Merchant Connect Incorporations Limited

How to navigate cross-border e-commerce challenges in a post-Brexit world

The United Kingdom officially left the European Union earlier this year, and since Brexit new restrictions to sales in and out of the UK have started to be introduced, including additional intra-regional fees.

During the Covid-19 pandemic, we have seen a boom in worldwide e-commerce. This has brought plenty of growth opportunities for online merchants willing to move and sell cross-border. But with Brexit came many new challenges for e-commerce merchants both in the UK and EU. Within this insight, we will look to explore some potential barricades that e-commerce businesses may face now the UK has left the EU.

EORI Numbers

Since the 1st January 2021, EU merchants selling into the UK are now required to add a 20% charge to goods up to GBP 135 (equivalent to EUR 156) to account for VAT charged at the point of sale. Similarly, businesses located in the UK that import or export goods from the EU will now need to have an Economic Operator Registration and Identification (EORI) number when looking to transport goods to and from certain areas of the EU.

EORI numbers must follow government guidelines, and applying for a number through the government services. What type of EORI number you will need will depend on where you are shipping goods to and from, and you may need more than one! EORI numbers are vital for cross-border transports of goods, as without one – or if you have the wrong one, your goods may be delayed, or held in storage until you receive the correct EORI.

Intra-regional Interchange Fees

Existing interchange fees and the various customs and VAT costs are also being revised, more specifically for transactions originating from the UK and processed in the EEA.

Mastercard announced earlier this year that it would be increasing the intra-regional interchange fees more than fivefold for online EU purchases made by British cardholders from October 2021.

The fees are expected to rise from 0.20% for debit cards and 0.30% for credit cards to 1.15% and 1.50%, respectively. Whilst these increases are not a welcome change for many, interestingly these new fees align with already existing inter-regional interchange fee caps for all EU merchants.

Even with these changes, however, retailers across the EU should not write-off UK operations due to increased costs of transaction processing and logistics. Instead, we recommend evaluating the impact of these fee changes on the transaction mix and reviewing whether alternative strategies, such as localisation tactics and like-for-like proceedings, could mitigate the effects of these cost increases.

With the above-mentioned barricades, and considering all other potential challenges e-commerce businesses may be facing now that they need to consider following Brexit, here are a few tips clients and merchants can consider overcoming such challenges.

1. Localisation of payment methods is key

Various reports suggest that one in five transactions are never completed because the consumers' preferred payment method is not available during the checkout process. For example, in the UK, card payments and PayPal are heavily used. Other options like Buy Now, Pay Later (BNPL) options are also increasing. Meanwhile, in Belgium and France, consumers use local card schemes such as Bancontact and Cartes Bancaires. In the Netherlands, Dutch consumers are more familiar with iDEAL bank transfers when making their online purchases. It's important to understand where you are selling into and the payment methods these consumers use. In doing so, you can optimise your payment approval and increase your conversion rates.

2. Review your chargeback management and mitigation processes

Chargebacks cost the average merchant 1.40 – 2.5% of their overall revenue. It is essential to have well thought through strategies to prevent unnecessary claims during this Brexit teething period.

When building your plan, make sure you are communicating how Brexit is expected to impact cross-border online shopping. The best way to do this is by providing tracking information, receipts with explicit billing descriptors, and customer service contact details to keep customers updated with delivery updates. Furthermore, ensure always respond quickly to purchase queries; listing full terms and conditions clearly on your website, including information on the refund process.

3. Take advantage of the one-way charge system

More prominent merchants can consider capitalising on the fact that the fees only occur in one direction by setting up an entity within the UK. By doing this, businesses can avoid fees altogether. This could be significant, and Merchant Connect Incorporations can provide all the insight and knowledge to save you time and money. Additionally, card-present rates remain the same. If shoppers decide to pick up the item and pay in-person, lower fees will apply, namely 0.30% for credit cards and 0.20% for debit cards. This will only apply to large merchants with physical stores located in the UK.

4. Implementing Secure Customer Authentication (SCA) is Important

With all these changes, you must never lose sight of other regulatory changes which are coming. The most immediate was PSD2, which slowly came into force since January 2018, bringing the additional security measure, Strong Customer Authentication (SCA). SCA is essentially a balancing act between creating friction that minimises fraud risk but not enough to lose customers. SCA is an opportunity for businesses to innovate and have more control over their data by working with a partner to keep approval rates high during the transition.

Whether a merchant is UK-based or yet to comply in the EU, it’s essential to seek SCA compliance sooner rather than later. If you don’t, you will see increased declines from European card issuers, eventually resulting in significant fines due to non-compliance.'

We understand that the ongoing changes caused by Brexit are confusing, which is why our consultants are ready to welcome any queries new and existing clients may have when navigating through these new markets.

How can Merchant Connect Incorporations help?

Our carefully chosen payment partners' focus on optimising a merchant's online payment performance is to achieve the highest conversion rates. As a merchant, you will have specific requirements; if you require in-depth support with your cross-border online payment processing, get in touch today. Contact us by calling +44 1268 645 295, emailing at info@connnectincorporations.com, or by filling in a contact form, and one of our consultants will be in touch shortly!

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