

## The Hidden Costs of Electronic Payments

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Over the last ten years, consumers have dramatically increased their use of electronic payments, particularly when it comes to credit and debit cards. In fact, since 2003 debit and credit card purchases in the US have consistently exceeded check and cash payments. Given the much lower cost of processing electronic payments and the interchange revenue that credit and debit cards generate, banks have welcomed the electronic payment trend, encouraging both businesses and consumers to leave paper behind and enter the world of virtual finances.

In the electronic payment frenzy, however, many financial institutions have failed to recognize that the increased adoption of electronic payments results in higher customer service costs. Customer service contacts per electronic payment easily exceed contacts for check and cash transactions, leaving financial institutions with unexpected costs. There are two primary causes for the higher rate of calls and emails from customers:

- A lack of familiarity among consumers - wide-spread use of electronic payments, compared to checks and cash, is a relatively recent phenomenon. Therefore, many consumers still struggle with the basics of how an electronic payment is processed (e.g. when it might post or what a 'pending' status means).
- Immature customer support processes - although electronic payment mechanisms are more sophisticated than those used for checks, support processes have not advanced at the same rate. For example, almost all banks provide the ability to view the image of a check in online banking, making it easy for customers to identify the check and its payee. Electronic payment sources, however, often show up with an alternative payee name, causing confusion for consumers. For example, a purchase at 7-11 might show up as a charge from the Southland Corporation. Without the ability to view the charge in more detail online, a consumer might believe he/she has a fraudulent charge on their account, prompting a call to customer service.

Because of the critical and increasing importance of this issue, financial companies need to invest in finding both swift and sustainable solutions. This can be achieved through two key activities: customer education and greater transaction clarity. First, companies should make customer education a priority, partnering with payment networks/associations like VISA and NACHA for help in developing and delivering information to consumers. This will help consumers better understand the fundamentals of electronic payments, helping to address the most common and basic questions. Second, all customer support channels - online banking, IVR and phone agents - have to provide a clear view of the how, when and where of payments, and do so in a way that customers understand. Although simple in nature, these two fundamental strategies will help make a significant improvement both in customer service expense and customer satisfaction - a combination every business wants to see.

As new electronic payment types - such as those made on mobile devices - continue to develop and increase in popularity, it is critical for financial institutions to address this issue now. Otherwise, they may find the cost effectiveness of electronic payments isn't as effective as they thought it would be.