

Developments in the Buy Now, Pay Later Market

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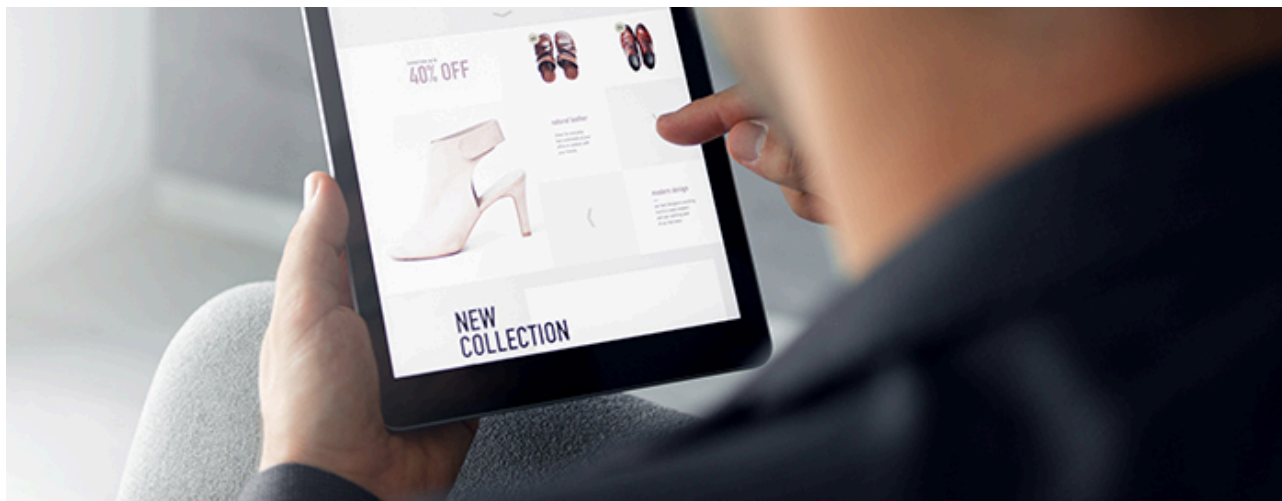


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Abstract

The buy now, pay later (BNPL) sector is growing rapidly and new providers and business models are emerging. While the development of these new payment services is evidence of Australia's innovative and evolving payments system, it may also raise issues for policymakers. The Reserve Bank is currently considering policy issues raised by BNPL providers' no-surcharge rules as part of its Review of Retail Payments Regulation. This article discusses developments in the BNPL sector, focusing on different business models and implications for the cost of electronic payments to merchants.

Introduction

Australians have long had the ability to pay for purchases in instalments. Traditional store lay-by arrangements allow consumers to pay for purchases over time, and some retailers have offered interest-free or deferred payment options for many years. In recent years, newer types of electronic instalment payment arrangements – known as 'buy now, pay later' (BNPL) services – have become more prominent, and use and acceptance of these services has grown rapidly.

BNPL services enable consumers to purchase goods and services by paying part of the purchase price at

the time of the transaction and the remainder to the BNPL provider in a series of instalments. Unlike traditional lay-by, the customer receives their purchase immediately and the merchant is paid up front by the BNPL provider. In most cases, customers use a mobile app to access these services and repayments are drawn from a customer's linked debit or credit card. Some popular BNPL services facilitate borrowing of amounts up to \$1,000 to \$2,000 and may be free for consumers if instalments are paid on time (otherwise late fees may apply) – that is, they do not charge interest or other fees.^[1] Other BNPL services enable eligible

customers to borrow larger amounts but tend to charge establishment or monthly fees. BNPL is mostly used for online purchases, though some BNPL providers are also focusing on expanding adoption for in-store purchases (which operates via the provider's app by generating a scannable barcode or QR code). More recently, a number of providers have developed BNPL services that issue virtual cards through the provider's mobile app that can be used more widely for in-store payments, as well as online transactions, at merchants that accept card payments.

The strong growth in the use of BNPL in recent years suggests that an increasing number of people view these services as a convenient and cost-effective way of making purchases. There has also been an increase in merchant adoption of BNPL services for both online and in-store transactions. Merchants are generally charged transaction fees for accepting BNPL payments and may be attracted to offering BNPL as a payment option if they believe it will generate additional sales and/or to avoid losing business to competitors that do so. Merchants typically receive the full amount of the purchase price (less any fees) up front from the BNPL provider. Some BNPL providers offer marketing and other services to merchants in addition to facilitating payments. Competition appears to have strengthened in the BNPL market, with a number of new providers entering the market in recent years and the range of business models and services offered by new and existing providers has expanded.

The emergence of the BNPL sector is an example of how the consumer payments landscape is changing, facilitated by mobile technology and innovative businesses. While innovation and competition could enhance the efficiency of the payments system by providing services that meet end-user needs, they can also raise issues for policy-makers. An issue relevant to the Bank's mandate for promoting payments system efficiency is that the cost to merchants of accepting BNPL payments is typically higher than for other electronic payment methods, such as cards. Most BNPL providers also impose no-surcharge rules that prevent merchants from passing on these costs to the consumers who

use and benefit from BNPL services. This issue is being considered as part of the Payments System Board's Review of Retail Payments Regulation.

This article discusses recent developments in the Australian BNPL market and issues for payments policy, focusing on the different business models that have emerged and BNPL providers' no-surcharge rules.

Growth of the BNPL market

The BNPL sector has grown rapidly in recent years. While industry-wide data are not readily available, company reports for a number of ASX-listed BNPL providers indicate that the value of BNPL transactions grew by around 55 per cent in 2019/20 and tripled over the previous 2 financial years (Graph 1).^[2] In 2019/20, these listed entities processed around \$10 billion of purchases in Australia and New Zealand. The value of BNPL transactions has continued to grow strongly through the COVID-19 pandemic as the shift to electronic payment methods and online shopping accelerated (Bullock 2020). Based on recent public disclosures, the value of transactions processed by some of the large BNPL providers grew by over 50 per cent in the second half of 2020 compared to the same period a year earlier. Although share prices can be volatile, the prices of some of the larger BNPL providers have significantly outperformed the broader Australian share market in recent years (Graph 2). Some Australian BNPL providers have also sought to expand into overseas markets, including the United States, and these markets now account for a material share of some Australian providers' overall business.

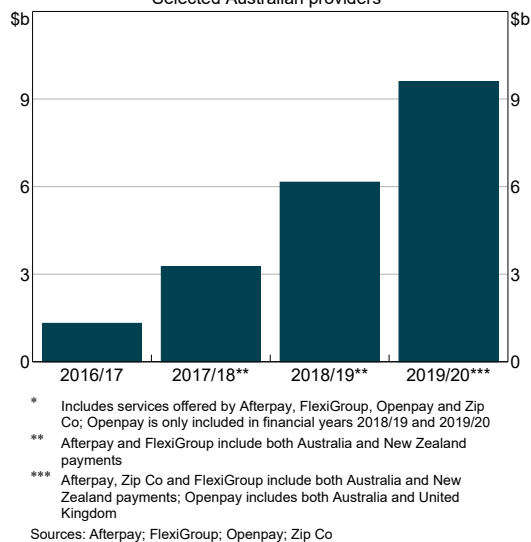
In addition to data published by BNPL providers themselves, the Bank's 2019 Consumer Payments Survey (CPS) – which was conducted in late 2019 before the emergence of COVID-19 in Australia – provides some information on BNPL adoption. In late 2019, just under 20 per cent of survey participants reported that they had used a BNPL service at least once in the previous 12 months ('BNPL users') and 90 per cent of CPS participants reported that they were aware of BNPL services such as Afterpay and Zip Pay.

While there has been a substantial increase in BNPL transactions over the past few years, it is estimated that the value of BNPL payments (based on available listed company data) was equivalent to less than 2 per cent of the total value of Australian debit and credit card purchases in 2020. The 2019 CPS also indicated that a relatively small share of overall consumer payments was made using BNPL.^[3] Less than 1 per cent of the number and value of consumer transactions made over the survey week (including those made in cash) were made using BNPL. The share of online transactions was a little higher, at around 3 per cent by number (Graph 3).

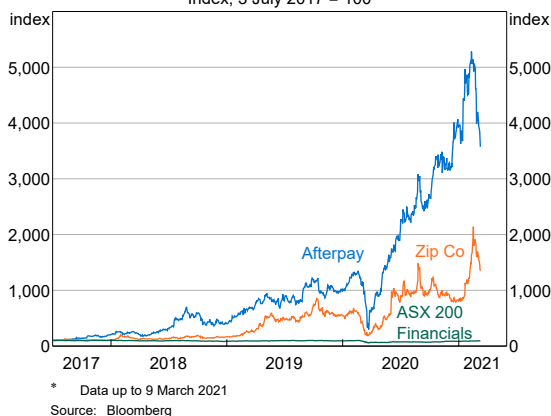
The relatively low share of BNPL payments in the CPS was consistent with survey respondents reporting that they used BNPL infrequently. Of the self-identified BNPL users, 70 per cent made a BNPL purchase every few months or less often, whereas only 3 per cent said they used BNPL at least once a week. The relatively low frequency with which BNPL services were used by most respondents is likely to partly reflect the nature of the purchases made with these services. At the time the CPS was conducted, BNPL was mostly available for ‘discretionary’ retail purchases, whereas it was not typically accepted at businesses such as supermarkets or other food retailers. More recently, growth in merchant acceptance networks and the introduction of new BNPL services is likely to have expanded the range of merchants at which BNPL payments can be made (see below). The figures from the CPS are also likely to understate the current share of payments made using BNPL, given the strong growth in transactions reported by providers since the CPS was conducted in late 2019. Moreover, BNPL has reportedly gained significant traction in certain sectors, such as online fashion retail, where transaction shares are likely to be much higher.

According to publicly available data, the 2 largest listed Australian BNPL providers had around 6 million ‘active’ BNPL user accounts as at December 2020 (defined as those accounts where the customer has made at least one transaction over the past 12 months), although the number of individual customers will be lower than this figure

Graph 1
BNPL Payments Processed
Selected Australian providers*

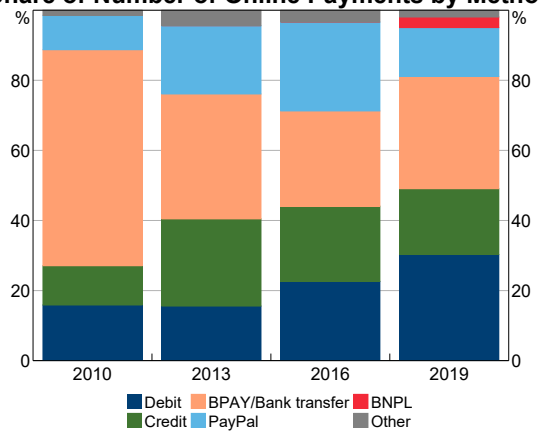


Graph 2
BNPL Share Prices*
Index, 3 July 2017 = 100



Graph 3

Share of Number of Online Payments by Method



Source: RBA calculations, based on data from Colmar Brunton, Ipsos and Roy Morgan Research

Table 1: BNPL network sizes

Selected BNPL providers; includes Australia and New Zealand

	Transaction values (\$b) 2020	Active users (millions) December 2020	Active merchants ('000) December 2020
Afterpay	8.3	3.4	53.6
Zip Co	2.6	2.5	30.1
Openpay	0.3 ^(a)	0.2	2.8 ^(a)
Payright	0.06	0.04	1.8

(a) Includes Australia, New Zealand and the United Kingdom

Sources: Company reports; RBA

because some people use more than one BNPL service (Table 1). Indications are that BNPL services are used more intensively by younger consumers – more than 55 per cent of BNPL users in the 2019 CPS were aged under 40, though respondents aged 40–49 also accounted for a material share of BNPL users (Graph 4).

The number of merchants accepting BNPL payments has also grown strongly in recent years, with some merchants accepting payments from more than one BNPL provider. For example, according to company reports, the number of merchants that accept BNPL payments has more than doubled across the 2 largest providers over the past 2 years. In addition, some BNPL providers now issue virtual cards through their apps that allow customers to pay in instalments for purchases at most merchants that accept online card payments or contactless payments in-store (although some

providers prevent certain transactions such as online gambling and, in some cases, household essentials such as groceries and utilities).

Competition and business models

There has recently been considerable activity in the BNPL market. A number of Australian and overseas companies have entered the domestic BNPL market and the variety of services offered by BNPL providers has expanded. It is estimated that there are almost 20 BNPL services in the Australian market offered by more than a dozen providers, whereas there was only a small handful of providers a few years ago. Some of the more established BNPL providers have also increased their range of services and other providers of payment services, including banks, have launched products that have similar features to BNPL.^[4]

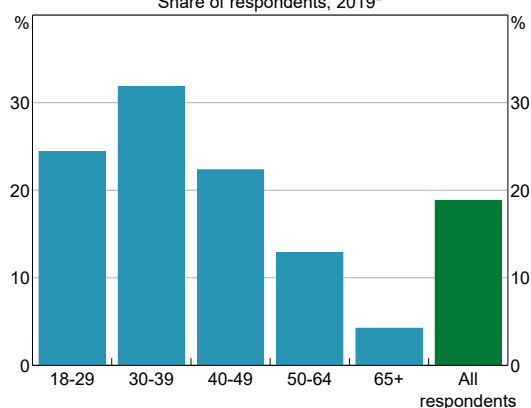
While there is a wider array of BNPL services in the market, a common feature is that BNPL providers make use of the existing card payment 'rails' to process transactions. This is because instalment payments are usually made via stored payment credentials such as a debit card, or less frequently, a credit card.

While details of individual services differ, one way of characterising the available service offerings is according to whether the BNPL provider facilitates transactions within a network of consumers and participating merchants, or whether consumers make purchases using a 'virtual card' that can be used at merchants that accept Visa or Mastercard card payments. Some banks have also launched credit card products with BNPL-like features.

Graph 4

BNPL Use by Age

Share of respondents, 2019*



* Defined as using a BNPL service at least once in the previous 12 months

Source: RBA calculations, based on data from Roy Morgan Research

The most common BNPL business model involves the BNPL provider facilitating transactions by entering into direct agreements with both participating consumers and merchants (see Box A for further details). In this type of ‘two-sided network’, consumers get greater value when a larger number of merchants accept the BNPL service and merchants are more likely to accept BNPL as more consumers adopt it as a means of payment.

Consumers typically establish a BNPL account via the provider’s smartphone app or website; in contrast to credit cards, spending limits are often approved on a per-transaction basis. BNPL services may appeal to consumers partly because they are relatively easy to sign up to and may be viewed as a convenient and cheap way of accessing short-term borrowing for consumer purchases. Merchants that enter into agreements with BNPL providers pay a per-transaction fee for accepting BNPL payments which, as discussed below, tend to be high relative to the cost of accepting debit and credit card payments. Some BNPL providers also note that they offer non-payment services to participating merchants – such as marketing, customer referrals and data analytics – in addition to facilitating payments.

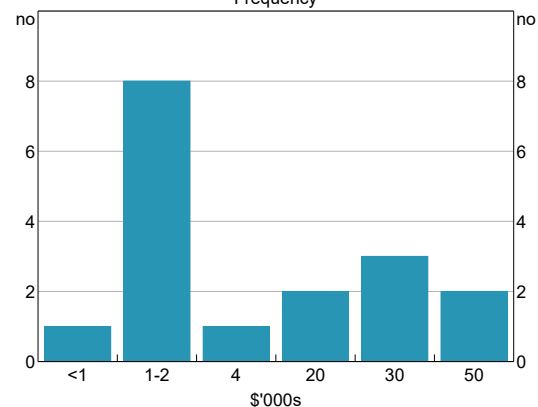
Although there are some common elements, details of the individual services differ across the BNPL providers that operate this type of network model, in terms of borrowing limits, fees and some other features. For example, a number of services facilitate payments (and borrowing) for relatively low-value retail purchases up to an overall limit of around \$1,000 to \$2,000 (Graph 5). The consumer usually pays a portion of the purchase price up front (to the BNPL provider) and the remaining amount in interest-free instalments over terms of around 6 to 8 weeks. Examples of this model include Afterpay, Zip Pay, Humm ‘Little things’ and Klarna. In some cases, consumers do not pay any fees for using this type of service if instalments are paid on time, although they may incur late fees if payments are overdue.^[5] In other cases, the consumer pays a fixed monthly fee whenever they have amounts outstanding under the service.

A number of other BNPL providers enable borrowing for higher-value purchases, with maximum limits of \$10,000 to \$30,000 (e.g. Openpay, Humm ‘Big things’), and occasionally there are even higher limits available for certain specialised services. In these cases, instalment payments are usually made over longer terms than for the services catering for lower-value purchases. For example, Humm ‘Big things’ has a maximum loan term of 60 months. Products that facilitate higher-value purchases also often charge monthly fees and/or other consumer fees, such as establishment fees and repeat purchase fees.^[6] While most BNPL providers focus on enabling consumer-to-business payments, a few providers now facilitate business-to-business payments.

An alternative model that has emerged recently enables consumers who have signed up to a particular BNPL service to make payments at a wider range of merchants that accept Mastercard and/or Visa card payments. That is, the BNPL service can be used at merchants that have not necessarily entered into a direct agreement with the BNPL provider. In some cases, the BNPL provider issues a single-use ‘virtual card’ for the transaction (if it is within a pre-approved limit), while another model is that the virtual card is re-usable and comes with an overall limit.^[7] These virtual cards can be used to make online and/or contactless ‘tap and go’ payments at the point of sale. While at least one BNPL service specialises in the issuance of virtual cards, these cards are more commonly issued by

Graph 5

BNPL Products by Maximum Spending Limit



Source: Provider websites

providers that also have bilateral merchant acceptance networks (e.g. Zip Pay and Klarna). BNPL providers earn revenue from interchange fees on virtual card payments. While these fees are likely to be lower than those involved in bilateral merchant agreements, the virtual card model extends the range of merchants at which BNPL payments can be made and may, therefore, help the provider build up the consumer side of its network. Merchants that receive virtual card payments would pay fees to their acquirer (e.g. bank), as is the case for other types of card payments.

Another notable recent development has been the involvement of more traditional payment service providers, including some of the major Australian banks, in the BNPL market. One example is CBA's partnership with (and investment in) the Swedish firm Klarna, which is a large global BNPL provider. Another example is Westpac's partnership with Afterpay, which will enable Afterpay to offer Afterpay-branded savings and deposit accounts directly to its customers on Westpac's new digital banking platform (with customers' deposits held by Westpac).

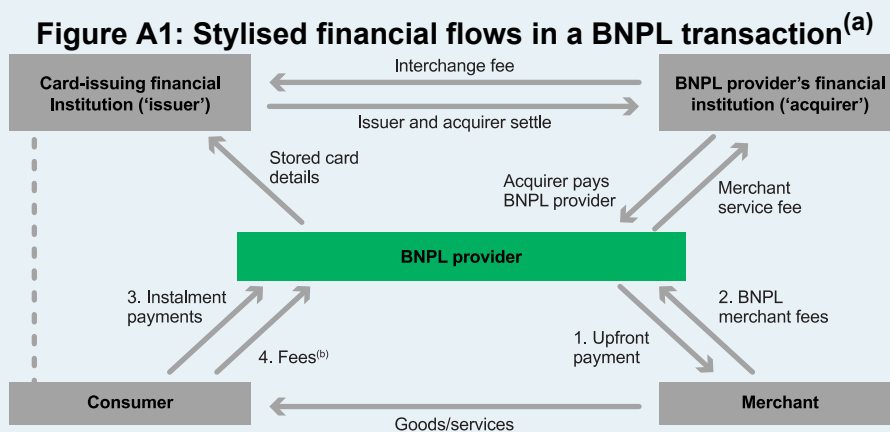
Some established credit card issuers have also responded to the growth in the BNPL sector by introducing instalment payment options for some of their existing credit cards and/or by issuing new cards with similar features to BNPL products. For example, American Express, Commonwealth Bank, Westpac and Citibank enable some cardholders to make credit card repayments in instalments (rather than paying minimum amounts over a longer period). These plans typically allow the cardholder to nominate a single purchase or balance amount to transfer to a monthly instalment option, and may involve a reduced interest rate on the balance and/or a monthly fee. More recently, some Australian banks have started to issue new credit card products with BNPL-like features, including charging monthly fees rather than interest on balances.

Another notable development, with parallels to credit card offerings, has been the introduction of rewards programs by some prominent BNPL providers. BNPL providers have also formed partnerships with mobile wallet providers to enable their customers to transact using mobile wallets for in-person contactless payments.

Box A: Customer and merchant networks BNPL model

Figure A1 shows that in a number of BNPL arrangements, the BNPL provider pays the merchant the full purchase price at the time of purchase (allowing for processing time) (1), less BNPL merchant fees (2). The customer pays back the BNPL provider in a series of zero-interest instalments, with the first repayment typically made at the time of purchase. Customer repayments are typically made from a linked debit or credit card, although some providers also accept other payment methods such as direct debit from a bank account and/or BPAY (3). The consumer's bank and the BNPL provider's acquirer clear and settle the obligation with each other and when a credit or debit card is used, the BNPL provider's acquirer pays an interchange fee to the card issuer.

While many BNPL services are free for lower-value purchases when consumers make payments on time, there may be fees for late payments, as well as direct fees such as establishment or monthly fees for products that facilitate higher-value purchases (4).



(a) When repayments are made from a linked debit or credit card

(b) May be free to consumers for on-time repayments of smaller balances; missed payments usually attract late fees, and establishment and/or periodic fees may apply for larger balances

Source: RBA

Merchant costs and surcharging

While BNPL services may be free or inexpensive for consumers (assuming repayments are made on time), the cost to merchants of accepting BNPL payments may be significantly higher than the cost of accepting other electronic payment methods such as credit and debit cards. There are limited data available on BNPL merchant fees, with few providers publicly disclosing their average fees. By way of example, an exception is the largest Australian provider, Afterpay, which reported an average (global) merchant fee of just under 4 per cent for 2019/20; and Zip Co's average fee has been estimated at 3 per cent (Graph 6).^[8] This compares to an average fee of less than 1 per cent if

the same payment were made directly with a Visa or Mastercard credit card, and less than half a per cent if the customer used a debit card. Moreover, stakeholders have observed that the cost of acceptance for merchants with bilateral arrangements with BNPL providers can be up to 6 per cent or more, with smaller merchants tending to pay higher rates than larger merchants (as is also often the case with card payments; see Occhiutto (2020)). The prices that merchants charge for their goods and services incorporate the costs of running a business, so higher payment acceptance costs lead to higher prices for all customers.

For the Bank, a key issue in relation to BNPL is that most (but not all) merchants that accept BNPL

payments are prevented by BNPL providers from levying a surcharge to recover the cost of acceptance from the consumers that directly benefit from using the service.^[9] This is in contrast to the situation for card payments where the Bank has previously introduced requirements that prevent card schemes from imposing 'no-surcharge' rules on merchants. Accordingly, merchants may levy a surcharge, if they wish, to recoup the cost of accepting card payments (while preventing merchants from surcharging excessively).^[10] While merchants have the right to surcharge, many choose not to exercise the right. The Bank is considering the policy issues raised by BNPL providers' no-surcharge rules as part of its current Review of Retail Payments Regulation (the Review; see RBA 2019 and RBA 2020).

The Bank's longstanding view, which has been borne out by experience following the Bank's reforms in the early 2000s, is that the right of merchants to apply a surcharge promotes payments system competition and keeps downward pressure on payment costs for businesses. If a business chooses to apply a surcharge to recover the cost of accepting more expensive payment methods, it may encourage customers to make the payment using a cheaper option. In addition, the possibility that a consumer may choose to use a lower-cost payment method when presented with a surcharge helps put competitive pressure on payment schemes to lower their pricing policies, indirectly lowering merchants'

payments costs. The possibility of surcharging may also help merchants to negotiate lower prices directly with their payments service provider. By helping keep merchants' costs down, the right to apply a surcharge means that businesses can offer a lower total price for goods and services to all of their customers. By way of example, despite the fact that they were not regulated, average merchant service fees for American Express credit card transactions have almost halved since the early 2000s, broadly in line with the decline in merchant service fees for Visa and Mastercard. This partly reflected the ability of merchants to surcharge these transactions following the reforms the Bank introduced in the early 2000s. The ability to surcharge can promote competition between payment schemes especially in the case when merchants consider that it is near essential to accept a particular payment method for them to be competitive – that is, if the merchant is of the view that they cannot refuse to accept a payment method in case they lose sales to competitors that do so.

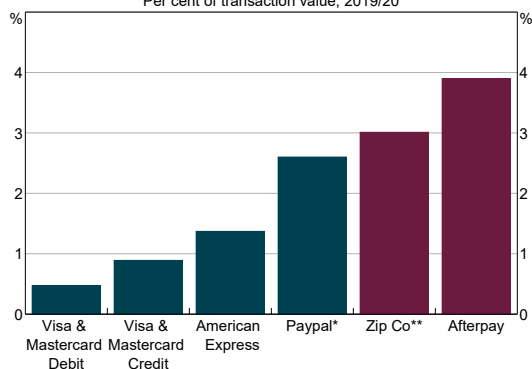
However, payments is a network industry in which service providers must build up both sides of their network – in this case consumers and merchants – to be successful. The more consumers in the network, the more valuable it is to merchants and vice versa. No-surcharge rules can, under some circumstances, play a role in facilitating innovation and the development of new payment methods by helping an emerging payment service provider develop its network – for example, by making the service initially free or low cost for consumers. Accordingly, a challenge for policymakers is determining an appropriate balance between supporting innovation by not overburdening an emerging part of the payments system with regulatory requirements on the one hand, and the costs of no-surcharge rules on the other.

In a speech in December 2020, the RBA Governor noted that the Payments System Board (PSB)'s preliminary view was that the BNPL operators in Australia had not yet reached the point where it was clear that the costs arising from the no-surcharge rules outweigh the potential benefits in terms of innovation (Lowe 2020). No-surcharge

Graph 6

Average Merchant Service Fees

Per cent of transaction value; 2019/20



* For new users. Fixed fees apply based on currency and transaction type.

** Estimate only

Sources: Company reports; Paypal; RBA

rules may help newer entities compete with the incumbent providers of payment services. The PSB was therefore unlikely to conclude that the BNPL operators should be required to remove their no-surcharge rules right now, which is consistent with the PSB's philosophy of regulating only when it is clear that doing so is in the public interest.

While some stakeholders such as merchants have argued that it is becoming increasingly difficult not to offer BNPL as a payment option on competitive grounds, the available data indicate that BNPL providers account for a relatively small share of Australian consumer payments overall despite recent strong growth. It has also been observed that new BNPL business models are emerging, including some that facilitate payments using virtual cards issued under the designated card schemes (that are subject to the existing surcharging framework), and that this increased competition in the BNPL market could help put downward pressure on merchant costs.

Over time, however, a public policy case could emerge for the removal of the no-surcharge rules in at least some BNPL arrangements. Some of the BNPL operators are growing rapidly and becoming widely adopted by merchants, particularly in certain sectors. In view of this, the Bank is discussing with industry stakeholders possible criteria or thresholds to help determine the point at which it may be in the public interest to require a BNPL provider to remove its no-surcharge rules. In principle, these criteria could take into account factors such as payment shares, use in particular industries and/or consumer adoption of BNPL services. While judgement will be important, numerical thresholds may also play a role, partly because they have the benefits of simplicity and transparency and could

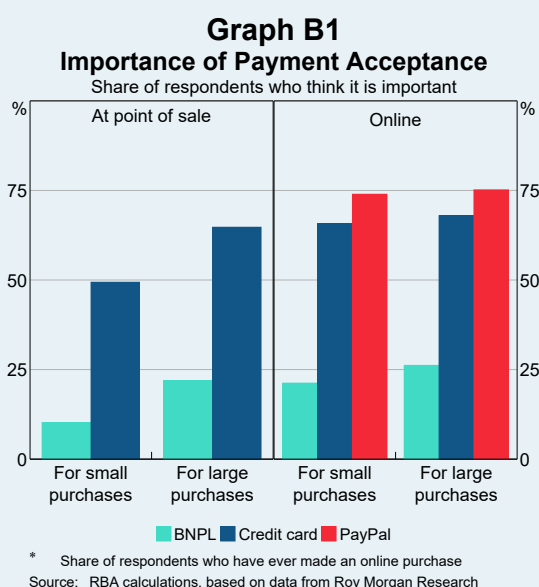
also help manage regulatory uncertainty for the industry.

The related issue will be how to calibrate any thresholds and the Bank is also seeking stakeholder feedback on this question. Qualitative information and judgement will also play a role in determining the point at which there could be a public interest case for the removal of no-surcharge rules. In this regard, the Bank's 2019 CPS provided some information on consumers' expectations for BNPL acceptance and possible responses to a surcharge on BNPL payments (Box B). Although a material share of consumers were of the view that it was important for merchants to accept BNPL, a much higher share expected to be able to pay with cards and other electronic payment methods. Around half of BNPL users reported that they would switch to an alternative payment method if faced with a hypothetical surcharge on BNPL payments; 40 per cent said they would pay the surcharge and around 10 per cent said that they would cancel the purchase. The possibility of purchases being cancelled could mean that merchants could choose not to levy a surcharge on BNPL payments, even if they were able to do so (as tends to be the case for card transactions).

One of the challenges in this area is that currently there is no comprehensive regular collection of data on the BNPL sector, although a number of providers publish certain data as part of their public disclosures. This may require the Bank to work with the BNPL industry to collect more timely and consistent data, for example on transaction flows and average merchant fees.

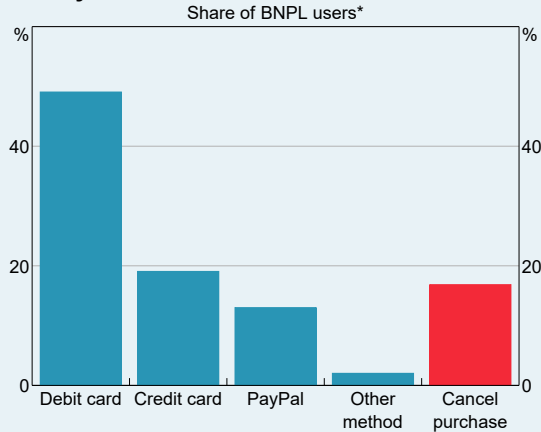
Box B: BNPL acceptance and surcharging: Insights from the 2019 CPS

To help gauge the extent to which consumers expect merchants to accept BNPL payments, the 2019 CPS asked participants how important it was to them that merchants offered BNPL as a payment option for 'small' and 'large' online and in-person purchases. Around 20 to 25 per cent of respondents said that merchant acceptance of BNPL was important to them for online purchases, as well as for large purchases made in person (Graph B1). A significantly higher share – around 65 to 75 per cent – of respondents were of the view that it was important that other electronic payment methods, such as credit cards and PayPal, were accepted for online purchases.



When BNPL users (i.e. those who had made at least one BNPL purchase in the previous year) were asked what they would do when making their most recent BNPL purchase if BNPL were not offered by the merchant, the majority (around 80 per cent) said that they would switch to another payment method, with debit cards the most commonly cited alternative (Graph B2). The remaining 17 per cent of BNPL users said they would cancel the purchase if they could not make the payment using a BNPL service such as Afterpay or Zip Pay. As for the potential response when faced with a hypothetical 4 per cent surcharge on a \$100 online BNPL purchase, around 10 per cent of BNPL users said they would cancel the purchase, while the majority said they would either switch payment methods or pay the surcharge.

Graph B2
Payment Choice if BNPL Not Available



* Respondents who used BNPL at least once in the previous 12 months
 Source: RBA calculations, based on data from Roy Morgan Research

Summary

The BNPL market in Australia has been growing rapidly, with strong consumer and merchant adoption, and the range of available services is increasing. While the development of new payment services such as BNPL has the potential to enhance the efficiency of the payments system by providing services that are valuable to end users, stakeholders have observed that merchants are unable to levy a surcharge to recoup the relatively high cost of accepting BNPL payments. Among other things, this has raised issues around the competitive neutrality of payments regulation given that the card schemes are not permitted to impose no-surcharge rules.

The Bank is currently considering the policy issues raised by BNPL providers' no-surcharge rules. While the PSB has not reached any conclusions at this time, its preliminary view is that the BNPL operators in Australia have not yet reached a point where it is clear that the costs arising from a no-surcharge rule outweigh the potential benefits in terms of innovation. Over time, however, a public policy case could emerge for the removal of the no-surcharge rules in at least some BNPL arrangements. Bank staff are continuing to engage with stakeholders on this issue, including on potential criteria for determining the point at which it may be in the public interest for no-surcharge rules to be removed. ✎

Footnotes

- [*] The authors are from Payments Policy Department
- [1] BNPL services often have features which mean they generally fall outside the scope of the *National Consumer Credit Protection Act 2009* (NCCPA), such as only charging low and/or flat fees (rather than interest) to consumers. The Australian Securities and Investments Commission (ASIC) has reviewed developments in the BNPL market, with a focus on the impact of BNPL arrangements on consumers (see ASIC (2020)).
- [2] These figures are broadly consistent with data in ASIC's 2020 report on the BNPL sector, though there are slight differences in coverage of BNPL providers. In comparison, overall debit and credit card spending increased by around 11 per cent between 2017/18 and 2019/20.
- [3] The CPS asked a representative sample of over 1,000 Australian consumers to record details of every transaction they made for a week in October/November 2019, as well as further details about their payment preferences (including in relation to BNPL) in a separate questionnaire. The 2019 CPS separately identified BNPL as a payment method for the first time. See Caddy, Delaney and Fisher (2020) for further discussion of the survey methodology and results.
- [4] An example of a well-established payments service provider launching a BNPL product is PayPal's 'Pay in 4' option in the United States which PayPal recently announced will be launched in Australia in June.
- [5] Some stakeholders have raised concerns about the proportion of customers who have missed repayments to BNPL providers. See ASIC (2020) for a discussion of the late payment fees charged by BNPL providers from a consumer protection perspective.
- [6] Some providers of these types of products have noted that, even though BNPL services are usually not covered by the provisions of the NCCPA, they may undertake various checks of a customer's repayment capacity (e.g. credit checks and verification of employment and bank account information). The Australian Financial Industry Association (AFIA) launched a Buy Now Pay Later Code of Practice on 1 March, which sets out industry standards for BNPL providers to conduct suitability assessments before a potential customer can make a purchase.
- [7] Virtual cards are digital-only versions of debit, credit or prepaid cards that have been integrated into some BNPL services. As with a physical card, the virtual card details can be entered at checkout on a merchant's website to make online purchases; some virtual cards can also be stored in users' digital wallets and used to make contactless payments at the point of sale.
- [8] Data on revenue by source in ASIC (2020) showed that the majority of BNPL revenue was from merchant fees, though shares differed notably across the 6 providers covered. Other sources of revenue were consumer fees, including missed payment fees.
- [9] Some large merchants such as airlines do impose surcharges on BNPL arrangements. For example, Jetstar applies a payment surcharge of 1.5 per cent for Afterpay transactions.
- [10] The revised surcharging framework was put in place following the Bank's 2015–16 review of card payments regulation and is enforced by the ACCC. For a discussion of the economics and enforcement of surcharging regulation in card payments systems see Dark *et al* (2018).

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