



A Safe Bet?

Is the insurance industry the next frontier for electronic payments?

By Tom Wright

When it comes to accepting payments, the insurance industry is still heavily dependent on paper checks. Some analysts see the insurance industry as an untapped market for electronic payments because payers typically are facing the prospect of a lapsed policy if a payment deadline is missed, and payments must clear before a policy is in force. In addition, consumers are eager to find easier ways to pay, as evidenced by a MasterCard survey in which 31 percent of consumers indicated they would change insurers for the ability to pay bills automatically with credit or debit cards.

Perhaps Jeffrey Chesky, group president of ProfitStars Insurance Agency Solutions, summed up the slow movement to electronic transactions best: "Insurance carriers are very traditional and resistant to change." Yet they are not at the bottom rung of all industries according to Eric Remer, CEO of PaySimple: "I think that insurance companies are much further along the electronic payments path than the utility companies are right now." Michael R. Long, CEO of Payment Data Systems, concurs: "The 'pre-authorized check' has been around for decades. The insurance industry has actually been a leader in using the ACH system to collect payments."

Insurance companies can be categorized by the type of insurance they provide (life, health, property & casualty) or their ownership structure, which can be either stock insurers or mutual insurers. Chesky explains other differences: "There are what we call the direct writers or captives, such as GEICO, State Farm, Allstate and Progressive, that have their own direct channels; and then there are a much larger number of carriers who don't sell

direct, but instead rely on independent agents to sell for them." He adds that "the direct writers have always been big on ACH, and most have traditionally relied on brick-and-mortar locations to sell their products." However, Greg Cornwell, senior vice president of business development at Chase Paymentech Solutions, notes that "Allstate has been getting much more aggressive with their sales efforts via their Web site and call center."

In terms of recurring payments, there are several routes that the insurers can pursue:

- Credit Card, in which recurring bills are automatically charged to a credit card
- Debit/Check Card, in which recurring bills are automatically deducted from a debit/check card
- Direct Payroll Deduction, in which recurring bills are deducted from an employee's paycheck automatically
- Direct Checking Account Deduction, in which funds are transferred regularly by ACH.

While the benefits of accepting all types of recurring payments would seem obvious, they are worth repeating:

- Payment assurance
- Better cash flow
- Improved collections
- Increased customer loyalty and retention
- Satisfying consumer demand for payment card options
- Increasing enrollment in e-billing
- Reducing payment-related customer service calls.

Steve Carnevale, vice president of service industries for U.S. commerce development at MasterCard Worldwide, explains that "recurring payments present a huge opportunity for the

insurance industry. Our studies show that 71 percent of households currently have a recurring insurance bill." Robert Wilson, executive vice president of sales and marketing at BillMatrix, adds that "life insurance currently has the highest penetration for recurring payments. That is because they tend to be more affluent consumers."

Chesky believes that the "insurance industry's policy premium structure is geared toward receiving checks in the mail. About 80 percent of the policies that we write are still paid by check." He says that many of the larger carriers are still using mainframe-based systems and suffer from "legacy-laden cultures." But Long, whose San Antonio-based company expects to receive about \$30 million worth of insurance payments through its portals this year, says "many insurance systems can handle a simple flat file—it is not that sophisticated." His application service provider model eases the way for insurance companies to handle all types of payment at the front end, but he admits that "exceptions can be troublesome and are still handled manually."

Another stumbling block for brick-and-mortar independent agents is that they need to pay different carriers. "They need multiple merchant IDs and to make sure that they are sending the payment to the correct company," says Cornwell. However, he thinks "processing credit and debit cards is easier than inputting checking account info for setting up ACH payments." The problem also applies to direct carrier agents as well. "They have thousands of agents across the country, so it is a difficult training issue for them," says Cornwell. POS terminals aren't a practical or affordable alternative for these thousands of offices, so virtual terminals are popular. Again, it is more of a logistical

issue for the companies that may have high turnover among administrative office workers, rather than a hardware or software problem. Cornwall concludes that “recurring payments can take a big workload of agents used to handling checks and cash. Research shows that agents often spend about 40 percent of their time with billing issues and taking payments.”

Recurring insurance payments can create some apprehension for consumers, especially for quarterly or semi-annual payments, which can be large.

Though they’re not labeled convenience fees, charges are added by some insurers for accepting various types of payments and often called handling, service or processing fees. But even before the advent of recurring and electronic payments, insurance companies charged varying rates depending on how much of the premium was paid at one time. With the advent of electronic payments, fee structures have grown more complicated and can include a multitude of incentives—or disincentives—for using ACH, credit, debit,

“select emerging markets” interchange fee structure, corporate and rewards cards are a different story.

“There is a whole new layer of complexity for insurance companies in determining their costs with these types of cards,” Cornwell says. The issue will only be magnified in the future as more rewards cards come on the market and consumers use them to build up points.

Insurance company CFOs looking for low-cost electronic payment options may want to consider PIN-less debit. Electronic Funds Transfer (EFT) networks such as NYCE, PULSE and STAR have rolled out support for PIN-less debit transactions, as long as they are in the eligible industries of utilities, education, insurance, government and lending. Per-transaction savings could range from a few cents to several dollars, depending on the particular network and the size of the transaction. “PIN-less debit is poised for growth, and I would look for more innovations from the EFT networks,” Cornwell says. “PayPal and services like Bill Me Later will also be looking to make inroads into the insurance and service industries as well.”

Crone Consulting founder Richard Crone has his eye on another growing area: mobile payments. He says “top-tier insurance companies can save millions of dollars annually by expanding their customer self-service (CSS) functionality through the Internet and, more importantly, mobile phone channels. In addition to substantial savings, mobile CSS affords insurance companies a unique opportunity to meet customers’ growing needs for control and convenience in paying their bills and managing their accounts.” His firm’s research reveals that nearly 75 percent of insurance company customer-service requests relate to billing and payment.

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Wilson says “consumers want more granular control of the timing of their payments. This helps them with budgeting and ensuring that they have sufficient funds in their account.” Others may be concerned about how difficult it may be to change their payment amount or stop payments if they change insurance companies. Wilson insists that “flexibility is key.” He points out that BillMatrix is seeing a “shift from recurring to scheduled payments, and a flattening of recurring ACH payments.” At Chase Paymentech Solutions, Cornwell observes that “we process for nine out of the top 10 insurance companies and we are seeing many more payments under \$200 going to debit cards, while a lot of larger payments are being put on credit cards.”

Heavily Regulated

Like utility companies, insurance companies are fairly heavily regulated. But regulation by state insurance commissions doesn’t extend into payment collections as deeply as public utilities commission regulations. Cornwell says “convenience fees per se do not really apply to insurance companies.”

etc. “Every company has to look at their customer demographics, methods of payment, distribution channels and competitive pressures,” says Wilson.

With thousands of independent insurance agents accepting payments in every town in America, are there opportunities for independent sales organizations? Long says “to be attractive to these independent offices, ISOs must come in with an integrated offering. It will be a challenge for many of them.” Edwin Cornia, CEO of Electronic Bank Data, a Salt Lake City ISO, says “independent agents need a system that is easy to use and provides good reporting capabilities.”

MasterCard’s Carnevale says “to help insurers increase the number of payment options they offer customers, in 1998 we initiated the Service Industries Incentive Program. The program helps providers in the insurance, cable, utility and telecommunications industries adopt recurring payments by offering an incentive rate on consumer transactions, while encouraging the use of payment cards for recurring payments.” While most of their transactions fall under the