



Pay by Bank Set To Compete With Credit Cards

payments competition

Summary: Pay by bank, a service that allows consumers to log into their bank accounts during an online purchase rather than entering a credit card, will debut as a new efficient payment method this year at online US retailers. While the service is more secure and eliminates the need for retailers to store consumer credit card data, it also means no fee revenue for credit card issuers.

Although the concept of credit has been in use since the beginning of civilization, from clay tablets to credit coins, the modern credit system [began in the 1910s](#), when Western Union created metal plates that select customers could use to defer payments on purchases. A few years later, oil companies and hotels were among the first to create credit cards. The first international modern credit card came in the form of a "Diner's Club" card in 1949, so that customers could pay for meals at restaurants with it in case they forgot their wallet at home or needed to pay later.

Credit cards are handy for their convenience in both the real and virtual worlds these days, but they come with two big problems: fraud, which is an ongoing issue, and card processing fees, which merchants don't enjoy.

An alternative to credit cards called "pay by bank" will likely gain traction with merchants and consumers this year. The initiative is headed by Bank of America, and it involves an option at merchant websites during checkout for consumers to log in to their bank account and make their payment directly through their bank account before returning to the merchant site to finish the purchase. The experience for the consumer would be similar to using a P2P payment service at checkout, such as PayPal. Pay-by-bank transactions are enabled by API connections from specialized payment companies like Catch, GoCardless, and Trustly.

No Need To Pay Card Processing Fees

Once a customer initiates a transaction with the "account-to-account payments" or "bank-based payments" option, pay by bank uses the Automated Clearing House (ACH) system to move funds from their bank account to a merchant. Since pay by bank doesn't require a credit or debit card, merchants and consumers can bypass the fees they pay for card processing.

There are multiple reasons for customers to like the pay-by-bank method, too. Some want to aid small merchants by helping them avoid card-processing fees. Others appreciate the opportunity to avoid using a credit card because credit cards are vulnerable to identity theft and fraud. Still, others are attracted by merchant offers to share the savings with them with the promise of discounts.

At first, customers may find that locating and inputting their financial institution details is a hassle. While pay by bank is a more manual process now, authentication will likely become simpler as popularity grows. In fact, some European countries already offer the service to consumers. Pay by bank has the potential to be safer, cheaper, and just as easy as paying by credit card.

How To Compete With Pay by Bank

Since Community financial institutions (CFIs) and their larger cousins may lose card-processing revenue as pay by bank grows more popular, here are some things to consider:

- **Promote and streamline debit cards.** Give customers incentives to use them. Many consumers are happy to cut back on their use of credit cards, because they'd like to stay out of debt. Help them make that the default choice.
- **Partner with payment platforms.** Digital wallets and payment platforms such as Apple Pay, Google Pay, PayPal, Instacart, Grubhub, and Walmart Pay are widely used. Support card-on-file registration at retailer apps, so your institution's debit card loads as the first payment choice for your customers.
- **Join a payment network.** Partnering with P2P payment services such as Venmo, Zelle, and PayPal can help you bridge the gap. They're already popular payment methods with consumers and can offer a similar experience for the consumer, while also earning you fee income.
- **Focus on distinct verticals.** Build a payment system that integrates billing, payments, and back-office functions for one or more specific industry that is particularly active in your region.
- **Help merchants do more than process card payments.** Invoicing, data-driven decision-making, post-purchase support, loyalty programs, and other services can help give your services longevity and resilience. Move from a commodity solution in which anyone can provide payments processing to one in which your CFI is a specific, business-critical partner.

Pay by bank's growing popularity does not have to negatively impact your CFI. By promoting debit cards, utilizing strategic partnerships, and promoting robust services to merchants, you can lessen potential revenue impacts. Since this payment method is still new on the market, there will undoubtedly be more developments down the line. We'll be sure to keep you up to date as new information arises.

QUESTIONS ABOUT FEDNOW? ASK PCBB!

FedNow Service is launching soon. As part of the pilot program, and a liquidity and settlement provider for the service, PCBB [can answer your questions](#) about how to implement and manage the service for your institution. Contact [PCBB](#) to find out more.

ECONOMY & RATES

Rates As Of: 06/07/2023 08:34AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.44	-0.08	1.02
6M	5.44	-0.02	0.68
1Y	5.20	0.06	0.50
2Y	4.59	0.18	0.16
5Y	3.94	0.18	-0.07
10Y	3.77	0.12	-0.11
30Y	3.92	0.06	-0.05
FF Market	FF Disc	IORR	
5.08	5.25	5.15	
SOFR	Prime	ORER	
5.05	8.25	5.07	

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