendous challenge for billers, particularly those customers that were absorbed into families.

Innovations from the U.S. Postal Service, including online change of address tools and accelerated address forwarding, helped many displaced consumers minimize account delinquencies. According to a September 2005 CRS Report for Congress: “While restoration of service to the areas damaged by the hurricane itself is a familiar task for the Postal Service, the sudden displacement of hundreds of thousands of customers from New Orleans is unprecedented. Fortunately, USPS has spent millions upgrading its national change of address (NCOA) system in recent years, because forwarding mail for the millions of households that move every year is a major cost to its regular operations.”

Clearly, the efficiencies delivered by USPS postal optimization technology, developed primarily to reduce costs, proved invaluable to consumers who had otherwise lost their grounding. In addition, consumers with some kind of automatic or e-payment billing arrangement, whether recurring debit/credit, EBPP, or third party online bill payment, were better equipped than most others to maintain their accounts. After Katrina, the FDIC advised billers: “A widespread disaster can disrupt the U.S. Postal Service for an extended period ... You may want to encourage or assist your customers in establishing direct deposit account relationships or automatic bill payment services to mitigate disruptions in their finances.”

Billers Should Be Proactive In Maintaining Communication With Customers

Although billers cannot predict widespread consumer displacements, they can plan for them. The best strategy is to minimize dependence on physical addresses by enrolling customers in some form of electronic payment. While adoption of e-payments has grown substantially over the past few years, from 45% in 2005 to 62% in 2008, payment behavior remains heavily influenced by consumer demographics and type of payment. According to the Federal Reserve Bank, seniors have a low acceptance of e-payments, while Gen Y consumers avoid traditional payment channels and have a clear preference for e-payments. A 2007 USPS Household Diary Study indicates that, across all income categories, younger (under 35) households pay 27% of their bills online, compared to 10% of older (over 55) households. Unlike online payments, recurring payment adoption is affected by income level, dropping along with household income (Source: Online Resources). Additionally, the services for which the consumer is paying as well as the dollar value also affect adoption. A Hitachi Consulting 2008 Consumer Preferences survey indicates that paper checks are used most often for rent/mortgage and tuition/child care, while online bill payment is used most often for credit card and loan payments. Low dollar value payments are more likely to be paid electronically than high dollar value payments.

According to a 2004 Federal Reserve of Boston Consumer Payment Survey, a major barrier to consumer adoption of e-payments is “weak or no business case to adopt innovations.” Billers need to educate, communicate, and market the benefits of e-payments and offer incentives to counteract consumer inertia. Benefits to the consumer include ease of use, convenience, security, environmental friendliness, flexibility, and faster, more consistent payment posting.

For those consumers that insist on paper transactions, billers should update address lists often and take advantage of the advanced automation tools enabled by the U.S. Postal Service. Postal optimization software is available to mailers from USPS-approved software licensees. Many of these licensees are best-in-class providers of printing and mailing services. Outsourcing to one of these providers offers billers several advantages, including cost reduction and operational efficiencies.

Below we describe some of the most effective tools now available to billers for e-payments and postal optimization.

Online Bill Payment Eliminates Dependency on Street Address

As billers learned in the aftermath of Hurricane Katrina, online bill payment can significantly mitigate the complications instigated by mass relocation. Consumers can access their accounts and pay from anywhere, anytime via the Internet or, in the case of Interactive Voice Response (IVR), by phone. Since consumers will have previously set up their account information and billing preferences, they will not need to access paper invoices, paper checks, or postage stamps. Online and IVR payment tools reduce the costs associated with processing expedited payments, which could well skyrocket among dislocated consumers. A 2005 Tower Group survey indicated that, well before the current financial and mortgage crisis, 31% of American consumers used some kind of expedited bill payment service every month, with an additional 34% using expedited payments at least five times per year. Research from Crone Consulting conducted in 2006 found that 72% of consumers who used a biller's expedited payment service did so because they wanted to avoid late fees, while 48% wanted to prevent their credit rating from being harmed and 25% were attempting to avoid service disruption.

According to a 2008 Hitachi Consulting survey, 56% of consumer online payments were transacted via biller-direct EBPP (Electronic Bill Presentment and Payment), while 43% were transacted on an online bank or credit unit site. For billers, EBPP offers a number of benefits over online bill consolidators or online banking, including back office efficiencies and the ability to communicate with customers via email with payment reminders or to resolve disputes or delinquencies. Direct communication is particularly critical for billers with dislocated customers. While over 40% of online households prefer to resolve overdue bills via the Web, the overwhelming majority of billers still use letters and home phone to contact customers about overdue payments (Source: Online Resources). These statistics create a compelling argument for establishing online tools for delinquency resolution.

Since consumers displaced from foreclosure are likely under financial duress, billers should also consider the benefits of accelerating payment clearing. Electronic payments will clear before paper payments, even those made on time, thus increasing the likelihood that funds are still available in the consumer's account. Check imaging and conversion technologies such as ARC and Check 21 are essential tools that help accelerate clearing of paper checks.

Postal Optimization Helps Billers Accelerate Change of Address Processing

In its major push to improve efficiencies, the U.S. Postal Service has introduced several technologies that help identify and mitigate undeliverable mail before it enters the postal stream. In addition to ensuring that addresses are correct and current, these technologies can now verify that addresses are occupied and equipped to receive mail. Best-in-class mailing service providers have made substantial investments in these postal optimization technologies so that they can qualify for the most favorable postage rates on behalf of their customers as well as help them minimize delivery delays. Here's a quick list of postal optimization tools that have proven effective in accelerating revenue collection:

Move Update: Updates names and addresses to ensure mailing list quality and minimize forwarded or returned mail. High-volume first-class mass mailers are required to run their databases against a USPS-approved service to address-correct their mailing lists every 95 days.

ACS: An enhancement of paper copy change of address notifications, providing mailers with a means of acquiring electronic change of address notifications organized by mailer identification codes, on a daily, weekly, or monthly schedule.

OneCodeACS™: Uses the Intelligent Mail® Barcode to give mailers more information about their mail and provide electronic address updates for those addresses that are on the NCOA list. NCOALink makes change-of-address information available to help reduce undeliverable mail pieces before the mail enters the mail stream and ensures that mail is delivered to the correct addressee without delays.

Delivery Point Validation (DPV): Confirms mail addresses within an 11-digit POSTNET™ barcode and validates the accuracy of each address down to the primary street number or P.O. box number information.

Postal Automated Redirection System (PARS): Significantly reduces the time it takes for forwarded mail to be delivered to its new destination by intercepting and redirecting forwardable mail when it begins processing.

Automating the Billing Process Can More Than Pay For Itself

Some billers may understand the benefits to deploying biller-direct EBPP and postal optimization but are loath to make capital investments during dire economic times. Homegrown EBPP systems typically require major investments of funds, time, and IT resources. Postal optimization technologies and requirements continue to evolve, necessitating expert knowledge for effective implementation. The opportunity cost of inaction can be significant, however, in terms of cash flow, delinquencies and bad debt.

Outsourcing to a third party expert presents a viable alternative for most billers. Costs are predictable and often lower than in-house operations, and billers can leverage a billing specialist's past experience, R&D, and economies of scale. Agility can become an important competitive advantage during a downturn as companies struggle to adjust headcount to current and forecasted market conditions. Outsourcing gives companies of all sizes the flexibility to stay lean while making tangible improvements to their billing operations. Premier providers are equipped with full suites of electronic and address management tools that empower billers to maintain relationships with their customers, even during periods of rampant dislocation and financial distress.

For more information about migrating your customers from paper to electronic billing and payments, or to find out how you can optimize your postal and remittance processes, contact Regulus Group today at 866-747-2877 or web.mail@RegulusGroup.com. You can also find us on the web at www.RegulusGroup.com.