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The State of Bill Pay: Digital Payment Trends and Growing Demand for Text Messaging

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Prepared for:

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Summary and Key Findings

The State of Bill Pay, commissioned by Solutions by Text and produced by Datos Insights, explores the state of bill pay and ways in which text can best serve billers and consumers. This white paper is based on findings from a Q3 2023 survey of 2,005 U.S. bill-paying consumers who own cell phones to understand their attitudes and preferences when using text to pay their bills or communicate with billers. For the purposes of this report, "consumers" refers to U.S. cell phone owners who pay bills, which is the survey's target audience.

The payments landscape has changed dramatically in recent years, no doubt influenced by the rise of smartphone use during the pandemic. Today, convenience is the name of the game, and Americans are growing accustomed to fast, easy, and frictionless transactions. How consumers pay their bills is changing with these times, and businesses have much to gain. Text, one of the most low-cost and effective ways to communicate with consumers, is paving the way for businesses to not only improve profit margins but enhance the customer experience. This paper explores three key topics:

- **The current state of bill pay: Americans paid 16.8 billion bills in the last year; approximately 10 billion (60%) were made as one-time payments.** This leaves the vast majority of bills subject to the organization and memories of consumers. While 88% of consumers have some structure to their bill pay strategies, at least 54% make late payments. Many billers are addressing this issue by leveraging text messaging to send consumers bill pay reminders. This low-cost yet effective channel is a welcome approach to consumers.

- **Text and payments:** Some billers are taking their text reminders one step further by incorporating a link to a payment portal to help facilitate bill payments. At least half of consumers receiving such a text in the last twelve months clicked through to pay their bill. Approximately two-thirds of consumers using these links believe it is the easiest and fastest way to make a bill payment. However, some billers are excelling beyond this to offer a truly frictionless payment experience by enabling customers to pay their bills within the text itself. Datos Insight's research shows that most bill-paying consumers with cell phones are interested in pay-in-text payment solutions.

At least 66% of consumers are somewhat likely to pay their bills using pay-in-text if given the opportunity. This enthusiasm rises to 88% when considering only Gen Zers and millennials.

- **The future of text beyond payments and best practices:** The benefits of text extend beyond that of payments. Text may be used to help financially strapped consumers by delivering payment options. Of consumers who didn't have money and thus paid their bills late, 83% would have found texted repayment options helpful. A significant portion of consumers also prefer text when communicating with billers. But navigating consumer fears can be tricky, and opt-outs are an issue. Therefore, billers must heed best practices when communicating by text and align themselves with a vendor that can navigate the regulatory and compliance landscape.

The Current State of Bill Pay

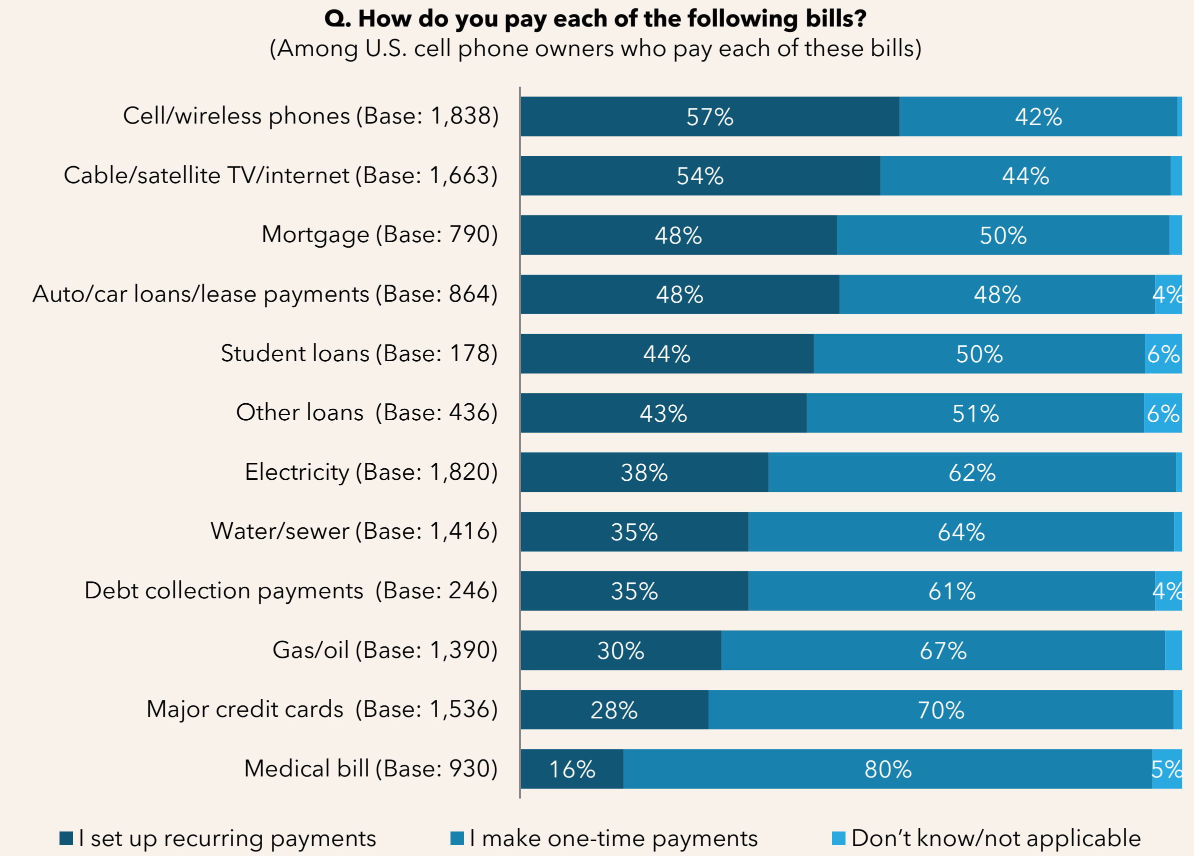
Paying bills is a necessary task for most Americans, and the way in which they pay their bills has changed significantly over the past 13 years. This evolution in bill payment has meant adding new channel support, particularly for mobile payments.

Across the 32 most popular categories of bills, Americans paid approximately 16.8 billion bills in the last year, spending roughly US$5.6 trillion. Nearly 4.2 billion of those bills are for utilities (electricity, water/sewer, gas/oil, and garbage), followed by credit cards and cellphones/wireless phones, with 1.5 billion and 1.4 billion bills, respectively, and cable/TV/internet with 1.3 billion bills.

The extent to which consumers pay attention to such bills depends, arguably, on how these bills are set to be paid. Bills managed with autopay take little attention once set up beyond ensuring that enough funds are in the designated account. Among the 16.8 billion bills paid in the last year, approximately 10 billion (60%) are made as one-time payments, and 6.8 billion (40%) are set up on a recurring basis. Cell phone and cable capture the most recurring payment consumers with 57% and 54%, respectively.

The vast majority of consumers make one-time payments for medical bills, credit card bills and gas or oil bills (Figure 1).

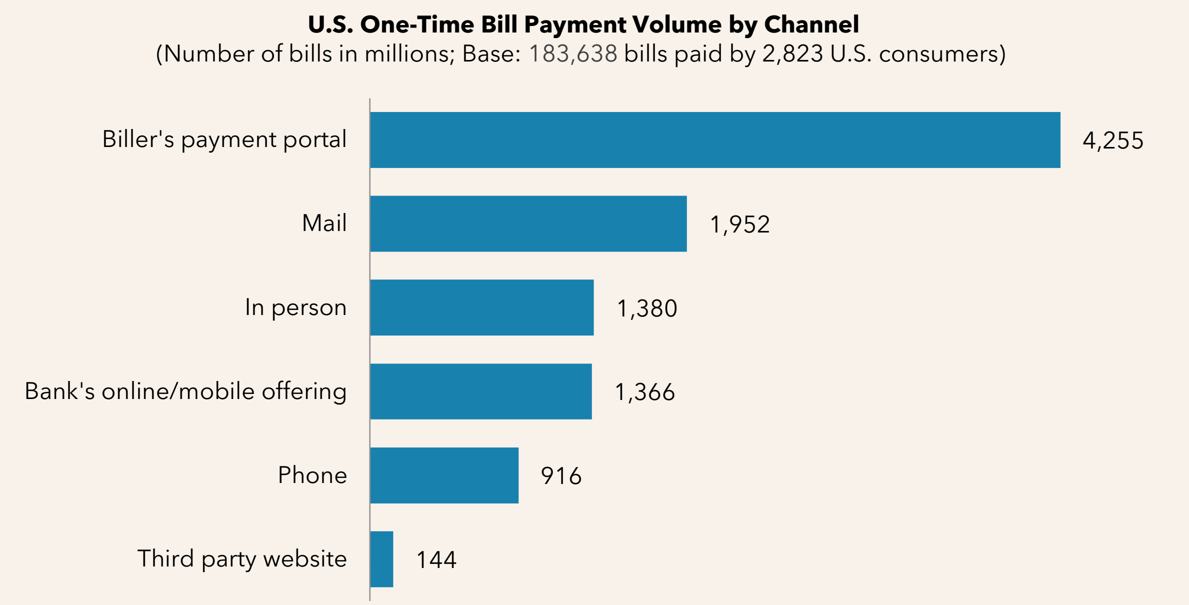
Figure 1: Recurring vs. One-Time Payments by Bill Type



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Among the 10 billion one-time bill payments made in the last year, approximately 5.8 billion bills (58%) are paid online, dwarfing each of the 1.9 billion to be paid through the mail, the 1.4 billion paid in person, and the 916 million paid by phone (Figure 2).

Figure 2: Channels Used for One-Time Payments



Source: Datos Insights bill pay survey of 3,025 U.S. consumers, Q1 2023

Given the number of bills paid online, it is not surprising that most one-time payment bills are paid with either a direct debit (ACH) or a debit or prepaid card. The use of such payment mediums offers much flexibility for billers and consumers, as they can be used across a variety of channels. For most bills, particularly utility bills, the mix between ACH and debit or prepaid cards is split. Loan payments lend themselves to direct debit transactions.

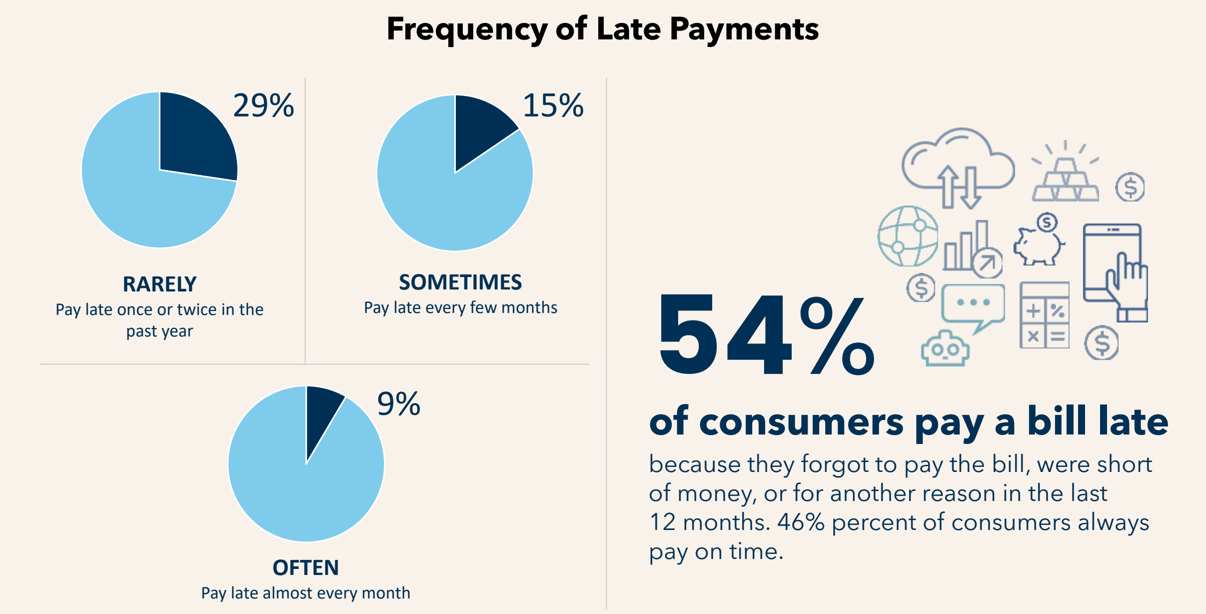
Consumer Bill Pay Strategies and Late Payments

Given that most bills are not set up with autopay, their payment largely depends on consumers' responsibility. Twenty-seven percent of consumers do not use recurring payments at all; payments rely entirely upon those consumers' ability to stay organized. The vast majority of consumers (88%) employ a structured strategy to pay bills. Approximately a third of consumers pay immediately once the bill is received, a third of consumers pay their bills when they receive their paycheck, and a third fall in various buckets of paying habits.

Bill pay strategy varies little by generation and household income (HHI). Forty-five percent of households with an income of US$100,000 or more pay their bills when they come in, compared to only 29% of lower-income households (i.e., HHI less than US$50,000 a year).

Despite best-laid plans, many consumers still pay their bills late. Just over three-quarters of consumers (77%) are very intentional about paying their bills on time. Yet, 40% of these consumers are still guilty of paying a bill late during the last twelve months. Of all U.S. bill-paying consumers in the U.S. with a cell phone, 54% have made at least one late payment during the last twelve months (Figure 3).

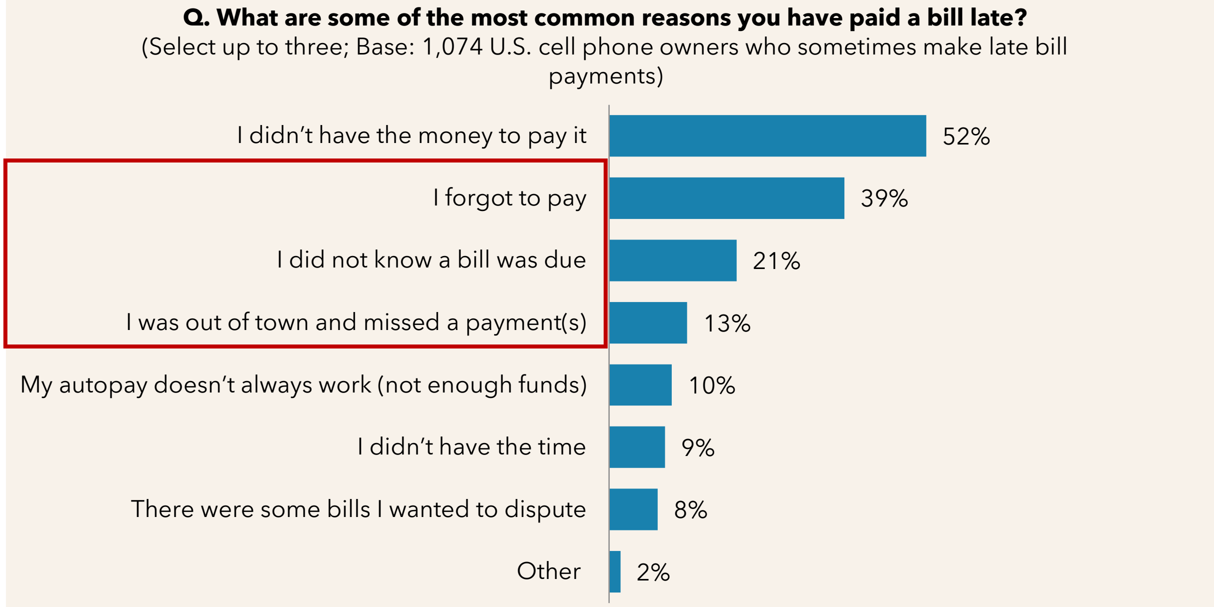
Figure 3: Frequency of Late Payments



Source: Datos Insights

Fifty-two percent of those making a late payment did so because they didn't have the money. However, many consumers simply forgot or lacked the knowledge to stay organized. Thirty-nine percent of late payers forgot to pay, 21% of late payers did not know a bill was due, and 13% of late payers were out of town and missed a payment (Figure 4).

Figure 4: Reasons for Making Late Payments



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Age was not a factor in consumers forgetting to pay, but income was. Fifty-four percent of consumers with HHI of $100,000 forgot to pay versus 30% of consumers with HHI of less than US$50,000.

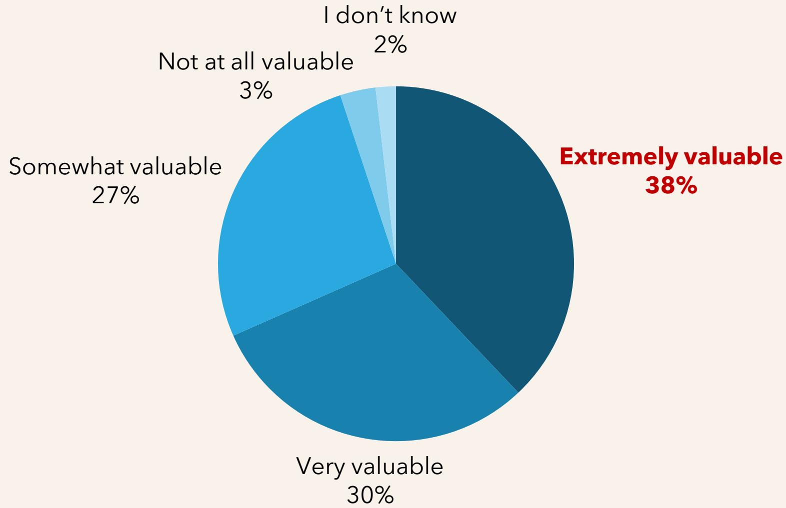
The Value of Text Reminders

While late fees can be a revenue source for companies, businesses often prefer consumers to pay bills on time. Businesses are beginning to leverage text messaging to remind consumers to pay their bills. Text is an incredibly low-cost channel relative to others (e.g., postal mail). Moreover, it is effective in capturing a consumer's attention since at least 97% of consumers own a cell phone, and most are active users. It is also becoming a channel of choice for consumers. When it comes to late payment or past-due reminders, 80% of consumers prefer receiving them via text. Younger generations tend to prefer it more. Approximately 92% of Gen Zers and millennials prefer text versus approximately 68% of baby boomers and seniors.

Perhaps most importantly, text reminders are appreciated by consumers. Of all forgetful consumers making a late payment, 95% would have valued a text reminder prior to the late payment (Figure 5).

Figure 5: Most Consumers Making a Late Payment Would Value a Text Reminder

Q. For the times you made a late payment, how valuable would you have found a text reminder to pay the bill?
(Base: 651 U.S. cell phone owners who sometimes make late bill payments due to forgetfulness)



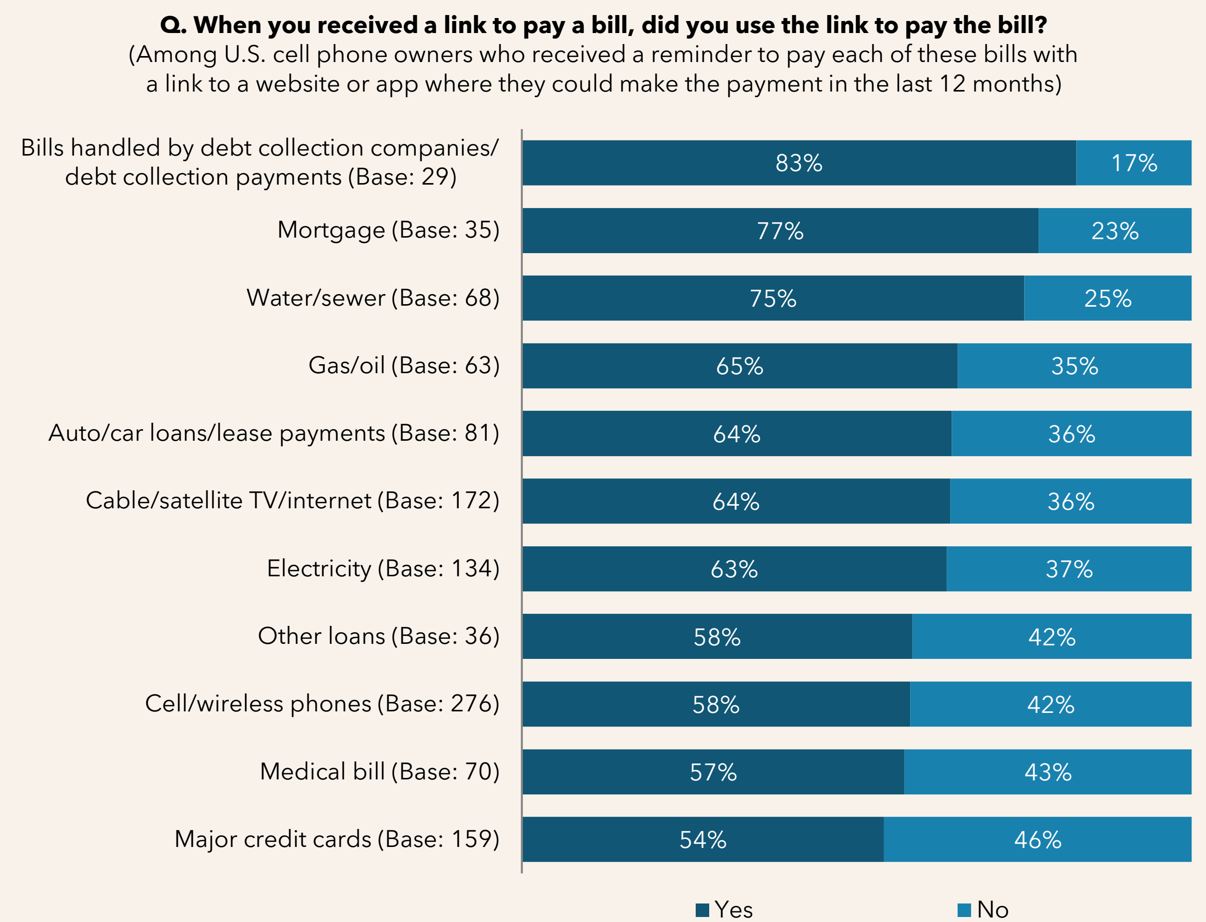
Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Customer experience aside, texts can improve a biller's cash flow. When considering all consumers who made a late payment, 85% of consumers are more likely to pay a bill on time if they had a text reminder.

Text and Payments

Across industries, some billers are leveraging text reminders to make payments easier for consumers by including a link to a convenient payment portal. Almost a quarter (24%) of consumers received at least one of these texts in a twelve-month period. These reminders are helpful and effective. At least half of consumers receiving such a text in the last twelve months clicked through to pay their bill, and approximately two-thirds of consumers using these links believe it is the easiest and fastest way to make a bill payment (Figure 6).

Figure 6: Effectiveness of Text Reminders With Payment Links



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Text Paves the Way for Easy, Frictionless Payments

Text reminders with payment links are proving effective, but the next generation of bill pay will take it a step further. It will not only remind consumers to pay but also create an easier payment option in line with the overall trend in payments: offering a completely frictionless payment experience.

Consumers are quickly growing accustomed to convenience, and embedded payments are streamlining the payment experience such that everything happens with little effort (or clicks) within the same space (or app). Uber is the exemplar. A user can request a ride via a mobile app, the payment is managed on the back end, and the tip is handled on the front end without the user leaving the app or entering payment information.

Billers are creating a similar experience within their text bill pay reminders. Consumers can receive a text reminder and pay that bill by texting back a simple response, such as "PayNow." Given the infancy of this technology, the number of businesses engaged in it is low, but the results are promising.

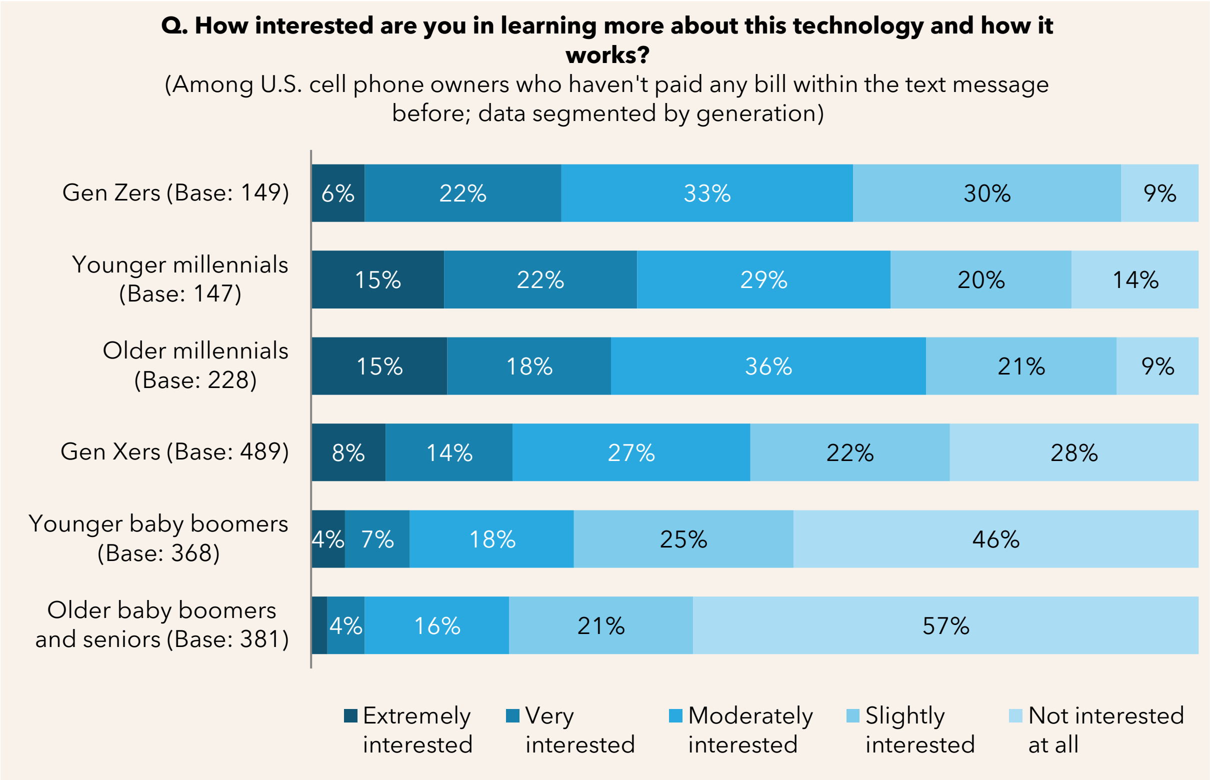
A small portion of consumers (9%) have already been exposed to this payment option. Of these consumers, 63% used the option to pay at least one bill. Consumers had this to say about the experience:

- 70% said paying within a text is the easiest way to pay bills.
- 74% said paying within a text message is the fastest/best way to make sure their payment is made on time.
- 63% said they prefer paying bills directly within a text message.
- 57% said paying within a text is the most secure way to pay bills.

Half of consumers who haven't experienced this type of text think it would be very easy to do. Age definitely influences this sentiment. At least 65% of Gen Zers and millennials think paying in text would be easy to do versus only 37% of baby boomers and seniors.

Education and exposure will likely positively influence these results. When consumers were asked how interested they'd be in learning more about this technology and how it works, 43% of consumers were quite interested. The younger they were, the greater the interest: Two-thirds (66%) of Gen Zers and millennials are quite interested (Figure 7).

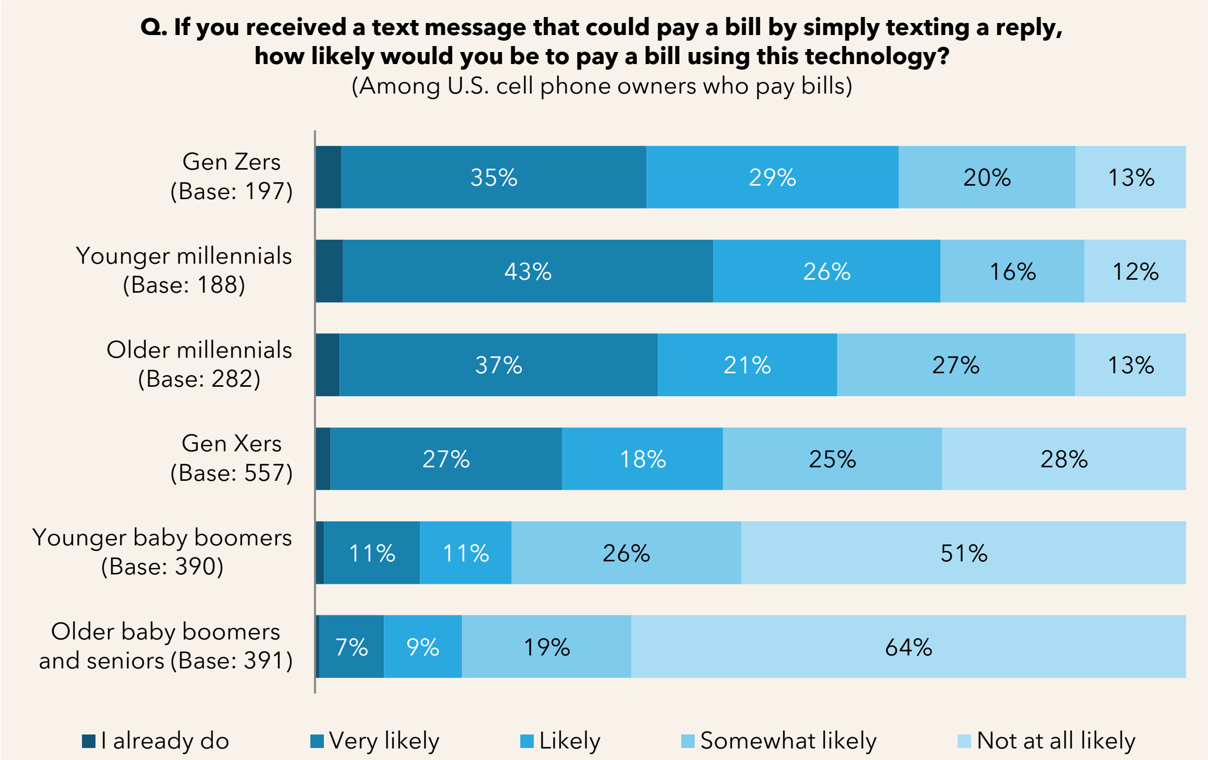
Figure 7: Interest in Learning More About Pay-in-Text by Generation



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Two percent of consumers already conduct pay-in-text payments with at least one biller, and at least 66% of consumers are somewhat likely to pay their bills this way if given the opportunity. This enthusiasm rises to 88% when considering only Gen Zers and millennials (Figure 8).

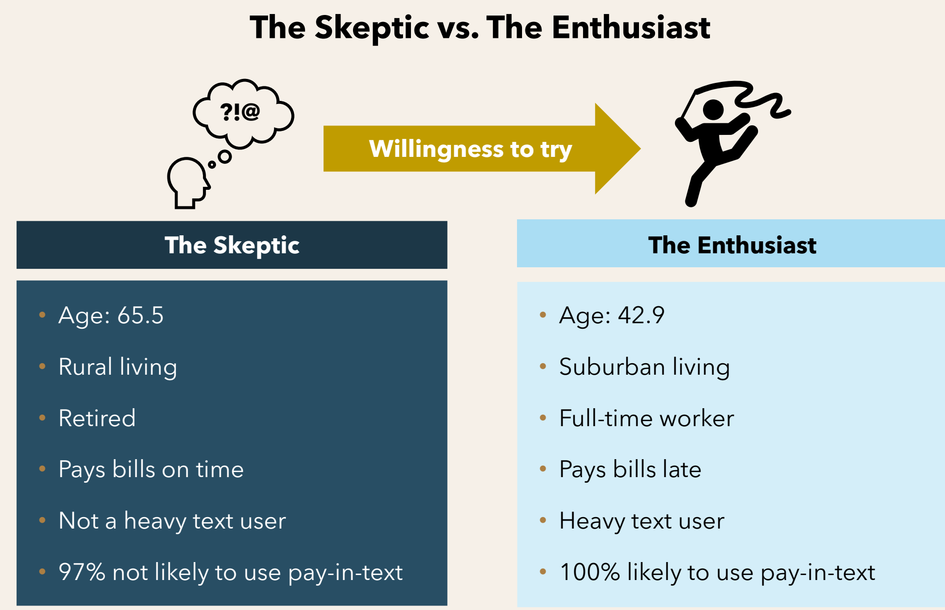
Figure 8: Likelihood of Using Pay-in-Text by Generation



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Datos Insight's research shows that most bill-paying consumers with cell phones are interested in text payment solutions. Two contrasting personas did emerge: the skeptic and the enthusiast. The skeptic tends to be older, lives in the country, is retired, and pays their bills on time. The enthusiast is younger, lives in the suburbs, works full time, and sometimes pays their bills late. Between the two lies a spectrum of people with varying levels of interest in using pay-in-text solutions (Figure 9).

Figure 9: Two Contrasting Personas: the Skeptic vs. the Enthusiast



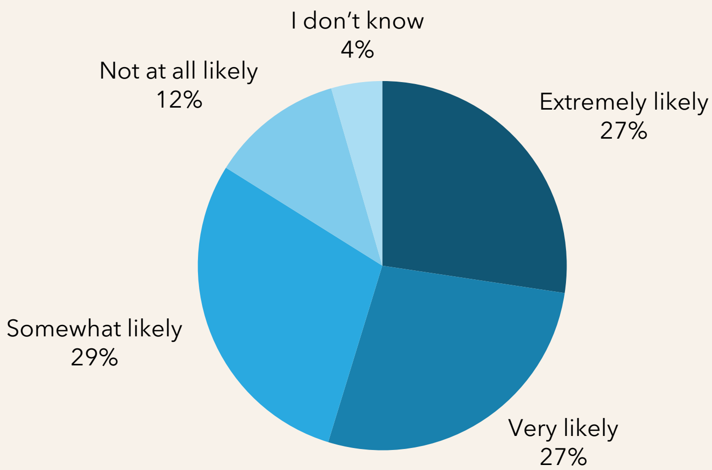
Source: Datos Insights

Text and Billers Beyond Payments

Text communication holds great potential for businesses and consumers going forward. Text may be used to help financially strapped consumers make payments by offering payment options. Of consumers who didn't have money and thus paid their bills late, 83% would have found texted repayment options helpful (Figure 10).

Figure 10: Payment Options Embedded in Text Are Helpful

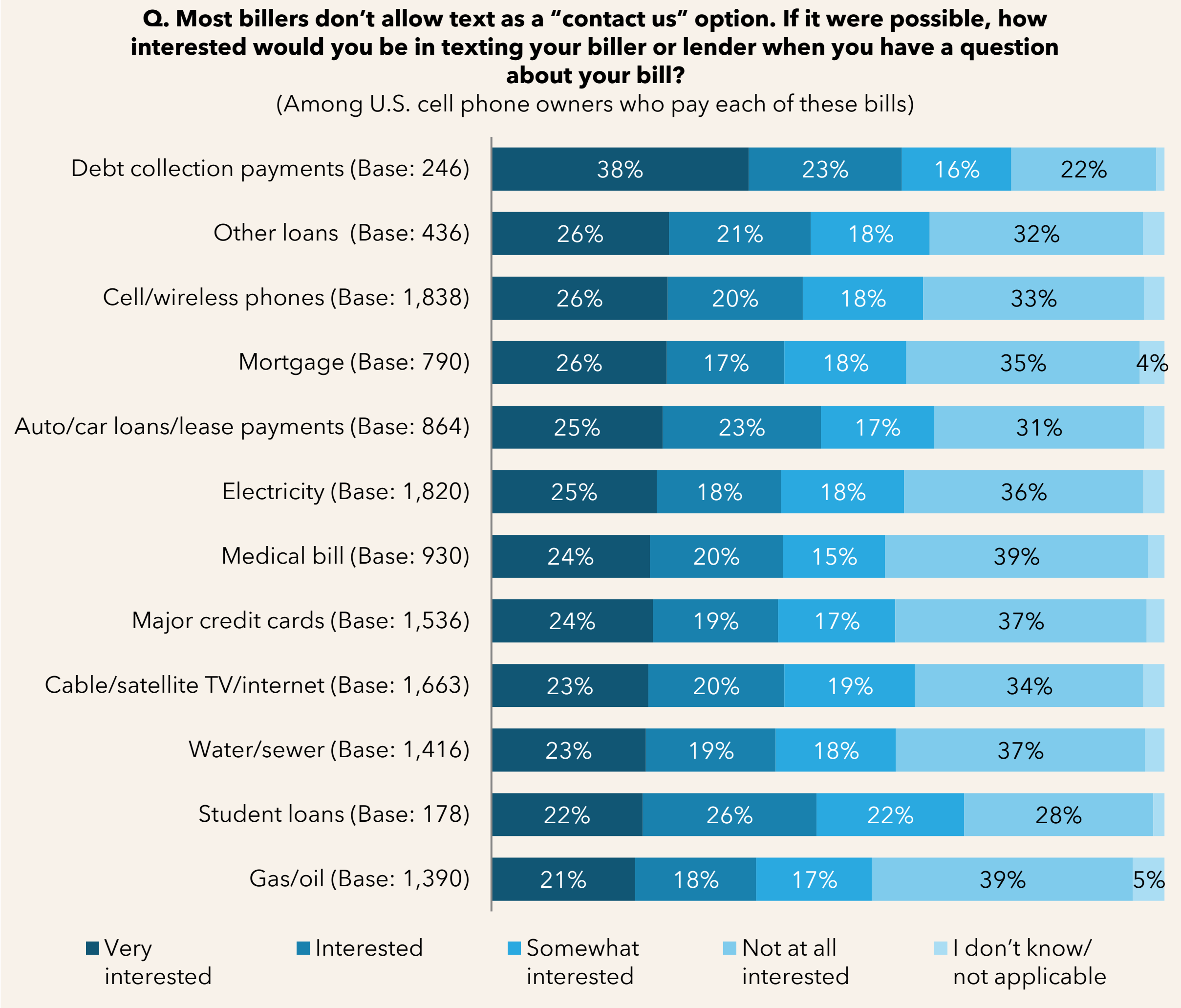
Q. For the time(s) you don't have money, how much more likely would you have been to pay on time if you were texted repayment options (e.g., option to defer payment or split bill over four week period)?
(Base: 559 U.S. cell phone owners who sometimes make late bill payments due to money issues)



Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Text will also become a customer service tool for many businesses, including billers. Two-way and conversational texting will enhance this channel and opportunity. A significant portion of consumers prefer text when communicating with billers (Figure 11).

Figure 11: Interest in Text Is High for Contacting Billers

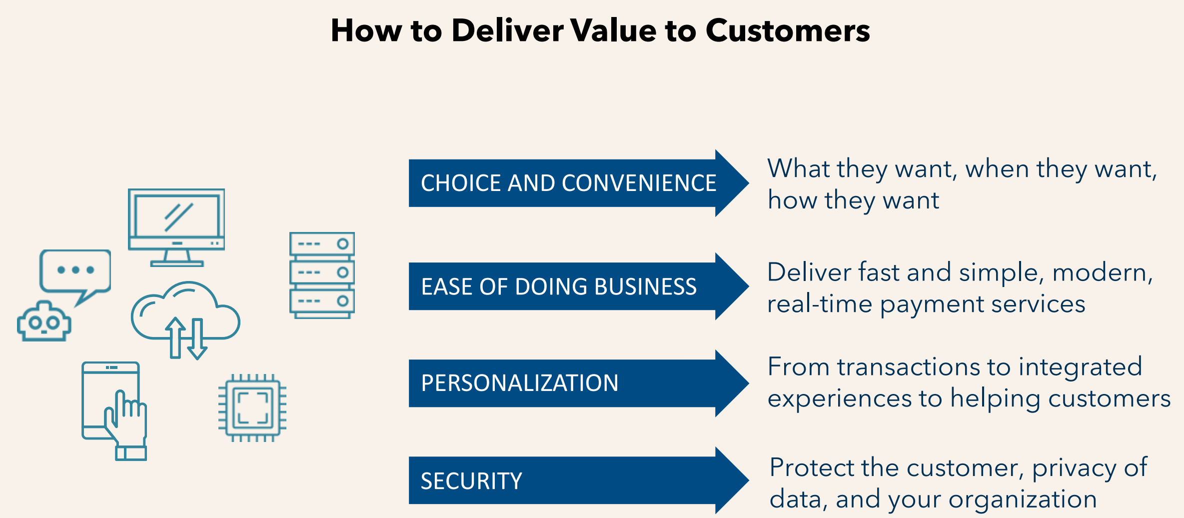


Source: Datos Insights survey of 2,005 U.S. cell phone owners who pay bills, Q3 2023

Conclusion

The average American adult pays 67 bills a year across a variety of bill types and billers, yet only 57% of these consumers have received a text message related to paying a bill or a reminder to pay a bill. This data suggests that a significant number of billers are not leveraging the benefits of text. Text touches on each of the four pillars of delivering value to customers: It's convenient, fast, personalized, secure, and what many consumers prefer.

Figure 12: How to Deliver Value to Customers



Source: Datos Insights

Ultimately, the results are in: Text is a favorable way for consumers to pay their bills. For billers looking to deploy text-based solutions, Datos Insights recommends the following based on survey findings:

- **Remove all ambiguity from every text:** Most consumers would opt out of an unrecognized text. Over 90% of consumers across generations said they would likely opt out, reply "stop," or block a phone number if they didn't recognize the sender.
- **Incorporate your company's brand within the text:** Only 22% of consumers are at least very likely to opt out, reply "stop," or block the phone number of a text if they are confident it was sent from their biller.

- **Instill confidence:** Fear is a huge hindrance to adopting new technologies and solutions; text payment options are no exception. Eighty-six percent of consumers unlikely to pay a bill within a text message would question the source of the text and whether it is a scam or fraud. Yet, text can be one of the most secure forms of payment.

- **Align yourself with a compliance-oriented vendor:** The guidance and regulation surrounding text is not always clear since it is a newer communication channel. Some industries are easier than others to navigate. For this reason, billers looking to outsource aspects of their text communications should align themselves with a vendor competent in compliance.

Methodology

Datos Insights surveyed 2,005 U.S. bill-paying consumers who own cell phones during Q3 2023 to understand their attitudes and preferences when using text to pay their bills or communicate with billers. Those qualified to participate in the survey are paying bills at least every few months and own either a smartphone or a feature phone. The pool of consumers who answered questions to determine their qualification for the study was in proportion to the U.S. population for age, gender, income, geographic region, and race.

The data have a margin of error of two points at the 95% level of confidence. Statistical significance tests when comparing consumer segments were conducted at either the 95% level of confidence or 90% confidence level, depending on the sample size.

About Solutions by Text

Solutions by Text (SBT) is the pioneer of FinText, empowering consumer lending companies to engage, interact and transact with their consumers in real-time. SBT has been providing compliance-first enterprise conversational messaging solutions since 2008. Solutions by Text's vision is to bring real-time payments to the text channel, creating a seamless and optimized bill pay experience for businesses and their consumers.

To learn more about Solution by Text's compliant solutions through the power of texting, please visit solutionsbytext.com.

About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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