

The pandemic's effect on payments in Canada - Part 3: nine months later

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In May of 2020, we released a two-part series discussing both the various regulatory responses made by federal regulators and the various adaptations made by the retail payments industry as consumers and businesses adapted to the pandemic. With the City of Toronto and Peel region currently in its second “lockdown”, prohibitions on gatherings, closures of non-essential businesses, and restricted travel continue to directly impact the payments industry.

On November 25, 2020, Payments Canada issued an update that Canadian spending and purchase habits have not yet returned to pre-pandemic levels. In this article, we provide a summary of the update while looking back to earlier trends over the past year.

Canadian spending and purchase habits

Cash use in Canada has steadily declined by close to 20% since 2011, but the COVID-19 outbreak has resulted in an immediate, dramatic shift away from cash payments by consumers and businesses to mitigate exposure to the virus. 34% of Canadians surveyed report they do not expect to return to using cash payments to the same extent they did before the pandemic, while 31% of Canadians surveyed expect to use cash payments more often as the economy recovers. These statistics likely reflect the overall uncertainty both consumers and businesses have over what life will look like when the pandemic has ended, and what its overall impact will be.

40% of Canadians surveyed report they are uncomfortable when they have to touch debit or credit card point-of-sale terminals, while 44% of those surveyed report that COVID-19 has changed their payment preferences to digital and contactless payments for the long-term. As such, retailers must continue to offer convenient and secure point-of-sale payment options for customers, given the shift away from cash toward digital or contactless payments. Failure to do so could drive consumers towards retailers who have embraced these changes, with the effects felt long after the pandemic has ended by way of a sustained preference for retailers who have adopted newer payment options.

According to the update, 61% of Canadians surveyed report that they continue to spend less than before the pandemic. As such, retailers must identify how to best meet consumer needs and continue to build and leverage an online presence as lockdown measures continue to restrict in-store access to consumer goods. Given the length of the pandemic and its likely long-term effects on consumer spending, retailers cannot expect that their consumers will completely return to their old habits. There are likely to be permanent changes associated with consumer spending behaviours, including a preference for online shopping over brick and mortar shopping. As a result, the absence of an effective online presence, with a user-friendly interface and easy checkout options could drive consumers to more seamless shopping options.

Other key findings from Payments Canada:

- *Overall continued preference for contactless payments, although slight decrease from earlier in the pandemic*
 - 47% report tapping debit and credit cards more often than pre-COVID (compared to 53% at week five)
 - 36% report avoiding shopping at places that do not accept contactless payments (42% at week five)
 - 50% tried not to exceed the contactless limit when buying something in-store (52% at week five)
 - 32% report using prepaid cards less (37% at week five)
- *Continued decline in paper-based payments*
 - 64% are using ATMs less (61% at week five)
 - 57% report using cash less (65% at week five)
 - 42% say they are uncomfortable handling cash in general
 - 32% report using cheques less (35% at week five)
- *Continued decline in spending, but an increase in paper-less payments*
 - 61% report spending less than pre-COVID-19 (75% at week five)
 - 32% report using credit cards more (28% at week five)
 - 21% report using debit cards more
 - 25% report using e-transfer more (31% at week five)
- *Increased leveraging of e-commerce platforms*
 - 48% are using e-commerce platforms more often than pre-COVID-19 (38% at week five)
 - Commonly-purchased items include:
 - clothes (47%);
 - household items (46%);
 - food and groceries (46%); and
 - health and beauty products (35%)
- *Increased prioritization of food delivery services and increased tipping*
 - 29% report using food delivery service apps more often than pre-COVID-19 (26% at week five)
 - 41% reported tipping more (29% at week five)

The pandemic appears to be driving a sustained reduction in paper-based payment methods and, as mentioned

above, an overall reduction in spending. However, it will be interesting to see how permanent these reductions may be, given that percentages appear to be levelling off, or indicate a slight return to pre-COVID-19 levels, as consumers get accustomed to shopping during a pandemic. The reduction in paper-based payment methods has been associated with an increase in, or preference for, contactless and other digital payment methods. It will also be interesting to see how many of these consumers are permanent converts to digital payments in comparison to those who intend to return to their previous consumer spending habits when the pandemic winds down.

It is clear the COVID-19 pandemic continues to affect every facet of society and its impact on consumer habits has accelerated the adoption of digital and contactless payments with a widespread shift away from paper-based payment methods. It remains to be seen what lasting impacts the COVID-19 pandemic will have on the future of payments.

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