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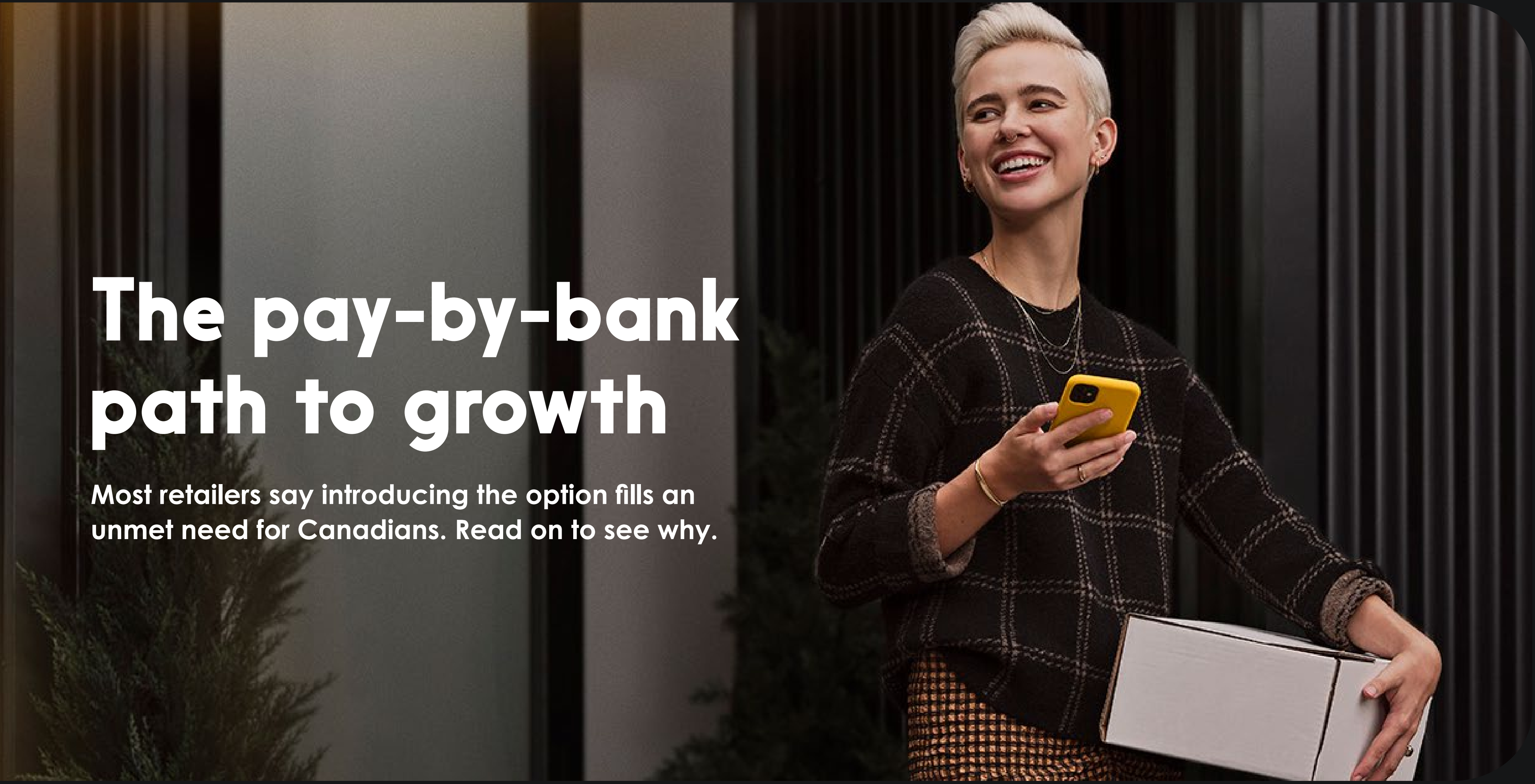


The pay-by-bank path to growth

Most retailers say introducing the option fills an unmet need for Canadians. Read on to see why.

RCC RETAIL COUNCIL OF CANADA | Interac

Executive summary

Financially stretched consumers, rising overhead costs and general uncertainty in the economy continue to drive retailers in Canada to prioritize smarter investments in their businesses, particularly in e-Commerce payments.

A new survey commissioned by Interac Corp. (Interac) and the Retail Council of Canada, which polled the council's members, found most retailers have increased e-Commerce investments over the past two years, yet one-third acknowledge their digital payment solutions fall short of customer needs.

While online retail continues to create opportunities for retailers, customers also have more choice than ever before. Online shoppers expect to have options at their fingertips, all backed by data security standards that they can trust.

Added to that challenge, Canadians across both sides of the checkout are facing new financial realities. Retailers are experiencing cost pressures with materials, supply chains and labour, while average households are feeling the effects of inflation and affordability challenges.

As this report reveals, retailers in Canada remain focused on how investments in their e-Commerce experiences will stand up to these challenges. They need to not only deliver on a seamless checkout experience with rising demands of customer choice and control, but help to address their own cost challenges, including payment acceptance costs.

The growing demand for seamless and secure payment experiences has led merchants to recognize the increased need for pay-by-bank (also known as account-based payments, or ABP). This payment method provides an opportunity to enhance efficiency and boost customer satisfaction, while controlling acceptance costs to help drive better business outcomes in an increasingly competitive market.

Key findings

70% of retailers say that pay-by-bank fulfills an unmet need for Canadian consumers.

80% feel offering both card-based payments and pay-by-bank provides consumers with a better customer experience.

33% say that their current digital payment solutions may not perfectly meet their customer needs.

69% feel improving digital payment solutions will lead to better outcomes both for customers and the overall business.

59% say their investment in e-Commerce capabilities has increased.

Pay-by-bank, explained

Most online payments in Canada today are made using credit or cards from credit card providers – these are “card-based payments.”

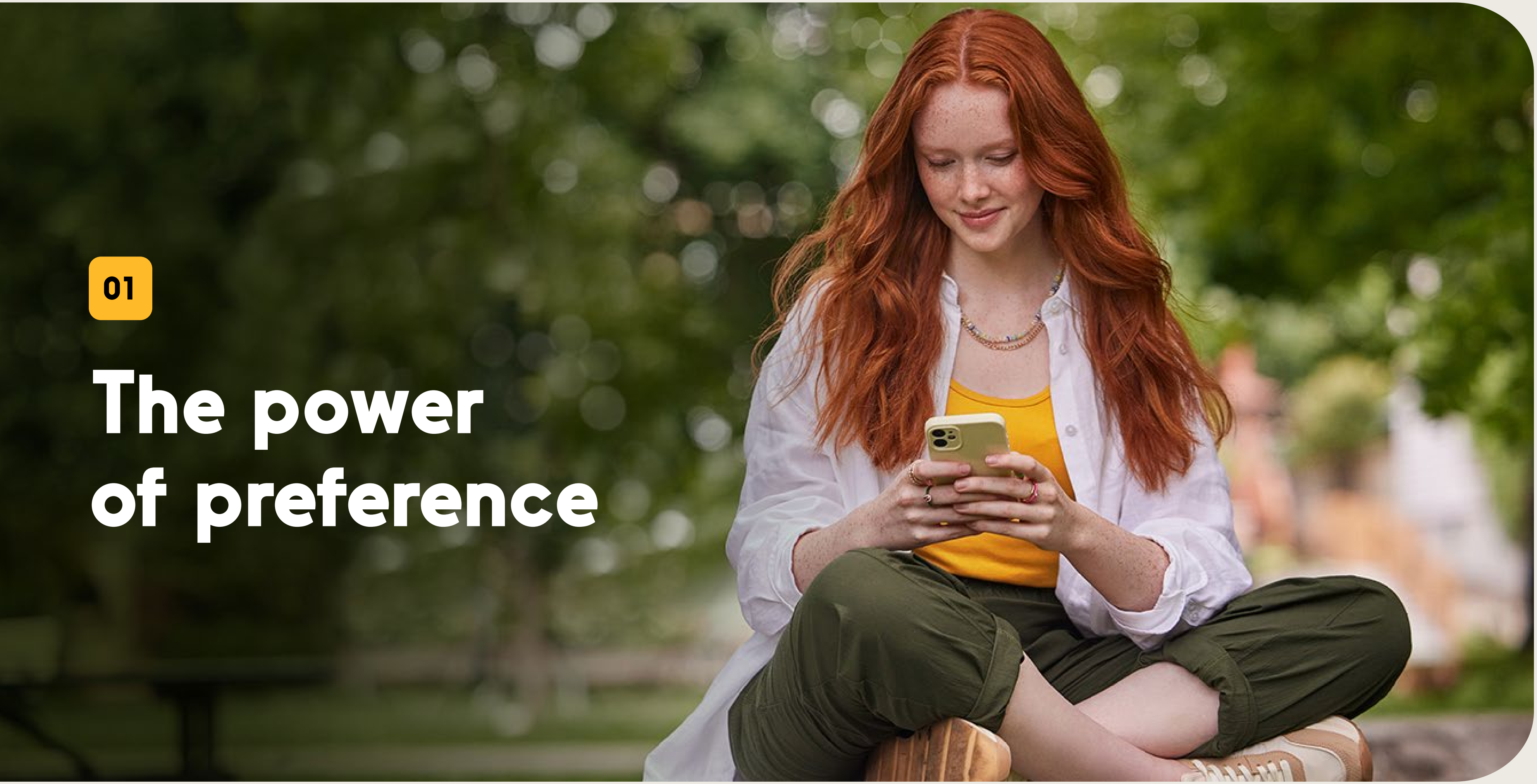
Online shoppers in Canada currently have limited options from which to choose within a single online checkout experience. This is where pay-by-bank comes in.

Pay-by-bank allows shoppers to use their secure online banking credentials – from their financial institution, without creating a new password – then directly pay from their chosen available account, such as a chequing or savings account or line of credit. Without the need to have a physical card, plus the flexibility of being able to choose from which account to pay, offers users better control over their finances.

Upcoming pay-by-bank solutions made in Canada, for Canadian consumers, will be unique additions to the online payments landscape, offering benefits to both merchants and shoppers. Not only will this offer Canadian consumers a new way to choose how to securely pay, but it can also reduce payment acceptance costs for merchants.

01

The power of preference



Canada's retailers can tell you that the fight for business growth is no longer only about superior products, but the simplicity of the customer experience. And the battleground is increasingly online.

Part of delivering on that experience means providing consumers with choice in payment options – and it's a choice they want to have. Four in 10 respondents say they would be more influenced to make a purchase at a particular retailer if multiple payment options are provided, according to consumer research from Canada Post.[1] Without having their preferred payment choice, up to 55 per cent of consumers will abandon their purchase.[2]

> **I feel with the world we live in today, options need to be available to consumers. We have become so accustomed to what we want, when we want it that if a preferred payment option is not available, consumers would rather move on to a platform that can accept it than change their payment method.**
>
> **- RCC member** survey respondent

Consumers also want the ability to pay using alternatives to credit cards, whether in person or making online or mobile transactions. Further consumer research from Interac has found that 63 per cent of all Canadians – and 70 per cent of Millennials – believe they should have the option to use their debit card when checking out online, making a purchase in-app, or paying in-store.[3]

Unfortunately, despite debit card payments being near ubiquitous in the brick-and-mortar world, consumers don't always have the choice to pay directly from their bank accounts online.

This limitation has a direct impact on retailers serving Canadian shoppers who are looking to control their spending by relying less on credit, as well as those who may not have ready access to credit cards at all, such as newcomers.

"Along with choice, a convenient user experience is also essential to any new payment option," says Paul Simmonds, founder and president of Atlantic Canadian fashion brand Rxobert Simmonds. "Customers in today's world have finite attention spans, so if things don't fall into place easily, I would say that's a pain point."

1 in 3

RCC members surveyed[4] say their current digital payment solutions may not perfectly meet their customer needs **and 37% say improving payments is a priority.**

[1] Phase 5 (2022). Canadian Online Shopper Study. Conducted on behalf of Canada Post.
[2] Adyen (2023). Retail Report 2023.
[3] Interac mid-sized debit survey (2024)

[4] Interac and Retail Council of Canada member survey (October 2024)

02

The pay-by-bank opportunity

Some retailers recognize that their payment options may be falling short. About a third (33 per cent) of the RCC members surveyed say that their current digital payment solutions may not perfectly meet their customer needs.

So, they're responding by bridging gaps in the online customer experience, specifically with payments. Among those surveyed, 37 per cent say improving payments is a priority for their business.

59% of retailers say their investment in e-Commerce capabilities has increased

69% say improving digital payment solutions will lead to better business outcomes

With this in mind, these retailers see opportunity in adopting pay-by-bank in Canada – an option available in some European countries, India and Brazil, to name a few.

Among those retailers surveyed, 70 per cent agree that having pay-by-bank fulfills an unmet need for consumers in Canada. The same percentage say pay-by-bank should always be an option when checking out online, noting that providing this option will lead to better business outcomes, including potentially fewer abandoned carts and gaining new customers.

In fact, a recent survey from Payments Canada found close to a third (29 per cent) of Canadians find pay-by-bank appealing, namely because of the security of not having to enter account information on a merchant website. Newcomers and gig workers were even more likely to find it appealing, at 53 per cent and 47 per cent respectively. As pay-by-bank options are introduced in Canada, the appeal may grow with them.[5]

That may be why most retailers surveyed by Interac and RCC (80 per cent) also feel that offering both card-based payments and pay-by-bank provides consumers with a better customer experience and 80 per cent say it will attract a broader customer base.

70% of retailers agree that pay-by-bank fulfils an unmet need for shoppers in Canada.

Most retailers surveyed likely recognize the potential impact to their margins, with 83 per cent agreeing it's important for consumers to be able to choose their preferred payment method when shopping online.

Among those surveyed, 69 per cent feel improving digital payment solutions specifically will lead to better outcomes both for customers and the overall business, such as increased sales, fewer abandoned carts and access to a wider customer base. More than half (57 per cent) of those surveyed expect that it would lead to happier customers.

[5] Payments Canada (February 2025) https://www.payments.ca/canadians-have-polarizing-views-evolving-payment-innovations-security-concerns-being-top-mind

03

Retailers maintain an appetite for e-Commerce

Beyond just payments, most retailers that participated in the survey continue to see the value of e-Commerce, enough to keep improving upon what they currently offer. Specifically, 59 per cent of RCC members surveyed say their organization's investments in e-Commerce capabilities have increased over the past two years.

Customer experience and, in turn, business results, are driving that appetite to invest. The e-Commerce acceleration retailers experienced over the past few years has now reached a steady cadence, with online sales remaining relatively stable in Canada.[6] There is also potential for an upswing in line with generational shifts. Younger, more digitally savvy and on-the-go consumers increasingly turn to online shopping,[7] and many consumers expect a unified shopping experience across channels and touchpoints – from point-of-sale in brick-and-mortar stores to seamless online checkout.

[6] Insider Intelligence / eMarketer (2023). *Canada Ecommerce Forecast 2023.*

[7] Statistics Canada (April 2022). *A generational portrait of Canada's aging population from the 2021 Census,* https://www12.statcan.gc.ca/census-recensement/2021/as-sa/98-200-x/2021003/98-200-x2021003-eng.cfm.

Benefits of pay-by-bank

TRUST AND SECURITY

For consumers, signing in with their online banking credentials, without the need for a new password, reduces security risks because the data stays with your bank. For example, using tokenization to replace account details with random numbers and using the financial institution's trusted and secure authentication and payment consent protocols helps protect user data.

CUSTOMER CHOICE AND HELP TO CONTROL FINANCES

Pay-by-bank can offer consumers the choice to pay from their eligible accounts such as chequing, savings or line of credit. Depending on the solution, users could set up pre-authorized, recurring payments, or split payments to only pay when an item ships. They also have assurance that when they make a return or a payment is reversed for an out-of-stock item, their money goes directly back to the account they used.

LOWER ACCEPTANCE COSTS

Card-based transactions typically come with higher acceptance costs for merchants. Pay-by-bank, on the other hand, can mean lower payment processing costs than card-based payments.

Retailers in Canada of all sizes have worked to meet the growing demand for online shopping and multi-channel shopping experiences. “During the pandemic, our e-Commerce sales were incredibly high, but I would say that they have stabilized to a more normal level,” says Tracy Bayne, Payments and Checkout Leader at IKEA Canada. “Customers have , of course, come back into our locations, but what we’re also finding is that customers really do shop in a very omnichannel way. It’s still super important for customers to be able to test and try our products, but they might not actually complete a purchase right then.”

> **It’s worth noting that small and medium-sized businesses (SMBs) are also working to maintain an online presence. In the case of retailer Robert Simmonds, online sales grew 240 per cent during the pandemic and have continued to climb year-over-year since.**

Those results have come in part through a revamped website and making investments in online marketing. “Where we are investing is in getting more product up online and getting more marketing behind the product to follow the consumer,” Simmonds says.

Another recent RCC study suggests Robert Simmonds is not alone in prioritizing the online shopping experience.

41%

The study found that 41 per cent of SMB retailers use a web store (driving about 15 per cent of revenue).[8]

These retailers are also embracing online marketplaces and click-to-buy social to further drive sales, motivated by benefits like enhancing customer engagement and experience, broadening market reach and accessibility, strengthening their brand and trust, and realizing financial gains.

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[8] Retail Council of Canada “A Study of Sales Strategies and Challenges for Canada’s Retail SMBs” (October 2024)

04

New financial realities, new challenges

The challenge for retailers now is to maintain that momentum. With many Canadian consumers turning to buying locally, there's an opportunity for many retailers operating in Canada to attract new customers.

At the same time, Canadians are also feeling they have less to spend. Rising prices are impacting some Canadians' ability to meet day-to-day expenses, prompting some to cut discretionary spending.

Meanwhile, retailers are up against a fast-changing trade landscape, with tariffs between the United States and Canada having implications for retailers who import and export goods, as well as the general state of the economy, Canadian dollar and consumer spending power.

With all of that at play, the same retailers that have experienced climbing e-Commerce sales could soon reach a plateau, prompting some to seek solutions proactively.

"IKEA recently launched financing options for our customers, which is a new space for us," says Bayne. "This has been part of our roadmap for a while now, but certainly the affordability crisis that many Canadians find themselves in is also driving this. We wanted to make sure the finance solutions that we do offer our customers are in line with our culture and values as an organization."

It's clear improving the online customer experience to reduce cart abandonment and convert online sales needs to stay on retailers' agenda, while also ensuring any investments meet merchants' needs to control costs and maintain security.

> **Offering pay-by-bank empowers both retailers and consumers by providing greater flexibility, security and convenience. For retailers, it's a way to build loyalty and streamline transactions. For consumers, it means having more control over their shopping experience with access to a variety of payment options tailored to their needs.**
>
> **- Diane J. Brisebois,** president and CEO, Retail Council of Canada

05

Reducing costs and increasing security

Investing in driving the e-Commerce experience for customers forward is clearly top-of-mind for retailers. At the same time, they are relentlessly focused on controlling their own costs and ensuring the technology investments they do make can be integrated seamlessly and above all, meet their security needs.

"Payment processing is a pain point for us in that credit card fees are high and the potential for fraud is high, so to drive down costs would be helpful," Simmonds says. "Our goal is to lower the cost of payment processing. However, our goal is also to give the consumer multiple options, to ensure they have a selection of payment options to complete their transaction, as seamless as we can make it."

When it comes to introducing new payment options, 59 per cent of RCC member retailers surveyed say their most important consideration is whether a new solution could reduce costs compared to other payment methods, followed by 54 per cent who say it's important to save on card processing fees.

> **Especially during times that are financially challenging, Canadians need options to securely and seamlessly pay online, from the account of their choice. That flexibility should never come at the expense of security, both in terms of protecting consumer data and protecting retailers from fraud, and the high costs that can come with it.**
>
> **– Ted Bowman,** Chief Product Officer, Interac Corp.

On this front, offering a Canadian pay-by-bank solution can help bridge the gap between providing consumer choice and lowering merchant acceptance costs, compared to other card payment networks. The reduction of costly chargebacks, the security of tokenized transactions, real-time risk-based decisioning, fraud oversight and the financial institution's liability structure are other key benefits of offering a pay-by-bank solution. In the face of rising fraud and data breaches targeting both retailers and consumers, security is also a high priority for merchants.

"Fraud is always something we need to be aware of and try to minimize," says Bayne, noting IKEA has invested in building its own online fraud department.

Simmonds adds that solutions to mitigate payments fraud would also give him more confidence to expand his e-Commerce business outside of North America. "As a small business owner, you wear many hats, so one less thing to worry about is beneficial."

54% While most RCC members surveyed (54 per cent) say **any new solution must be secure**

43% 43 per cent admit **ensuring a new solution meets security standards can be a challenge.**[9]

The benefit of this can't be understated, given about four in five Canadian consumers say protection of their personal data is the top factor influencing their trust in a retail brand.[10] As retailers selling online compete to build trust and loyalty, a secure and trustworthy made-in-Canada payment option is a must.

As Canada's retail landscape evolves and new economic challenges emerge, merchants risk hitting a ceiling on their growth – or worse, experiencing declining sales. And while changing customer expectations heat up competition, they're also an opportunity. Strategic choices about where to invest in the e-Commerce experience can become the key retailers are looking for to unlock the cost savings, growth and loyalty they need to thrive in the years ahead.

[9] Interac and Retail Council of Canada member survey (October 2024)
[10] PwC "2024 Voice of the Consumer" https://www.pwc.com/ca/en/industries/consumer-markets/voice-of-the-consumer.html

ABOUT THE SURVEY

Data presented in this report comes from an online survey that was collaboratively developed by Retail Council of Canada, Interac Corp., and Hill & Knowlton. The online survey was shared by Retail Council of Canada to its members through personalized outreach. In total, the survey was completed by 34 respondents, with another 29 providing partial responses (n=64). Further, follow-up interviews with survey respondents generated further insights.

The survey was available online from October 16 to November 5, 2024.

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