Will merchants join Amazon to end the monopoly of card networks?

Last week, Amazon announced that it will no longer accept UK-issued Visa credit cards from January 2022. The reason came down to the high fees that Visa charges for processing credit card transactions. While the change may come as a shock to many, it brought to light an issue that merchants have long been protesting.

Temps de lecture : minute

---

2 December 2021

Processing card transactions has always been expensive. There are multiple steps and many parties involved – and each intermediary has to profit from taking part. In the end, it's the merchants that get stung by high fees, simply for the privilege of collecting a payment.

Amazon's decision makes a statement. It shows that major brands are ready to fight back against the monopoly of card networks. Retailers of all sizes have had enough of spiralling costs, so it's highly likely we'll see others re-examining their payment strategy in light of Amazon's announcement. Thanks to a number of payment methods designed for an internet world gaining popularity among retailers and consumers, this could well mark the beginning of the end for cards altogether.

The death knell of credit cards

It's not just high fees that make accepting credit cards a burden. Other pitfalls include fraud and card expiry. Every action the customer must take to address these issues when making a credit card payment – be it entering card details or waiting for an SMS – risks decreasing conversion, which is so crucial for online retailers.

Another blocker is card *payment failure*. Chasing failed payments is costly for merchants in both time and money and we know something like 10-15% of payment failures result in churn. With card-on-file payments failing around 10% of the time, this becomes a significant challenge.

The big problem here is that credit cards were designed for a pre-internet world. Barring the creation of the digital wallet (which actually adds more intermediaries), there has been very little innovation in this space outside of ad hoc bolt-ons, such as 3D Secure, in an attempt to adapt them to an online environment. Given the advances in payment technology, now is the time for retailers to adopt more efficient, more cost effective, and more secure digital payment options.

The rise of alternative payment methods

A truly digital experience calls for a truly digital payment process. We're seeing a variety of digital-first options emerge that pose a viable challenge to the dominance of cards. One such method is account-to-account (A2A) payments, which allow you to move funds from one store of money directly to another, without the need for cards and the myriad of intermediaries. In the UK, this has been around for decades and is widely adopted in the form of Direct Debit, which has worked well for recurring payments like subscriptions or regular invoices. But thanks to innovations in open banking, we're now able to use A2A payments for everyday ecommerce transactions.

A2A payments slash costs for businesses by reducing the parties involved in the transaction, and offer a fast and simple payment experience for consumers. It's a win-win. A2A payments are also much more secure than cards. Compliant by design with Strong Customer Authentication (SCA) regulation, they offer an easy solution for merchants to adhere to the rules which will come into effect early next year.

From the consumer's perspective, A2A payments suit what they're looking for. Shoppers across Europe say the top attributes they value in an online payment method are security, speed, and simplicity. In contrast, rewards for spending are falling down the list. Given this, we only have to look to the Netherlands, where A2A payment system iDEAL is now used for over half of all ecommerce transactions, to see why this option poses a real threat to credit cards.

Finally, Amazon's decision comes at a time when A2A technology such as open banking is maturing at a rapid rate. According to the Open Banking Implementation Entity, successful payment initiations in the UK made by third party providers using APIs has grown 388% year-on-year.

In 2022, we'll see the introduction of Variable Recurring Payments – first for moving money between accounts owned by the same person (such as from a current account to a savings account), and then perhaps for other use cases. This will offer an alternative way to pay instantly and directly from a bank account. For popular card-on-file services such as those offered by Amazon, and any retailer that takes one-off or recurring payments, this is another form of A2A payment which presents an alternative to cards.

A turning point for merchants

We're now seeing companies with enough market power, such as Amazon, start the fightback against those making payments a tax on our economies. This paves the way for other merchants to re-evaluate their options and, though many may not command the position Amazon does, we need to make sure this exploratory mindset trickles down so the benefits are widely felt.

Amazon's announcement represents a tailwind for the adoption of other payment methods. As we move away from pieces of plastic introduced in the pre-internet world to payment methods built for a digital age, we’ll see greater benefits for everyone.

Siamac Rezaiezadeh is director of product marketing at *GoCardless.*

Article by Siamac Rezaiezadeh