

*American Banker* Friday, September 12, 2003

## Alternative to Card Use on Web: Phone Bills

*By Will Wade*

The idea of letting consumers put Internet purchases on their telephone bills has long tantalized merchants and entrepreneurs, who say it will draw more people to e-commerce and allay concerns about sending card numbers electronically.

Two companies set out in recent years to try this business model. One, eCharge Corp. of Seattle, boldly predicted it would give card issuers a run for their money but seems to have quietly folded.

The other, PaymentOne Corp., is building what it says is a growing business. It has signed some marquee customers, including the Internet service providers America Online Inc., NetZero Inc., and Juno Online Services Inc., which let people put monthly access charges on their phone bills.

PaymentOne has relationships with more than 1,400 local phone carriers in the country and can reach roughly 92% of U.S. households, an executive said.

“This is one of the fastest-growing payment options we’re seeing on the Internet today,” said Don Teague, the vice president for sales and marketing at the private San Jose company. It was spun off from Integretel, a telecommunications billing processor, in 2000, and changed its name from eBillit to PaymentOne last year.

PaymentOne has processed \$420 million of Internet transactions over its lifetime, and revenues in its most recent fiscal year, which ended June 30, nearly doubled from the year before, to \$27 million, he said.

It sees itself as a billing outsourcer, and it processes traditional payments, including credit card and automated clearing house transactions, as well as preparing paper invoices for merchants. However, Mr. Teague said its specialty is its PhoneBill service.

When customers want to charge a product or service to a phone bill, PaymentOne uses its internal database of individuals’ past bill-paying behavior to make a credit decision, he said. “We treat the phone number like a credit card number.”

Putting transactions on the phone bill allows the service to reach customers without credit cards, and it is one of the reasons PaymentOne has proven popular with Internet service providers.

James Van Dyke, the founder and principal of the Pleasanton, Calif., consulting firm Javelin Strategies and Research, said that people without credit cards are a large market that the ISPs previously could not reach.

“People without cards, or even a bank account, will quite often have a phone,” he said. “Merchants are doing this in order to get to markets where they don’t have access today.”

The service may also be popular with people who are reluctant to use their cards on the Internet, Mr. Van Dyke said. “There are millions of people who have never used the Internet (for shopping) because of fear.”

# AMERICAN BANKER ONLINE

According to Mr. Teague, routing transactions through a phone number is very secure. Before it approves a purchase, PaymentOne puts a call to the number for verification purposes and tapes the customer's verbal authorization, which proves that the individual uses the line. If a customer later tries to dispute charges, call center employees will play the recording; as a result, the company has had no valid charges successfully disputed, he said.

"The phone bill stacks up pretty high on the list of things that have to get paid," he said.

One drawback for the merchant: Charging payments to a phone bill is more expensive than taking a credit card or a direct debit, because both PaymentOne and the local phone company charge a fee. The difference is fairly substantial, but Mr. Teague said it is often offset by a company's ability to reach new customers.

"All of our customers see a significant lift in revenue," with some reporting gains of 25% to 40%, he said.

NetLoveMatch.com, a new PaymentOne customer, is hoping for such an outcome. The Hoboken, N.J., company, which operates 10 online dating sites that target different ethnic, religious, and geographic groups, expects to have the PhoneBill payment option up and running by next week.

"This could double or triple my business if people start to use this," said Jubin Pejman, the president NetLoveMatch.com. "It is more expensive using the phone bill, but I really don't care."

Card companies typically charge his company about 2.6% of each transaction, while PaymentOne's service costs in the 4.6% to 6.6% range, Mr. Pejman said. But more important to him is the chance to reach out to people who don't have bank accounts or credit cards, and to eliminate the disputes that he regularly sees with cards.

Many people grow frustrated if their online personal ads do not lead to dates, and they later dispute the charges on their credit card bills, he said. While most such disputes are eventually resolved in his favor, the process can take months.

The PaymentOne service, which will eliminate this headache, is a big improvement, Mr. Pejman said. "This is the best payment option that's being used on the Internet."

For instance, one of his Web sites, PersianConnection.com, which has 20,000 subscribers, attracts a number of people who live in Iran. Credit cards are not exactly prevalent there, Mr. Pejman said, nor are e-checks -- electronic debits from checking accounts.

Customers can post and view profiles for free, but they must pay a fee to send or receive messages from potential dates. Since many of his customers, both here and abroad, do not have access to credit cards or e-checks, he is not getting any revenue from them, he said.

"If the only acceptable way for people to pay me is with a credit card or an e-check, then I'm going to lose business," Mr. Pejman said.