COST CONCERNS HINDER MERCHANTS' PAY BY BANK ADOPTION — BUT CURRENT PAYMENTS COULD COST MORE

PYMNTS INTELLIGENCE | Trustly

October 2024
Merchant Report

COST CONCERNS HINDER MERCHANTS' PAY BY BANK ADOPTION — BUT CURRENT PAYMENTS COULD COST MORE

READ MORE

October 2024

What Consumers Need for Pay by Bank to Catch On

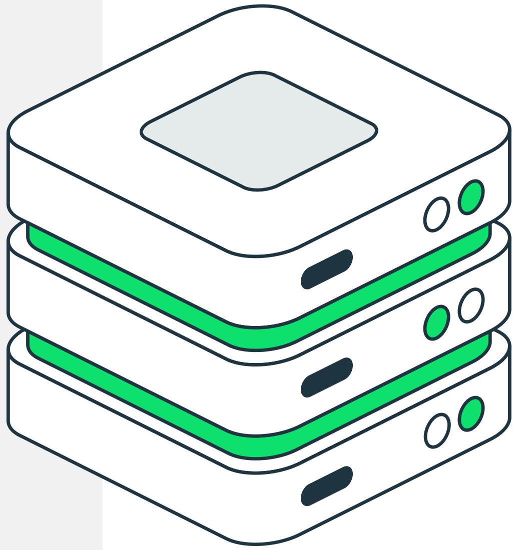
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More was produced in collaboration with Trustly, and PYMNTS Intelligence is grateful for the company's support and insight. PYMNTS Intelligence retains full editorial control over the following findings, methodology and data analysis.

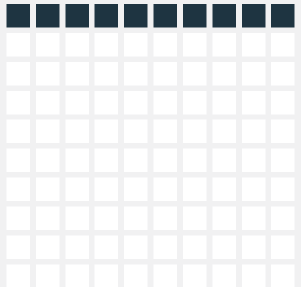
TABLE OF CONTENTS

WHAT'S **AT STAKE**

Pay by bank is a relatively new offering for many consumer-facing goods and service companies, including retail, grocery, betting, ridesharing, telecommunications, utilities and subscriptions. But those using it already see its advantages: lower cart abandonment, more funds and better data security. This is true even for most companies that have not yet adopted pay by bank but are interested in doing so. However, many of these companies say cost concerns stand in the way of adoption.

Despite concerns about the cost of implementation, pay by bank could be more cost effective than keeping up with companies' current methods, such as credit and debit cards. Some consumer-facing goods and service companies pay more than 10% of their revenue for their current payment methods. Companies are open to offering discounts and incentives to encourage pay by bank use, such as cash-back rewards and fraud protection. However, they are hesitant to provide the large discounts some consumers might need to change their current payment habits.





10%

Share of revenue some consumer companies **paid for their current payment methods**

These are some of the key findings explored in Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, a PYMNTS Intelligence and Trustly collaboration. This report examines merchants' awareness of and interest in using pay by bank payments. It also explores whether incentives — and which type — could drive adoption of this payment method. The report draws on insights from a survey of 40 U.S. consumer-facing goods and service companies that generate revenues of $100 million or more conducted from July 19 to July 30.

This is what we learned.

KEY **FINDINGS**

01

BETTER BENEFITS

The consumer-facing goods and service companies already using pay by bank are satisfied with it, understanding it offers key benefits, such as improved data protection for consumers.

5 in 5

Number of surveyed companies that offer pay by bank saying there is lower cart abandonment

02

COST CONCERNS

Companies that do not use pay by bank understand its advantages but are worried about the cost of implementation.

78%

Share of companies saying the potential cost of implementing pay by bank is a key concern for them

03

ECONOMICAL OPTION

Adopting pay by bank could be cheaper for companies than continuing to use their existing payment methods.

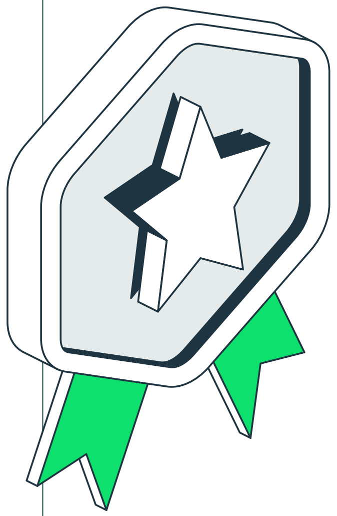
7%

Share of annual revenue that bigger companies pay for using existing payment methods, such as credit and debit cards

04

CONSUMER ATTRACTION

Consumers are attracted to pay by bank when offered discounts on purchases, and some companies are ready to offer them.



95%

Share of companies offering or interested in offering pay by bank that would incentivize consumers with cash-back rewards

THE FULL STORY

Although pay by bank's cost is a concern for companies, it could save them money compared to their current methods.

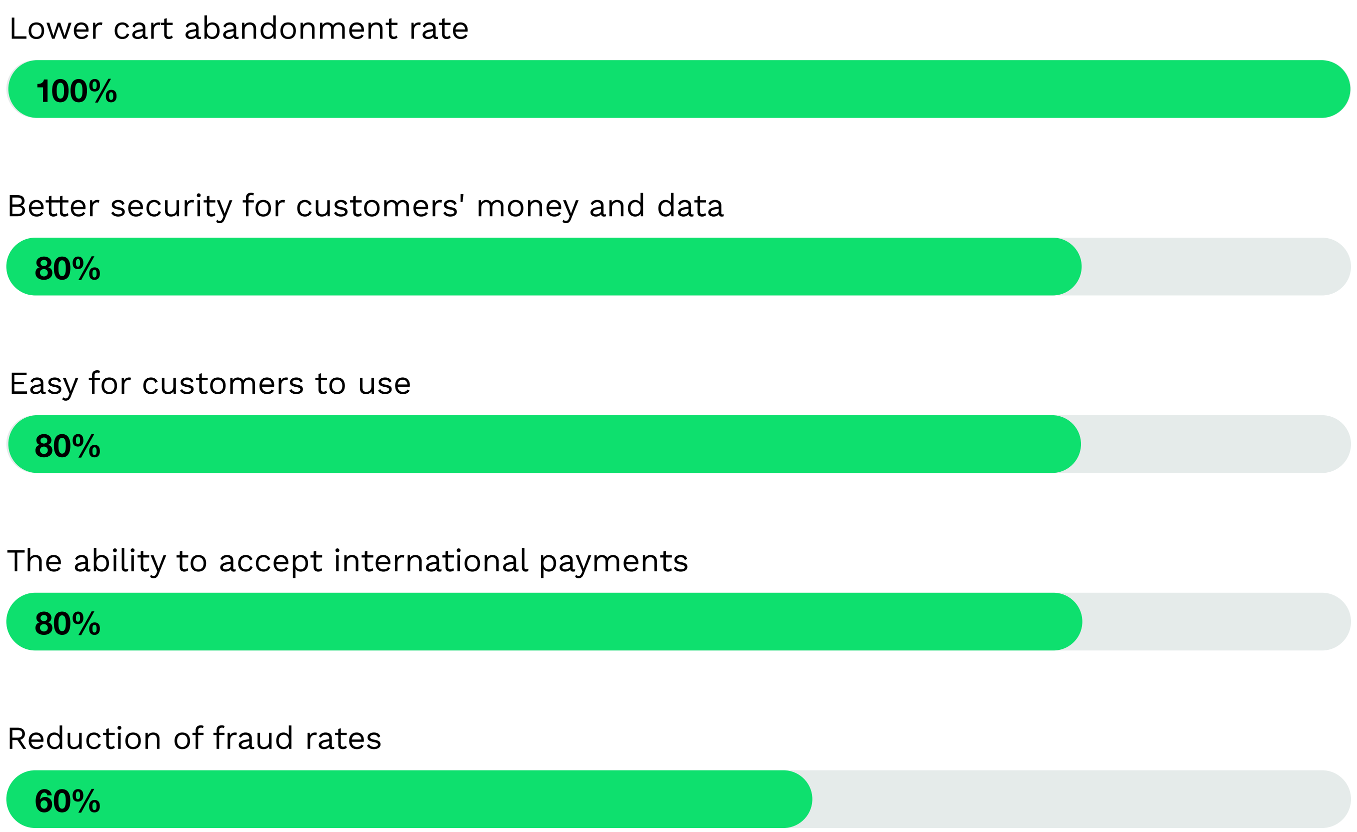
The consumer services companies that have already adopted pay by bank are very satisfied with it.

Consumer services companies using pay by bank — including retail, grocery, betting, ridesharing, telecommunications, utilities and subscriptions firms — are extremely satisfied with it. Among services companies generating revenues of $1 billion or more, 20% are using pay by bank. On average, just over 12% of all services companies analyzed use pay by bank.

Although adoption of pay by bank is nascent, the companies already using it report benefits for both consumers and their businesses. Some of these include lower cart abandonment, which all companies surveyed see as an advantage. Another is improved security for its customers, cited by 80%. Further, for consumers, pay by bank's ease of use is as commonly perceived as beneficial, as this was also noted by 80% of the companies. Consumer-facing goods and service companies' overall sentiment reflects what they agree on: Customers expect to continue using pay by bank in the future.

FIGURE 1:

Consumer-facing goods and service companies' benefits of offering pay by bank
Share of companies citing select benefits of offering pay by bank as a payment option



Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 5: Companies already using pay by bank, fielded July 19, 2024 – July 30, 2024

> **"Pay by bank promotes and facilitates a smooth transaction between both parties."**
>
> – Pay by bank user

Consumer-facing goods and service companies not using pay by bank are very interested in adopting it, but they face challenges with cost and implementation.

Almost all companies surveyed that do not currently use pay by bank say they are interested in adopting it, citing its competitive advantages. Gaining an edge by offering more secure transactions for consumers is a particular draw for 70% of companies interested in pay by bank. Almost all larger firms — those generating $1 billion or more in annual revenue — express interest in pay by bank. However, smaller firms are more skeptical about adopting it.

FIGURE 2:

Interest in offering customers pay by bank
Share of companies not currently offering pay by bank citing their level of interest in adopting it

Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 35: Firms that do not currently use pay by bank, fielded July 19, 2024 – July 30, 2024

Companies believe the main benefits they will obtain from adopting pay by bank are increased customer retention and reduced fraud-related costs. Among the companies interested in pay by bank, 95% say increased customer attraction and retention is an important benefit. The same share cited the importance in reducing fraud costs. Among those two benefits, businesses were more likely to cite customer attraction and retention as the most important benefit of offering pay by bank. Many of these companies are also looking out for their potential customers' best interests. For example, 73% view consumer ease of use as a key benefit of adopting pay by bank.

> **“Competing with existing payment methods is tough, and customers might prefer traditional methods.”**
>
> – Company interested in pay by bank

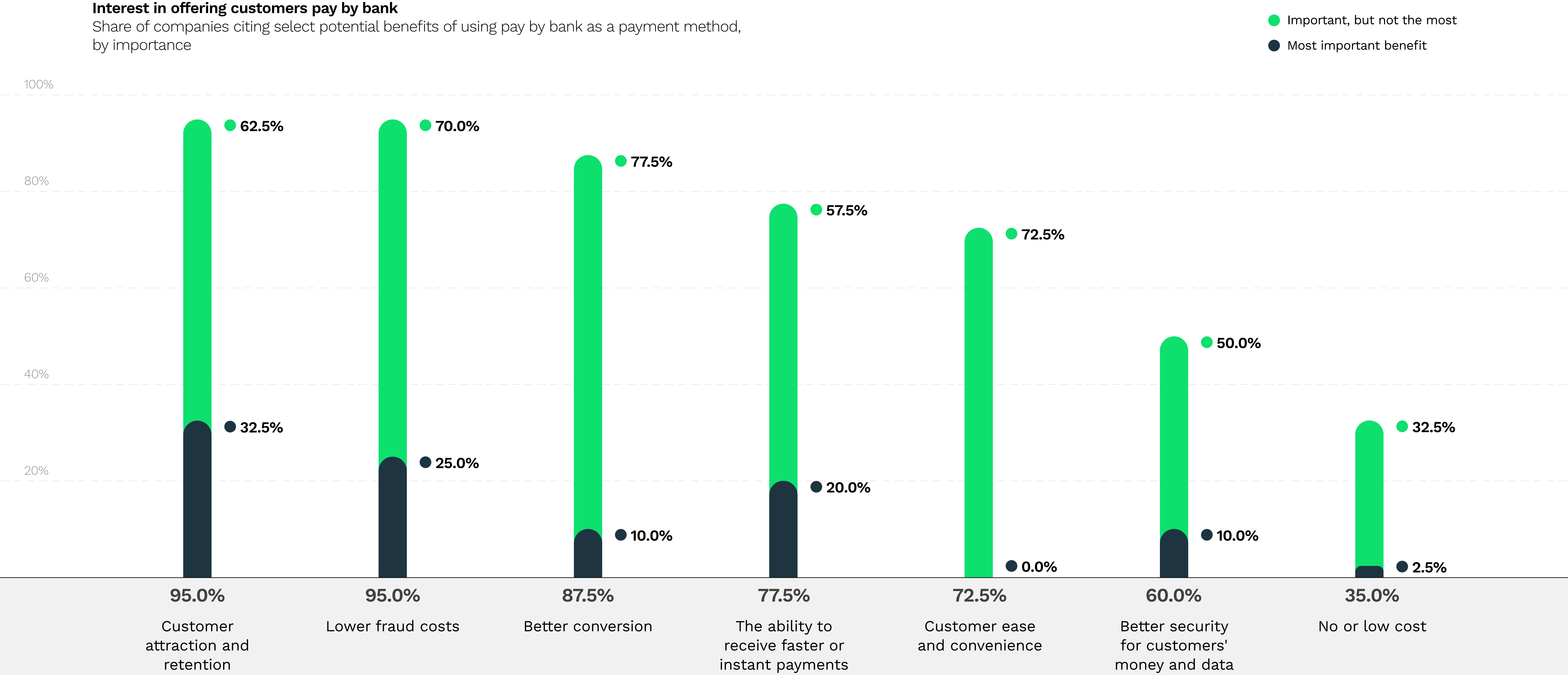
> **“The biggest advantage of pay by bank is a significant reduction in transaction fees compared to debit and credit card payments.”**
>
> – Company interested in pay by bank

While many companies agree there are substantial benefits to be gained from adopting pay by bank, they also express some concerns. A key one is cost — 78% of companies surveyed shared these concerns. Firms are additionally highly concerned about the difficulty involved in adopting pay by bank, expressed by 93% of those surveyed. Smooth pay by bank adoption also requires customers to trust it. As an interested company said, “It is a costly process to implement, and to make customers trust the process, again, is a difficult task.”

FIGURE 3:

Interest in offering customers pay by bank

Share of companies citing select potential benefits of using pay by bank as a payment method, by importance



Source: PYMNTS Intelligence
***Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More*, October 2024**
N = 40: Whole sample, fielded July 19, 2024 – July 30, 2024

Pay by bank could be cheaper for some companies to adopt than continuing to use their current payment methods.

Offering card payment options can be costly for many companies. On average, companies pay around 7% of their revenue to offer card payments to consumers when accounting for factors beyond just the interchange rate. Companies also need to pay for chargebacks, false positives and fraud losses, which adds up. Given these factors, companies end up paying between 4% and 10% of their revenue to offer card payments. The data suggests that companies' existing card payment options are costly.

FIGURE 4:

Costs of offering existing card payment methods
Share of companies reporting select costs associated with offering card payments, by demographic

	Interchange rate	Chargeback rate	False positive rate	Fraud losses rate	**Total**
Sample	**2.8%**	**0.9%**	**2.4%**	**1.1%**	**7.2%**
Revenue					
• $100M-$1B	2.8%	0.9%	1.8%	0.8%	**6.3%**
• More than $1B	2.9%	0.9%	3.0%	1.3%	**8.1%**
Card cost persona					
• Low cost	2.1%	0.6%	1.0%	0.3%	**4.0%**
• Mid cost	2.7%	0.8%	2.2%	0.7%	**6.3%**
• High cost	3.5%	1.2%	3.6%	1.9%	**10.2%**

Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 40: Whole sample, fielded July 19, 2024 – July 30, 2024

We find that companies that have not adopted pay by bank have some concerns about the potential cost of doing so. However, considering a hypothetical scenario in which all credit card users would switch to pay by bank shows that some consumer services companies could save significant amounts of money by doing so. If a business could convince all consumers to switch to pay by bank, it could provide them a discount of up to 8% while paying less than their current credit payment options. While it may be a stretch to assume that every credit card user would switch to pay by bank, this shows that for every small percentage of credit users who switch to pay by bank, money will be saved. For instance, a company generating $1 billion in revenue offering pay by bank with a 5% discount to consumers could result in $12.4 million in savings compared to card offerings if all consumers switched. Even if only a small portion switched, millions could still be saved.

> **"Offering multiple payment options will boost our sales."**
>
> – Company interested in pay by bank

> **"[Pay by bank] will simplify the customer payment process and help reduce transaction fees for our business."**
>
> – Company interested in pay by bank

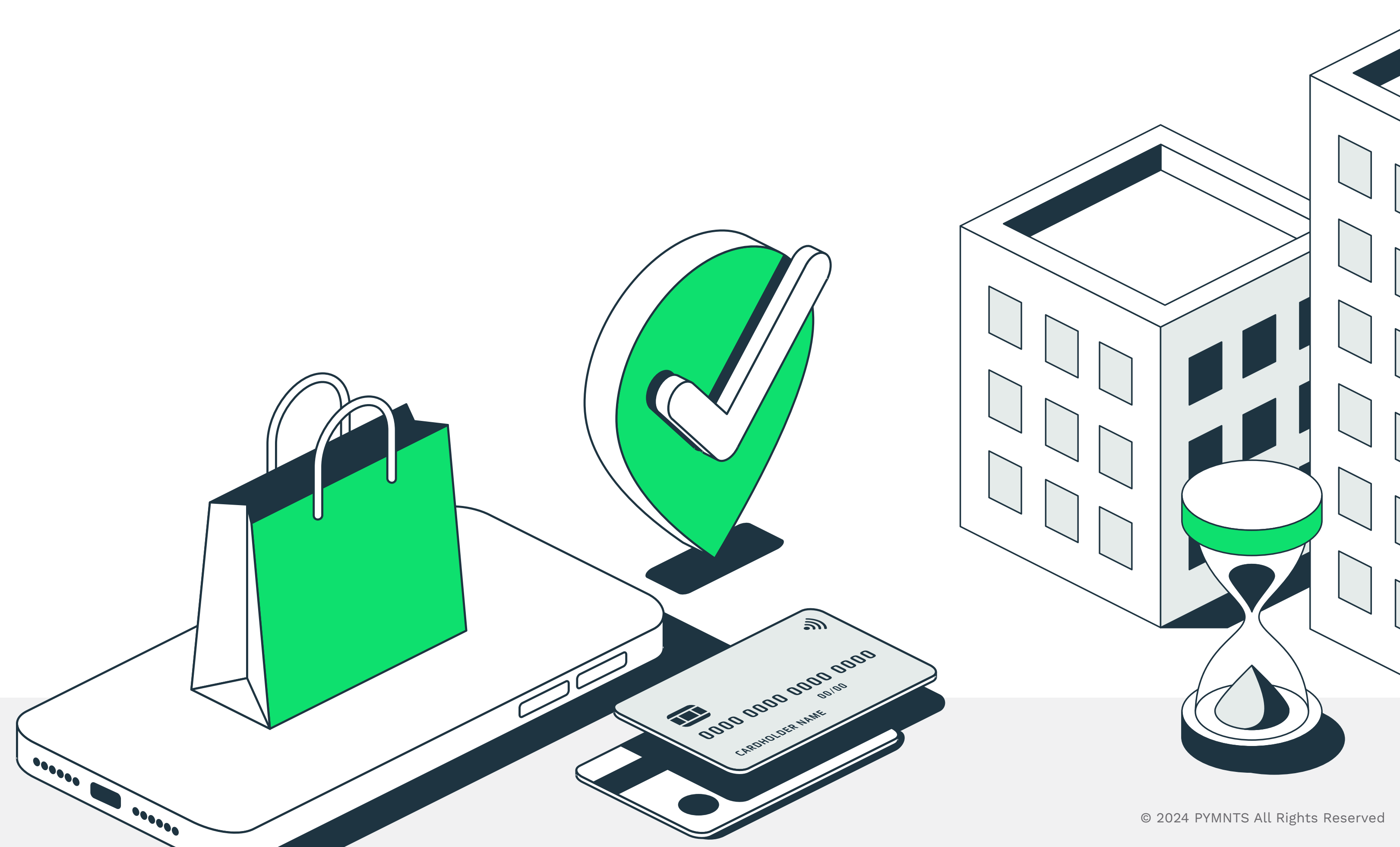
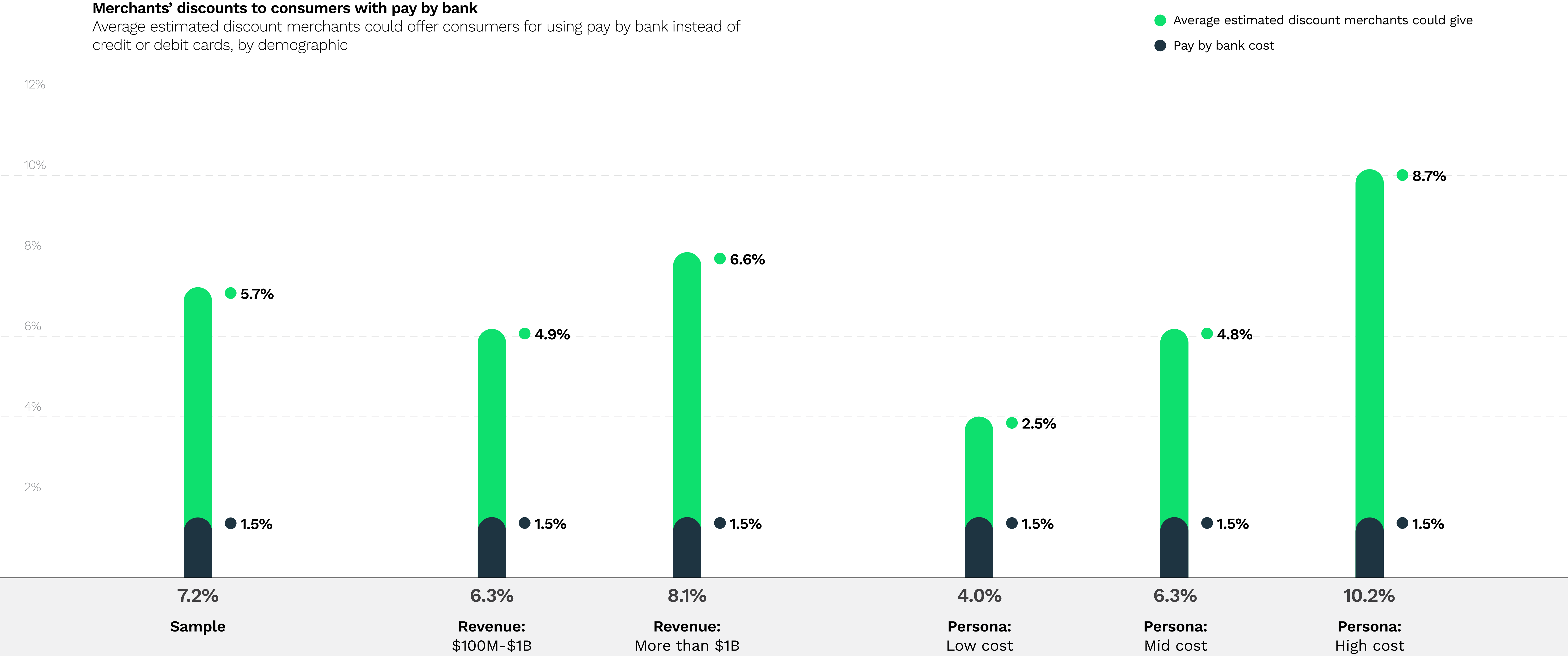


FIGURE 5:

Merchants' discounts to consumers with pay by bank

Average estimated discount merchants could offer consumers for using pay by bank instead of credit or debit cards, by demographic



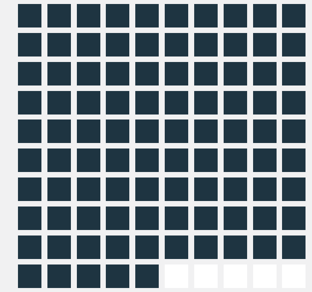
Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 40: Whole sample, fielded July 19, 2024 – July 30, 2024

Some companies say they are willing to offer incentives that align with what consumers want, but others are more hesitant to give such discounts to consumers.

Most consumer-facing goods and service companies that offer or are interested in offering pay by bank would be willing to incentivize consumers with discounts or cash-back rewards. We find that 95% of companies would offer cash-back incentives while 68% would offer a purchase price discount. These companies report being the most comfortable offering about a 2% discount. That is roughly the size needed to convince interested consumers to use pay by bank in non-retail sectors such as betting and ridesharing.[1] Companies are also open to offering fraud protection, with 79% offering or willing to offer this to consumers who use pay by bank. This demonstrates that some companies in non-retail sectors are ready to offer a discount for pay by bank that is in line with what consumers want. Such an offering could potentially capitalize on consumer interest.

[1] For more, see the consumer report from this series.

95%



of consumer-facing companies would offer **cash-back rewards** as an incentive.

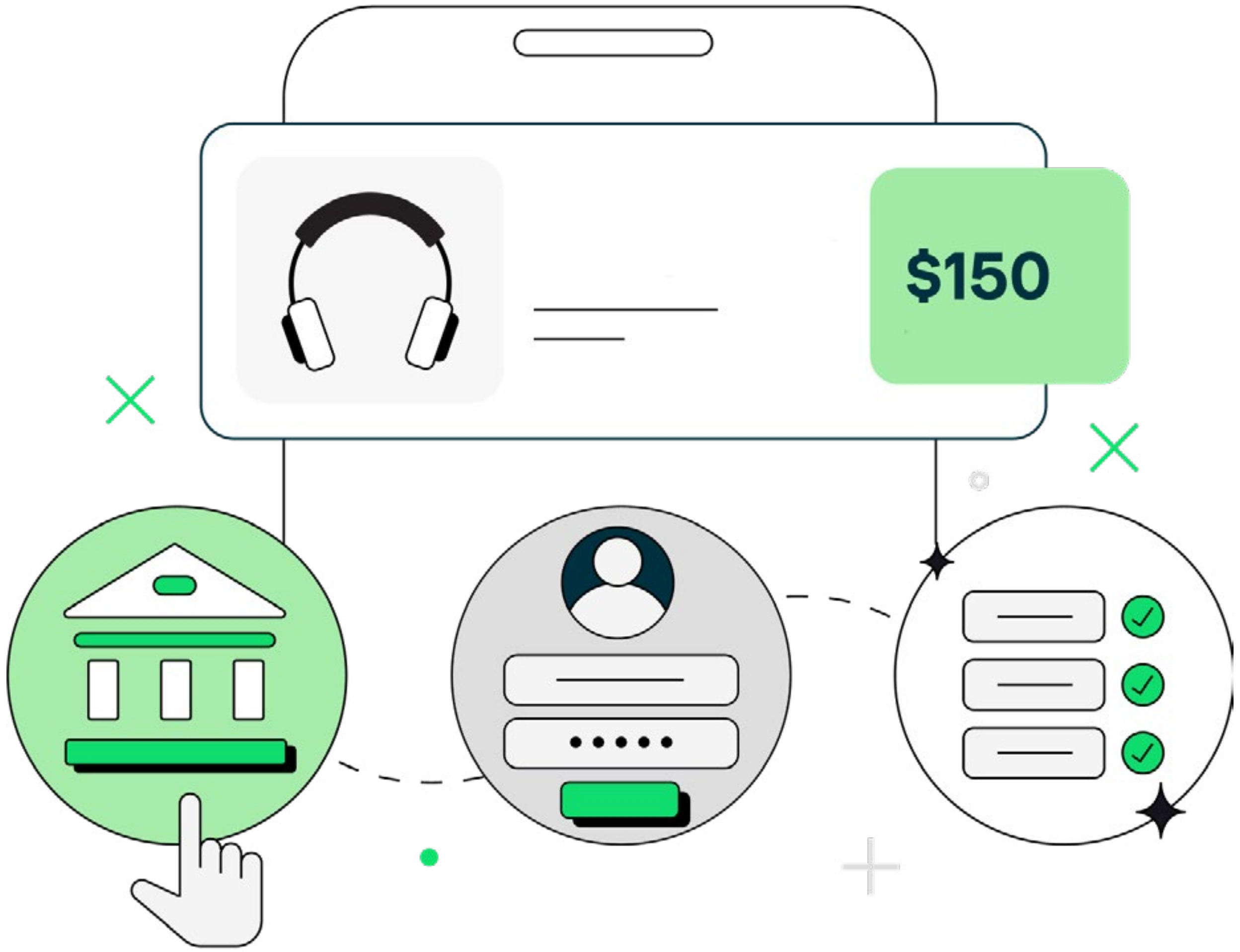
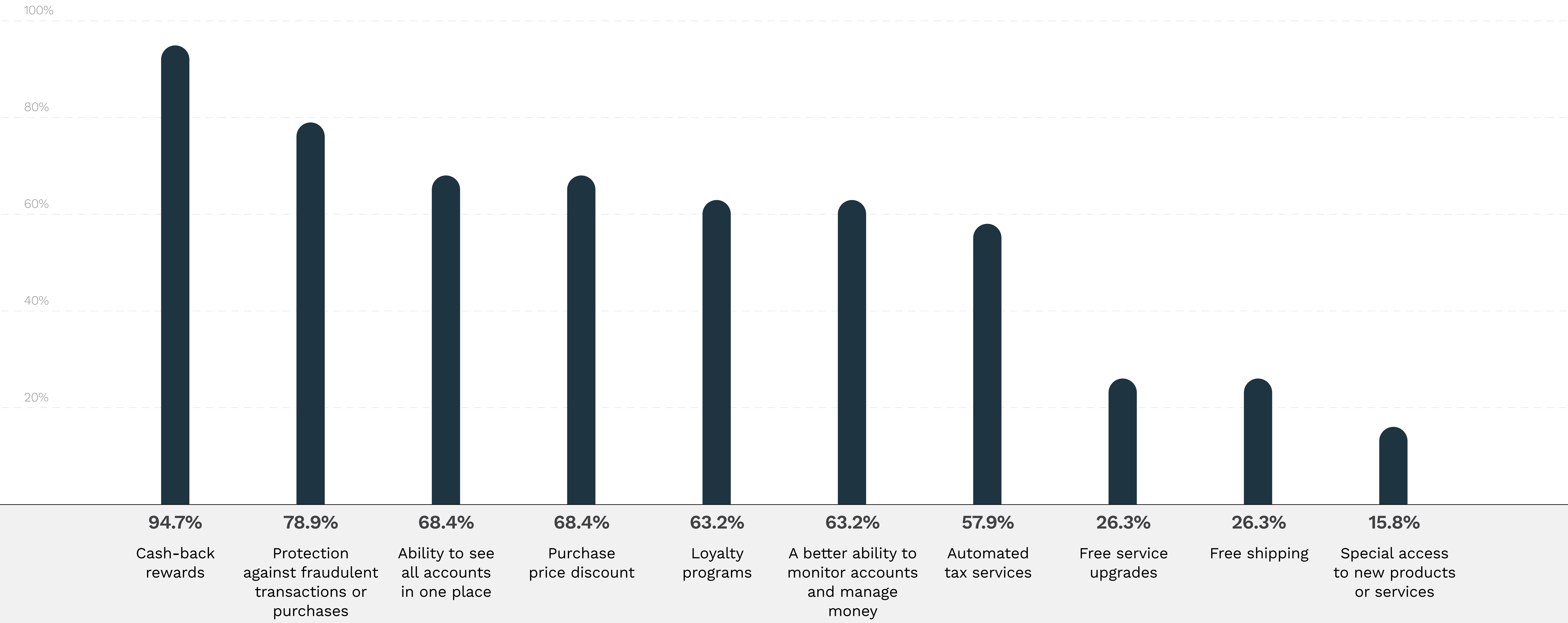


FIGURE 6:

Incentives on the table

Share of companies currently offering or willing to offer select incentives to consumers for using pay by bank

Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 40: Whole sample, fielded July 19, 2024 – July 30, 2024

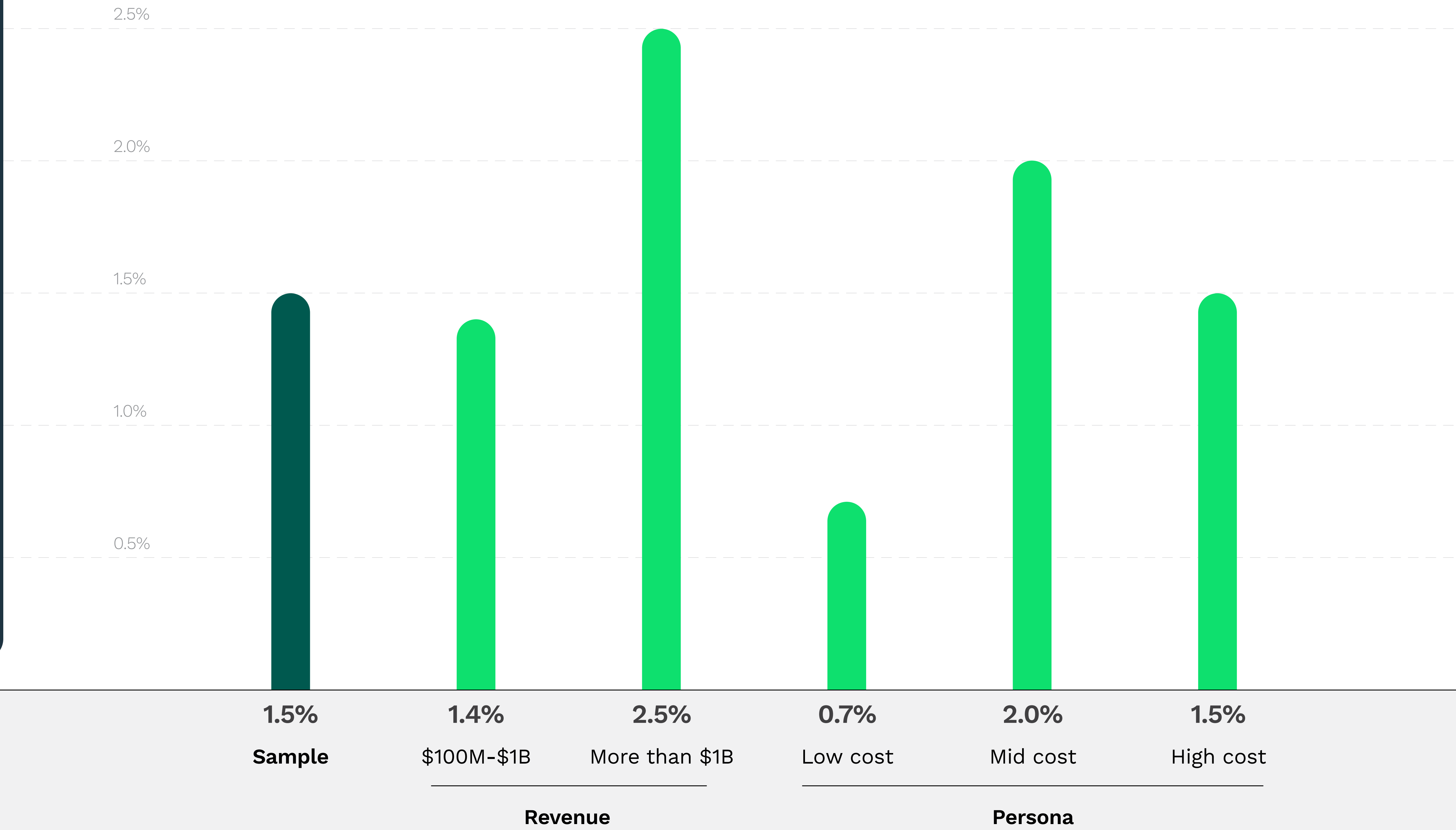


The most common incentives companies would offer — cash-back rewards and fraud protection — show they are in line with consumers' needs. Among companies that are interested in beginning to offer pay by bank, they would be willing to provide 1.5% to 2% discounts to consumers. The savings could be significant. For companies generating $1 billion or more in annual revenue, having all customers adopt pay by bank would amount to $36.4 million in savings annually compared to their current payment methods.

FIGURE 7:

Discounts offered to consumers
Average discount merchants are willing to give consumers for using pay by bank instead of card payments, by revenue and card persona

Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 32: Firms currently not using pay by bank but willing to offer it, fielded July 19, 2024 – July 30, 2024



DATA FOCUS

Loyalty programs can be an extra draw for potential pay by bank customers.

Loyalty programs could offer a cheaper alternative incentive from companies reluctant to offer discounts or cash back for pay by bank use.

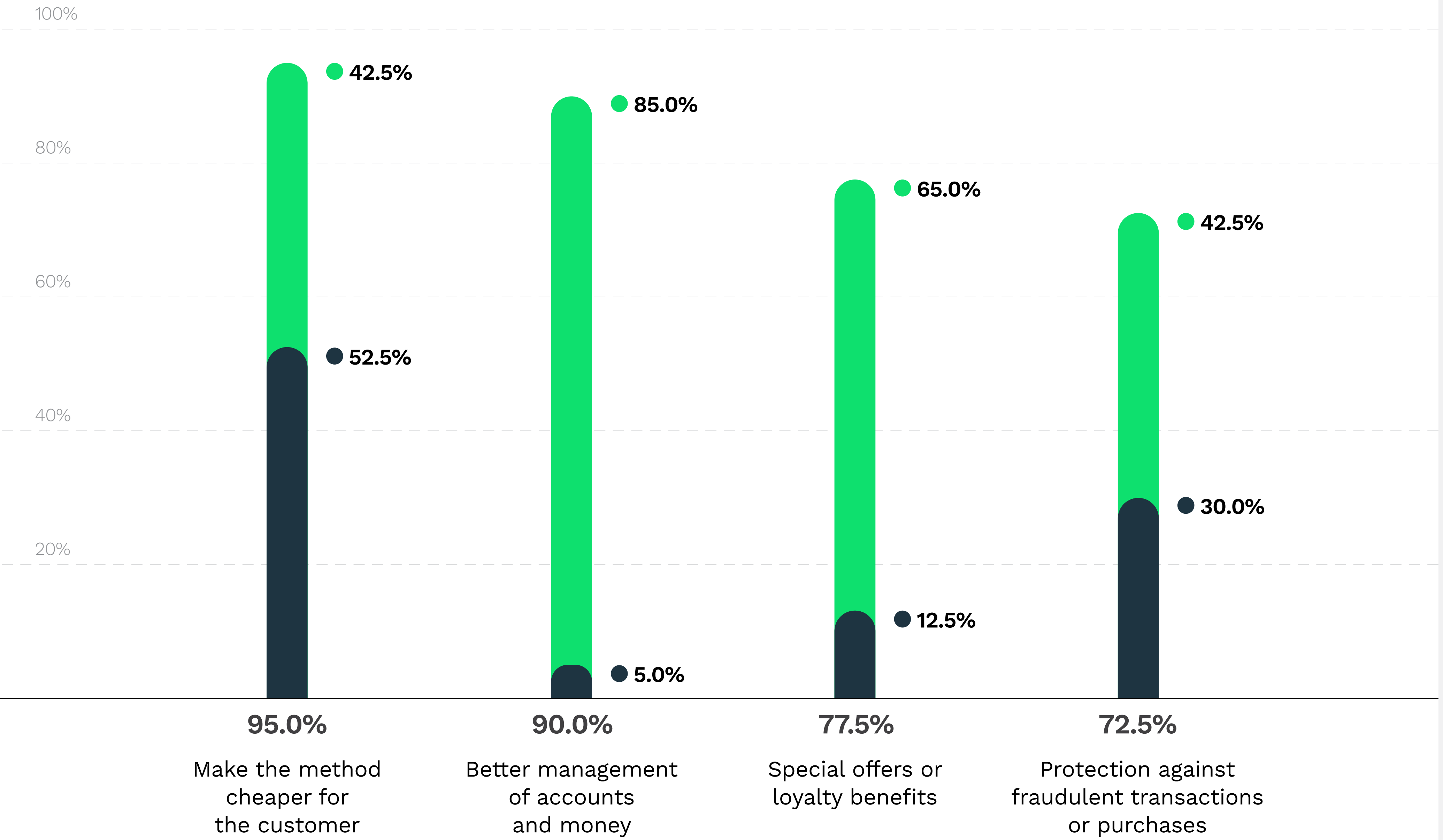
Companies that do not want to offer discounts or cash back could potentially offer loyalty programs instead. Consumer services companies tend to underestimate the efficacy of these programs and their potential to attract customers. Among these companies, only 13% think of loyalty programs as the most important benefit to offer. Meanwhile, 54% of consumers say offering a loyalty program would be impact their decision to use pay by bank.[2] In fact, loyalty programs come in as the second-most important incentive for consumers, following cash back and discounts.

[2] For more, see the consumer report from this series.

FIGURE 8:

Attractive incentives

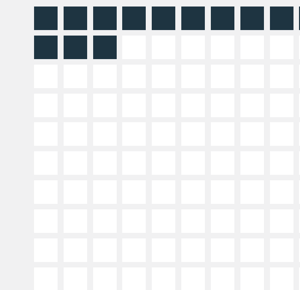
Share of companies citing incentives they think would encourage consumers to use pay by bank, by importance



Source: PYMNTS Intelligence
Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, October 2024
N = 40: Whole sample, fielded July 19, 2024 – July 30, 2024

Only

13%



of companies consider **loyalty programs** the most important benefit to offer.

ACTIONABLE INSIGHTS

01

For companies that already use pay by bank, its benefits for consumers and merchants alike are evident. Consumer-facing goods and service companies still considering implementing pay by bank could be drawn in by understanding the advantages other companies using it experience. These include better data protection and security for consumers and lower transaction fees, among others.

03

Businesses concerned about the cost of adopting pay by bank are too focused on short-term concerns. Many consumer-facing goods and service companies would end up with larger savings by offering pay by bank instead of their existing card payment methods. Implementing pay by bank involves costs in the short term, but ones that will pay for themselves in the future.

02

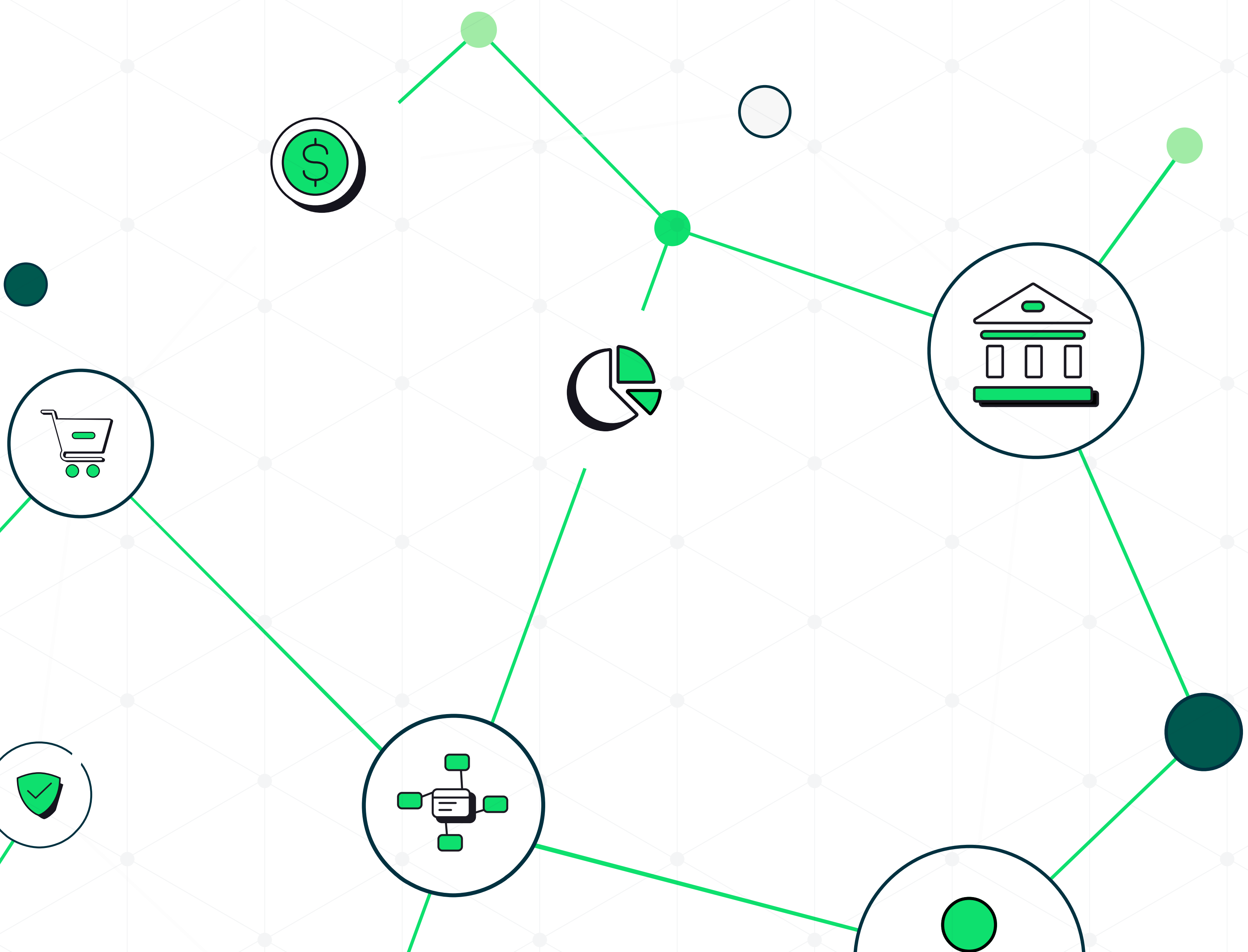
Most consumer-facing goods and service companies understand that pay by bank offers a promising future. However, they may be reluctant to implement pay by bank due to concerns about its cost and difficulty of implementing a new payment option. Addressing these concerns upfront with a clear implementation strategy could be key to getting companies' buy-in.

04

Consumer-facing goods and service companies are willing to offer consumers incentives ranging from cash-back rewards to fraud protection. Particularly for retail companies, offering substantial discounts will draw in some consumers to pay by bank. For other companies, smaller rewards and loyalty programs can be a draw. Companies are likely to save with pay by bank anyway, so it may be worth it to also offer consumers bigger discounts.

COST CONCERNS HINDER MERCHANTS' PAY BY BANK ADOPTION — BUT CURRENT PAYMENTS COULD COST MORE

PYMNTS INTELLIGENCE | Trustly



METHODOLOGY

Cost Concerns Hinder Merchants' Pay by Bank Adoption — But Current Payments Could Cost More, a PYMNTS Intelligence and Trustly collaboration, is based on a survey of 40 consumer services firms in the U.S. generating annual revenues of $100 million or more conducted from July 19 to July 30. The report examines the appeal of pay by bank and its incentives for merchants and consumers in the U.S. The sample was balanced based on census data, including demographics such as income, age and education.

THE PYMNTS INTELLIGENCE TEAM THAT PRODUCED THIS REPORT

Scott Murray
SVP and Head of Analytics

Lauren Chojnacki, PhD
Senior Analyst

Anna Sofia Martin
Senior Writer

ABOUT

PYMNTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

Trustly

Trustly was launched in 2008 and has grown rapidly over the past 16 years to become a global leader in open banking payment solutions. With a mission to make online payments as seamless as possible, Trustly offers an innovative payment platform, bridging the gap between consumers and merchants. Its technology ensures that transactions are processed in real-time, providing both speed and security for all parties involved.

Trustly's dedication to revolutionizing the payments industry is reflected in its partnerships with major brands such as PayPal, eBay and Hargreaves Lansdown in Europe and FanDuel, T-Mobile and Coinbase in North America. To date, Trustly has transformed the performance and experience of payments for over 9,000 merchants in 30+ markets, connecting them to 650+ million consumers through 12,000 banks. Read more at us.trustly.com.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.