

# Capital One—Discover megadeal could shake up the financial services industry

Article

**The news:** Capital One will acquire Discover for \$35.3 billion, [per](#) a press release.

- The megadeal, a 27% premium on Discover's market value, is expected to close in late 2024 or early 2025, pending regulatory and shareholder approval.
- Combined, Capital One and Discover would be the sixth-largest bank by assets and the largest credit card company by loan volume in the US.
- Capital One plans to maintain the Discover brand and will switch at least some of its cards to the Discover network, per a call with investors.

Discover became a potential acquisition [target](#) last year after [increased regulatory scrutiny](#) led to a [leadership shakeup](#).

**What it means for payments:** Capital One and Discover both go after customers on the lower end of credit scores. Their complementary strategies will likely lead to many synergies that can help Capital One be more efficient.

The acquisition also presents Capital One with a rare opportunity to compete against **Visa** and **Mastercard**.

- Buying Discover gives Capital One a foothold in the payment network space.
- Capital One could cut out Visa and Mastercard from its card programs entirely, giving it more control over swipe fees and other costs.
- Visa and Mastercard would not only lose out on Capital One's card volume; they may also have to lower their interchange rates to compete with a suddenly much larger alternative network.

Currently, **Discover accounts for only [1.8% of US card network transaction value](#)**, per our forecasts, compared with Visa's 53.8% and Mastercard's 22.8% shares.

**What it means for the banking industry:** Under the terms of the deal, Capital One would absorb Discover's online bank, [including its deposits](#).

- Last year, both banks focused on growing deposits, raising Discover's by [4%](#) quarter-over-quarter, and Capital One's by 9%.
- Capital One is currently the [ninth-largest](#) bank in the US. Adding in Discover's Q4 2023 balance of [\\$81.3 billion](#) in consumer deposits would propel it past **Truist Bank**, **Goldman Sachs**, and possibly **PNC Bank**.

Discover has a single physical branch in Delaware. It's unclear whether it and its bank accounts would keep the Discover branding after the merger, but Capital One believes initial customer impacts [will be minimal](#).

**The merger process:** Just as the two-year slowdown in bank mergers showed signs of ending, the US Office of the Comptroller of the Currency (OCC) [proposed procedural changes](#) that will make M&A activity more difficult for the largest financial institutions (FIs).

- The regulator [said](#) it's "unlikely to find that a deal involving a so-called global systemically important bank" would meet its standards.

However, Capital One could take [several potential paths](#) to increase the odds of regulatory approval:

- Convincing regulators this would increase competition for [Mastercard](#) and [Visa](#), which have both been the subjects of US Department of Justice investigations for "anti-competitive practices in the debit card market"
- Arguing that this merger will "save" Discover from [its financial and regulatory challenges](#)

**Key takeaways:** Banks will watch the regulator's decision closely, as it could result in [one of the biggest FI mergers](#) in history—setting a precedent for future deals.

- But an approval still wouldn't provide a blueprint for other large mergers. Capital One will need to lean into why these unique economic circumstances would permit such a jawdropping transaction.
- And for payments, the deal could give Capital One more leverage against other issuers to dictate card terms and set rates, which may lead to fees coming down for merchants—a potential victory in the [interminable interchange fight](#).

*This article originally appeared in [Insider Intelligence's Payments Innovation Briefing](#) and our [Banking Innovation Briefing](#). [Subscribe](#) to have more hard-hitting takeaways delivered to your inbox daily.*

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# Card Network Transaction Value, by Company

US, 2024, trillions

Visa



Mastercard



Other



American Express



Discover



*Note: represents the aggregate dollar amount of purchases made with company and other branded cards; includes consumer and commercial cards; includes cash advances and value of other payment products; excludes returns, balance transfers, cash advances and other activity; other includes purchases with debit, prepaid debit, open and closed-loop cards*  
*Source: Insider Intelligence | eMarketer, August 2023*

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