COSBOA Buy Now Pay Later Position Paper Summary

Policy Statement - COSBOA supports innovative financial products that sit within the regulatory system, are transparent and competitive with their merchant fees and charges, which can be passed on the beneficiary of the service.

Buy Now Pay Later (BNPL) is a "free" credit service to customers, which is gaining market share from credit cards. It allows customers to pay in instalments over time without interest fees being charged if payments are made on time. The service has been operating and refined over several years and is a technology based financial product that sits outside banking regulation. The "free" credit is paid for by the participating merchant at a rate of between 3-7%, being 3 to 4 times credit card fees. The merchant, in offering the service, is prohibited in their contract from passing this fee onto the consumer. No such prohibition exists with credit cards which are regulated somewhat within the banking industry and by government.

The role of merchants in the scheme has been ignored by the industry and Government in analysis of this new service offering. Small business is not included in the Industry Code of Practice and given short mention by Government analysts. The November 2020 ASIC report noted "Total revenue from buy now pay later arrangements across the six providers in our review grew by 50%, from $266 million in the 2017–18 financial year to $398 million in the 2018–19 financial year." Yet there was no analysis of the merchant's role or rights when using BNPL.

Despite most of this revenue being generated from small business, (between 38% ZipMoney and 96% Brighte) there has been little to no recognition of small business as customers. An industry developed Code of Practice addresses concerns of consumer groups who raised alarm over the lack of credit checks and possible exploitation of purchasing customers. COSBOA's own research of participating merchants, raises the same concerns, yet this has not been addressed or acknowledged.

BNPL providers say merchants gain additional sales, increased value of sales and "promotions" of the business. With consumers happy to have "free" credit, the providers leverage merchants on their Fear of Missing Out (FOMO) on a sale. The trick, for merchants is to know their margins. This is often not fully understood and high fees can eat substantially into a small business's profits at a time when many small businesses are struggling due to COVID-19.

The merchant fee is a mix of a percentage and a set transaction fee. Afterpay generated 80% of their revenue from merchants in 2018-19. Using Afterpay on a $100 sale, a book seller would pay approximately $6.35. If these are books with a margin of 30% and the book seller's profit after costs is $10, then this is **over half their profit** on the book. If the books are from the bargain bin outside the door, then Afterpay is reaching into the bookseller's pocket to take the fee.

COSBOA has advocated strongly on the issue of least cost routing (LCR) from 2017. LCR would reduce merchant fees (that are much less than BNPL), charged on cashless transactions. COSBOA maintains a policy position that is consistent with its advocacy on LCR, the need for regulation that allows competition, transparency, and the ability for merchants to pass on the charges.

Buy Now Pay Later and Small Business

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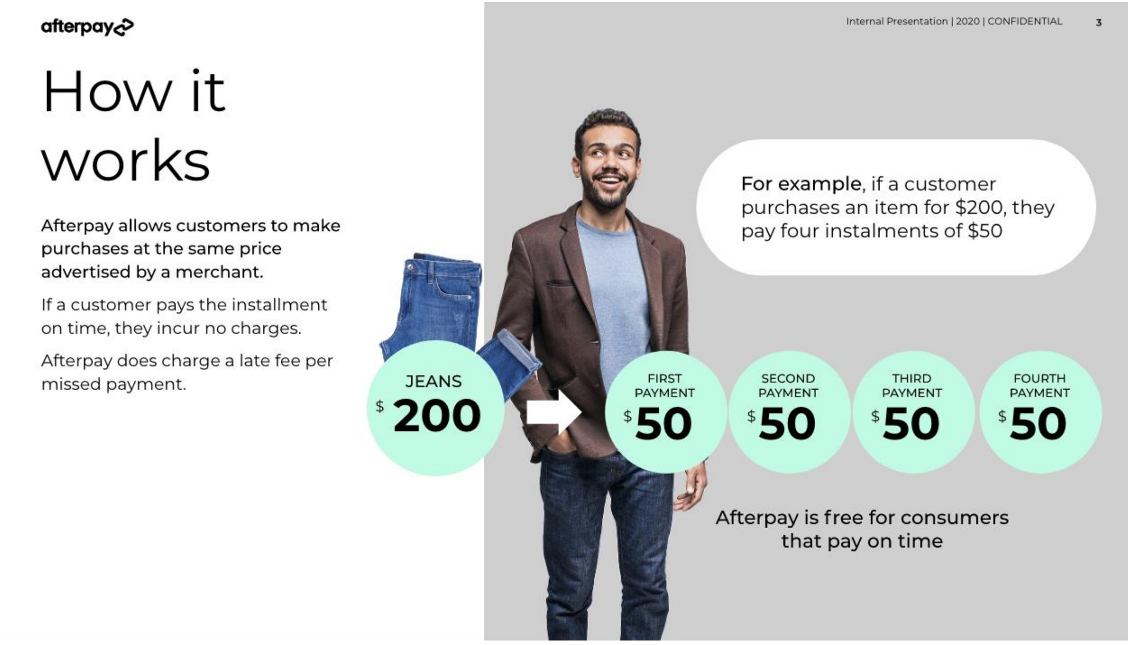
COSBOA Policy

COSBOA supports innovative financial products that sit within the regulatory system, are transparent and competitive with their merchant fees and charges, which can be passed on the beneficiary of the service.

Background

BNPL is like a lay-by, without the wait. Consumers can pay in instalments and take home their purchase. BNPL providers are attractive to credit card wary young consumers as they offer a ‘free’ payment instalment service. This free payment service is like the free credit period provided on a credit card. The difference is that the BNPL credit is purchase specific and perceived as limiting the person’s ability to create unmanageable amounts of debt.



If the purchase is paid on time, there is no interest paid by the consumer. The merchant subsidies the purchase paying between 3-7% on the transaction. This is 3 or 4 times the interest fees charged on credit cards. The consumer is oblivious to this fee. The merchant is prohibited from passing on the fee. The value to the merchant is additional sales, increased value of sales and "promotions" of the business. This is not guaranteed.

Using Afterpay on a $100 sale, a book seller would pay approximately $6.35. It these are books with a margin of 30% and if the book sellers profit after costs is $10, then the fee is over half their profit on the book.

If the books are from the bargin bin outside the door, then Afterpay is reaching into the bookseller's pocket to take their fee.

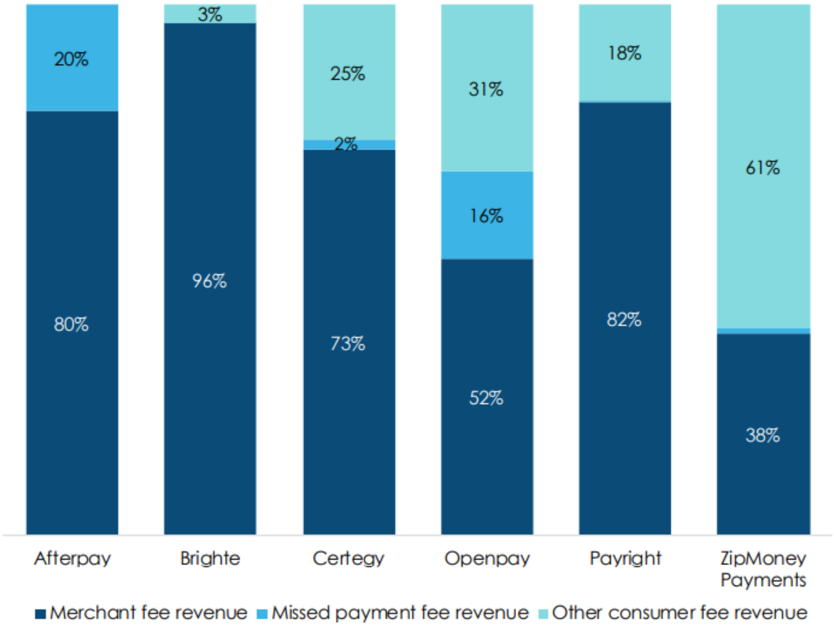
The service has been operating and refined over several years and is a technology based financial product that sits outside banking regulation. Consumer groups raised the alarm about lax credit approvals for these new services in 2018 with Choice campaigning strongly for regulation and reform. These concerns are being addressed by the providers as their business models mature. In 2021 the industry released a Code of Conduct.

Two main players, Afterpay and Zip are growing in the Australian market and many more are entering the market. PayPal announced in March 2021 it will offer a BNPL facility to 9million Australian customers. (Affterpay presentation here.) Zip have provided a corporate profile here and their combined response to the Reserve Bank of Australia's (RBA) review of Retail Payments Regulation: Issues Paper November 2019

The missing and critical information in all these discussions is the fee in the middle that small businesses are paying for every transaction through BNPL facilitators. The Code of Conduct does not recognise merchants as customers, despite merchants being the largest revenue source for the BNPL operators. Government responses have also largely ignored the merchants, many of whom are small businesses.

BNPL may be attractive to small businesses who wish to target the younger demographic. The ASIC report in 2018 revealed that the number of BNPL transactions per month had grown from 50,000 transactions in April 2016 to 1.9 million in June 2018. This has jumped exponentially in the last three years with ASIC reporting an increase of 75% in the number of transactions.

Figure 5: Revenue sources, by provider (FY 2018–19)



"Total revenue from buy now pay later arrangements across the six providers in our review grew by 50%, from $266 million in the 2017–18 financial year to $398 million in the 2018–19 financial year." ASIC BNPL Industry Update November 2020.

Given that most of this revenue is from fees from merchants, the lack of analysis into the merchant fee issue is astounding. This "missing middle" is highly relevant to small business. ASIC said they did not have the ability to look at merchant fees in detail. There is no transparency on these fees which are protected by commercial interests. It has been COSBOA's experience and that of several Commissions and Banking industry inquiries, that regulation is needed in financial services.

COSBOA's task has been to understand the perspective of small businesses using BNPL services and add this information to policy prosecution. In February COSBOA ran a survey into the experiences of small business using BNPL. The results are available on request.

The initial results from a small sample showed a very mixed response. 43% of respondents say they experienced increased sales. Many raised the large fee and inability to pass it on as a problem. Many wondered if it was worth it.

These services are rapidly growing but it is the 'no surcharge' policy which is of concern for small businesses. In comparison to credit cards who charge retailers a fee to accept them, AfterPay and ZipPay are "free" to the consumer, and therefore ban merchants from applying a surcharge to the customer for the use of the service. However, these services charge the merchant a fixed transaction cost of about $0.30 plus a commission of between 3% and 7% per purchase. The discussion in relation to the RBA's review of the retail payments regulation is placing heavy focus on the experience for the service providers (Afterpay and ZipPay) and the consumers but with little discussion of the impact these fees have on small businesses. [ZipPay in their submission to the RBA review](#) emphasised that their business model and the BNPL sector is inherently different to credit card services and therefore believe that any form of regulatory intervention into the arrangement between merchant and providers is not needed or appropriate.

BNPL suggests that their business model is fundamentally different to credit card providers as they provide the merchant marketing services and remove all fraud and chargeback risk. It is important to understand the experience of small businesses using BNPL services and if the benefits of marketing, removal of debt risk, payment and customer acquisition outweigh the fees. There is not enough research or evidence yet to support these claims.

This paper aims to present thinking around the growing trend of buy now pay later (BNPL) and its impact on small business. The result has been the development of policy direction for COSBOA in relation to this growing credit offering. COSBOA supports innovative financial products that sit within the regulatory system, are transparent and competitive with their merchant fees and charges, which can be passed on the beneficiary of the service.

Fairer Merchant Fees Alliance

COSBOA has been working since 2017 with the Fairer Merchants Fees Alliance to get banks and other merchant facility providers to use some form of low cost routing (LCR) with Westpac recently announcing (5 Aug 2020) they will move 37,000 merchants to low cost routing using EFTPOS.

While COSBOA argued these fees were too high and amounted to gouging by the banks, the fees charged by BNPL are significantly higher.

It took a pandemic in 2020 for the banks to move, and even now only 7.7% of debit transactions are LCR, so there's a long way to go.

- Westpac, CBA and NAB all rolling out variations of LCR.
- Westpac proactively switching 55,000 terminals to LCR, saying 37,000 small businesses will have lower debit transaction processing costs.
- CBA has written to 50,000 customers, plus launched advertising campaign, and is pledging to do more.
- NAB's LCR has flat rate of 1.15 per cent.

The NAB's flat 1.15% compares poorly with big merchants processing more than $10M, paying half this fee, 0.6%.

Least Cost Routing has been a story of big banks collaborating and gouging fees from small businesses. Providing no transparency and obstructing change, even when alternatives existed.
At the end of 2020, the worst year since the Great Depression for small business, banks have done little but lip service to address LCR. BNPL appears to COSBOA like more of the same at a time when small business can ill afford more pressure on its margins.

An issue of policy consistency emerges for COSBOA on the matter of alignment of its policy position on LCR and BNPL. See more detail in our attachments.

RBA Review

BNPL providers like Zip and Afterpay have, along with COSBOA and many of its members, made submissions to the Reserve Bank Australia's Review of Retail Payment Regulation, announced in November 2019. 52 submissions have been made and the closure date has been moved out to 2021 due to COVID-19.

No Surcharge

For BNPL schemes, at issue is the ban that stops merchants passing on the service's fees. The Commonwealth Bank and ANZ called on the RBA to ban Afterpay's "no surcharge" policy. Westpac and NAB made confidential submissions.

Afterpay, a short-term lender that has seen its market value surge to $10 billion in the past year, makes most of its revenue from charging retailers fees of between 3 and 6 per cent of the purchase price. This is far higher than what retailers pay to accept credit cards and, unlike these schemes, Afterpay requires that merchants do not recoup their costs by adding a surcharge to customers on the purchase price. The RBA is considering intervening to allow retailers to impose a surcharge because of concerns Afterpay and other BNPL providers are driving up retailers' payment costs.
SMH 13 Feb 2020

Consumer Concerns

Choice Australia has criticised BNPL for its lax consumer credit checks. According to ASIC, two in five people who buy through BNPL schemes are low-income earners and, of those, two in five are students or part-time workers.

CHOICE has joined with other consumer groups to criticise the high cost of BNPL products, including Afterpay. While Afterpay claims to be "free", costs are ultimately borne by all consumers through increased prices, as merchant payment fees are built into the overall price of goods and through payment of late fees and other charges."

In 2018 Choice looked at "How does ZipPay make money?"
ZipPay makes money primarily in two ways: by charging customers fees and by charging retailers a percentage every time a sale is processed on its platform.
We can learn a lot about the company from the quarterly financial statements filed by its parent company, Zip Co.
As of the quarter ending 31 December 2017, Zip Co was owed a total of $231.3 million from its customers. About $32 million would be paid back each month, $4.3 million would be made from fees and $5.3 million would have to be written off due to customers being unable to pay off their debt. ZipPay claims its default levels are "well below industry standards", but it does expect its defaults to rise towards $6.9 million, presumably in the coming quarter.

Choice says Afterpay makes money from 43,000 merchants charging them a $0.30 fixed transaction fee plus a commission between 3% and 7% on each sale, which is considerably higher than what they are charged by banks to process other payment types. What retailers spend in fees, they hope to make up in increased sales. Afterpay says its average merchant fee is the lowest at 4%.

"Afterpay generated more than $179.6 million in fees from retailers as of the end of December 2019, with an additional $32.6 million in late fees or roughly 18.7% of their revenue, down from 24.4% in 2018. Some customers couldn't make their repayments, leading to $6.5m in debt recovery and chargeback costs."

In November 2020 ASIC reported that all the BNPL providers made almost $400 million in fees from Merchants in 2018-2019. Details on this middle of merchants is mainly missing from any examination of the schemes. COSBOA very much sees merchants as consumers, with roles, rights, and responsibilities. It is odd that this concern for the consumers does not extend to small businesses and merchants who are the main contributors to the BNPL revenue.

BNLP is a marketing cost

BNPL argue they offer more than just Point of Sale (POS) processing, by providing marketing. The BNPL platform operators counter they are a "marketing platform" that competes with online advertising to create leads. COSBOA has asked for information that would assist assessing the value add from this marketing comparison. Apart from claims that it a marketing tool, there's little evidence of its real results for a small business. See attachment.

Providers say the competition in the BNPL market will keep their fees low and competitive and there is no evidence that the surcharges increase the cost of goods and services to customers. Afterpay is positioning itself as a marketing service and says its costs are reasonable compared with Facebook's 11- 12% cost on sales. Getting verification on costs and comparisons has not yet been achieved.

How much?

COSBOA has met with Afterpay and Zip representatives and reached out to other BNPL providers to discuss details about their service. Using Afterpay we found, a typical $100 book sale would attract a merchant fee of 6.3%. Discerning the fee structure is difficult. Afterpay's web site provides information for retailers. The costs are not available. Our own survey of small business showed fees ranged between 4 – 6 % plus a transaction fee of about 30c. Plus GST. These costs vary based on volume, which means again, they would be higher for small business and lower for bigger businesses.

Profit Margin by Sector

As the following table demonstrates, profit margins vary substantially by sector, with professional services scoring the highest:

Sector	Avg. Profit Margin (2017)
Professional, Scientific, IT services	11.9 percent
Healthcare	9.6 percent
Manufacturing	4 percent
Accommodation and Food Service	4.4 percent
Retail	2.8 percent

**Sageworks 2018 Report*

These US figures from November 2019 shows just how slim profit margins by sector can be. BNPL targets the retail and hospitality sectors, those with the lowest margins. If a retail profit margin is $2.80 on a $100 sale, then a $6.35 fee is a loss - $3.55. BNPL targets the retail sector, an industry that can have slim margins, high competition, and a lot of small business participants. The danger is that small business attracted by the lure of higher sales, may not have the margins to sustain the fees.

Sponsorship for Industry Partners

COSBOA members like the Pharmacy Guild and the Australian Hairdressing Council are interested in Afterpay as a service and as partners. Some of COSBOAs members are interested in the advantages of the services offered and the opportunity of sponsorship.

New Billionaires

Australian tech start-ups and Afterpay owners Anthony Eisen and Nick Molnar are newly minted billionaires. They have just divested $250M in shares, after previously selling a tranche of $25M and $100M. As of late 2020;

- Afterpay valued at $19.3Billion.
- Revenue $220 Million
- Earnings /profit about $20- 25 million, (which will probably convert to a bottom-line loss.)
- Underlying sales $5.2B has jumped to $11.1 Billion.
- The share price was down-graded by CITI to $27.10.
- The same week it upgraded the price to $64.25, Citi snagged the deal to underwrite a $800 million share issue to fund further expansion
- This share issue is part of a total $1 billion capital raising which has been snapped up by the markets, further increasing the share price. Currently $76.01

This company continue to confound the punters as far as its valuation goes. It is a winning formula, making money from both the low, medium and high economic strata, from customers, retailers and share traders.

Attachment - Consumer Experience

Afterpay Are Ruthless & Don’t Believe That They’re Here to HELP
8 August 2020 From Trev65
I found my self unemployed Dec. 2019 so knowing i was going to struggle to meet my repayments I contacted Afterpay told them of my situation and could I negotiate a payment plan to still be able to repay something rather than fees & charges just building up..
I was asked what could I afford ? I suggested what I could afford and with that I was told that her supervisor would review my situation and contact me on due course..?
I wasn’t contacted by After pay I was contacted by a collection agency via email calling on the whole outstanding amount be paid immediately to avoid future fees and possible court fees.??
I was amazed and attempted to contact Afterpay and would you believe they referred me to said collection agency.
I eventually paid back every dollar owed plus the fees I was inevitably I was charged for sooner than agreed to by the collection company and myself. So some months later. I saw a need to use afterpay and when I spoke to them inquiring about my account and what pre approval limit I might be able to access.????
They thanked me for repaying my outstanding amount in full..! However, you will NOT BE approved for any amount from Afterpay in the future.!
Not the sort of response I was expecting, as far as the supervisor NOT contacting me back to negotiate a payment plan
I was told there was no record of me calling them even though I requested a reference no.?? My fate had been decided..!
Unfortunately this also was placed against my Credit rating.. making it even more difficult to access a future loan or mortgage. ! I don’t like the way they think they feel they can manipulate you when monies are owed that they try putting your mind at ease, “you contacted us to make a repayment arrangement to settle what was owed & perhaps a review after a month or so.? Not only did I pay 3 x the min amount negotiated with the collection company it was repaid well ahead of time to show good will and my commitment to relay as i said i would.??
Only to be told we no longer will be approving any future loan requests you submit !! My Rating out of 5..? > 0

Attachment - Least Cost Routing (LCR)

Since 2017 COSBOA and the Fairer Merchants Fees Alliance have been advocating for Least Cost Routing. This would allow merchants to choose the least cost route for tap and go transactions made with a customer's dual network debit card.

This choice became an issue when merchants noticed an inexplicable increase in their merchant fees charged to debit transactions. These transactions where being routed through expensive international networks. Merchants saw fees in some cases double and triple. The fees are not transparent or easy to calculate, often being bundled with other services, tied to volumes and values, with a complex fee structure, which further obscures the cost. Lower cost options are available but are not automatically enabled. The infrastructure they ran on wasn't readily available from the banks who provided the merchant machines to process payments. Numerous calls for action were resisted by the banks who were making money from these transactions, infrastructure and deals.

It took Industry and Association advocacy to get attention, and even then, progress was glacial. The task of understanding fee structures was so difficult, it spawned a new service industry to help business people understand, benchmark and shortlist different service providers. In the meantime, a handful of major Government reviews, also recommended LCR, including the RBA which estimated banks were gouging $500m in tap and go fees as recently as February 2020.

In 2019 some banks began offering LCR, with conditions attached that impacted the LCR capabilities. More obstruction. The RBA noted that even with some movement, small businesses were paying significantly higher costs (>33% - 50%) in merchant fees than larger businesses.
How much could a business save by Least Cost Routing?

- An independent supermarket with an average basket size of $44 could save $26,391 per annum* on the cost of debit transactions.
- An independent petrol station with an average ticket size of $44 could save $13,196 per annum* on the cost of debit transactions.
- An independent newsagent with an average ticket size of $36 per annum could save $3,167 per annum* on the cost of debit transactions.

*Source: RBA Statistical Tables, March 2020

It took a pandemic in 2020 for the banks to move, and even now only 6% of debit transactions are LCR, so there's a long way to go.

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EFTPOS has led LCR progress, providing a competitive choice for merchants. That role is now in jeopardy, with the announcement of the merger of EFTPOS, NPP and BPAY. It is inconceivable, based on experience, that a mega entity of big banks and retail giants will guarantee a competitive environment for new players, innovative less expensive products and services or pay any heed to regulators. This new mega entity, has demonstrated convincingly that it views the role of small business as a free, eat as much as you want, buffet.

Attachment - What is it with the share price of Afterpay?

New Daily Michael Pascoe

13 July 2020

There's no such thing as a free lunch – or Afterpay transaction.

They cost, on average, 3.9 per cent if you ignore late fees.

That is an expense that is built into the merchant's overall prices.

If you see the Afterpay sign in a shop and you don't use the "buy now pay later" fad, you are subsidising those who do. (The company allows customers to split the cost of a product over four interest-free instalments, and only charges them if they pay late.)

And if you think that is silly, after three years as a listed company, the stockmarket is valuing this unsecured consumer credit provider with an uncertain future at $19.3 billion.

That is a rather vast amount of money for a company that had revenue of about $220 million in the latest financial year and doesn't make a profit.

Yes, folks, Afterpay looks suspiciously like a speculative bubble in what is already a dislocated market where the real value of anything is hard to judge.

The bubble reached fever pitch last week (if bubbles can have a fever in COVID times) as speculators scrambled for a slice of more than a $1 billion worth of Afterpay shares up for grabs.

The company is issuing $800 million worth of new shares to finance expansion and its co-founders, newly minted billionaires Anthony Eisen and Nick Molnar, are taking the opportunity to offload $250 million worth of their shares.

They've previously sold off one tranche worth $35 million at the time and another worth $100 million – anyone see a pattern here?

They have promised they won't sell any more until after the annual general meeting – but that's only four or five months away.

Just as tech stocks have been the stars carrying the US market higher despite the biggest economic shock since the Great Depression, Afterpay has been the Australian market's little tech star.

Unsurprisingly, some greybeards hear echoes of the Dot Bomb era, but there are plenty of boosters thinking Afterpay is the best thing since tulips.

The Afterpay mania has been a bit of embarrassment for stockmarket analysts, a subject of some wry grins around the market.

For those who think the stock is overvalued, there is the discomfort of missing out on such a dramatic performance.

For those who suddenly think Afterpay can turn lead into gold, there's the embarrassment of their earlier assessments that it was overvalued when it was much cheaper.

Oh, did someone mention Citi? Well I have now.

In April, Citi analysts downgraded Afterpay to "neutral" with a target price of $27.10.

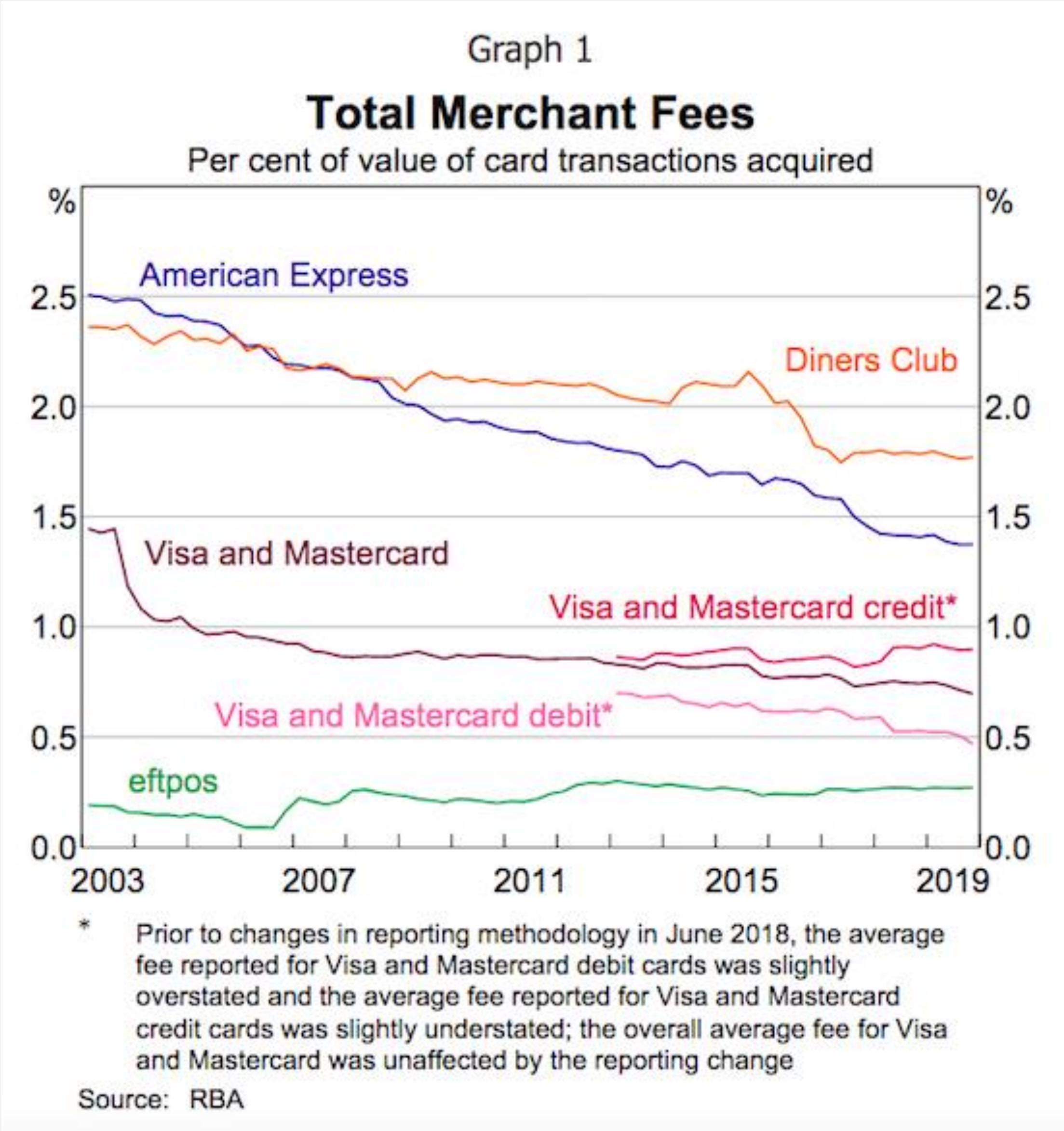
They weren't the only ones feeling a bit negative about the shares of an unsecured credit provider that mainly services the younger, smaller end of the market as the world went into recession that is affecting the younger and smaller most.

On July 2 Citi suddenly turned bullish on Afterpay's prospects with a target price of $64.25 and – surprise, surprise – a week later was named as one of the two brokers to pick up fat fees as underwriters for the $800 share issue.

Citi, along with NAB, also provides Afterpay's receivables financing facility in Australia and, along with Goldman Sachs, does the same job in the US.

Basically, they provide the money for Afterpay to pay merchants when someone uses the product. (Goldman Sachs analysts have remained less bullish though with a target price of $25.675 a share, a long way below Friday's $72.31 closing price.)

Afterpay's share price. Source: Google
Even sceptical analysts have had to lift their valuation as the price has run away.
UBS did a fine job of analysing the company in April and decided on a price target of $13 a share.
That target has now been increased to $25.
The reason for the UBS upgrade was the bullish trading update provided by the company with its capital raising announcement.
In keeping with the Dot Bomb techs, Afterpay is big on talking up sales growth, not so loquacious about bottom-line losses; happy to give details about increases in customers and merchants, not so happy to go into details about bad debts.
Afterpay's favourite number is what it calls "underlying sales" – the amount it finances. That jumped from $5.2 billion to $11.1 billion in the June year – very impressive growth.
Afterpay's actual revenue though, its net transaction margin, is only two per cent of that – about $220 million. And the percentage has been falling.
On that revenue, it's claiming earnings before interest, tax and depreciation of $20 to $25 million – which means it's likely to report a bottom-line loss.
But, hey, it's a tech stock! It's all about growth! It's all about becoming the next Amazon or Facebook!
They also lost money while growing rapidly to become massive successes.
But for every Amazon or Facebook, there are thousands of techs that didn't.
The risks facing Afterpay are well known – most obviously the danger of bad debts blowing out and margins shrinking as plenty of competition piles into the BNPL space (including a European player in partnership with the Commonwealth Bank).
But the problem less mentioned is the business of non-Afterpay users effectively subsidising those who do.
Afterpay is charging merchants an average of 3.9 per cent for the "free" credit its customers enjoy.
For some small merchants, that charge is as high as 6 per cent, according to the Reserve Bank.
Afterpay forbids merchants from surcharging customers for such a high fee, as they can for much cheaper credit card fees.
RBA figures show even a relatively expensive credit card, American Express, is only charging merchants about 1.4 per cent on average, a charge merchants can add to the customer's bill if they wish.



The RBA reckons credit providers stopping merchants from adding that cost to the bill is crook, which is why the bank first of all stopped credit card companies imposing a "no surcharge" rule – and then stopped merchants charging an over-the-top surcharge that didn't reflect the real cost of using the card.

As the central bank summarised it in a payments system issues paper: "If a business chooses to apply a surcharge to recover the cost of accepting more expensive payment methods, it is able to encourage customers to consider making the payment using a cheaper option.

"The possibility that a consumer may choose to pay with a lower-cost option when presented with a surcharge also helps put competitive pressure on the pricing policies of payment providers, indirectly lowering merchants' payments costs.

"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."

The RBA is clearly of a mind to ban Afterpay's surcharge ban, but the process of review has been delayed by the pandemic with a decision not expected until next year.

Afterpay declared this was a key risk in its investor presentation last week: "A change in Australia's payment system regulations could restrict Afterpay's ability to limit merchants adding a surcharge on customers who use Afterpay as a payment method. If a material number of merchants did add a surcharge as a result of such a change, it could adversely affect usage of Afterpay relative to other payment methods."

Afterpay's submission to the RBA review begging to be excused is as full of self-serving claims as any I've seen, topped by this absolute doozy: "Afterpay's unique characteristics and value proposition to merchants and consumers means it should not be considered a payment system."
CEO Anthony Eisen also submitted that any contemplation of regulatory reform "should be part of a parliamentary process that has a broader lens than the regulation of payment systems".
Maybe he thinks the company would have more luck lobbying politicians than staid central bankers – or at least that any such parliamentary process would take years.
And there was this: "The BNPL industry, as a growing and innovative industry, should also be recognised for its efforts to self-regulate and raise standards."
Yeah, with all the experience we have industries left to self-regulate, sure.
So how is this start-up so quickly worth a ridiculously large amount?
Some of the answer might be in a recent newsletter by the British commentator and investor, Anthony Peters, writing about America's NASDAQ reaching dizzying heights.
He pointed to the explosive growth of online trading accounts and retail trading volumes since the start of the pandemic and the fondness of retail investors for the dominant tech stocks, then reminisced about Bitcoin's big run, the dot.com revolution, the real estate bubble and the crash of '87, all of which smashed retail traders.
"But petty retail and the explosive recovery in stock prices since the March lows are two different kettles of fish," he wrote.
"The rule of thumb used to be that the moment a taxi driver asked you what you thought of the market you should be heading for the door. The thing is that in the pandemic nobody is taking taxis…
"In order to be good enough to be a trader one needed to be right 55 per cent of the time. Anything above 58 per cent made one a star.
"It's only when one appreciates that at 58 per cent one is a star that one begins to understand the concept of risk management. It's not about how to make money when one is right but how not to hand it all back and more when one isn't.
"The staggering rallies in some of the techs and in one particular automotive company which will be nameless that one is obliged to ask oneself where the risk mitigation is to be found?
"If you look around the table and you can't see the fool, you're the fool. If you look at an asset rally and you can't see the hedges, there are no hedges.
"At the end of the day all securities trading is a relative value game so if the hot stocks go on a mission the other boats will eventually and inevitably have to rise on the same tide. That they are doing …
"Owning shares is not a game of click and collect.
"Having done my four decades in markets there is one thing I can confirm and that is that picking entry points is a lot easier than picking exit points or put more succinctly, it's easier to identify the time to hoover up something which is under-priced than to let it go when it's overpriced.
"We simply rely on a greater fool being out there who will pay just that little bit more than the last guy."

Attachment – Zip Answers COSBOA queries

Matthew Abbott <matthew.abbott@zip.co>
Tue 25/08/2020 9:58 PM

Appreciate the opportunity to engage with COSBOA, albeit at short notice. Happy to get our Chief Commercial Officer Hamish Moline to speak with you.

A few points on the benefits Zip offers to merchants.

Merchant Service Fee

The Merchant Service Fee (MSF) ranges from 3% - 4%. It is the cost of merchants using Zip but we would argue, that cost covers a much broader range of services than a simple payments platform (like credit cards). These benefits are:

Lead Generator

- Approximately 70% of Zip's transaction volume is generated through ecommerce (online or through the app). Merchants with an ecommerce presence adopt a multi-pronged strategy in how they acquire customers. Service providers who offer similar or competing consumer acquisition services include Google, Facebook, Amazon, eBay and affiliate programs. These vendors provide the service at a cost to the merchant.

- Zip provides a similar lead-generation offering to its ecommerce merchants. Zip is a trusted partner for merchants as Zip drives new customer traffic, increased order value and higher conversion rates to its merchants. Similar to other lead generators like Facebook and Google, Zip charges a fee for this service. This MSF is an exchange for an important business value-add.

Zip's Guarantee – No Fraud or Chargeback Costs

- Fraud is highly prevalent with online and card-not-present transactions, resulting in high levels of fraud and chargeback risk, which result in significant costs or losses to merchants. Zip is a closed-loop solution with high levels of inbuilt protection for fraud and security which provides a bottom-line benefit to merchants. As a result of its investment in its platform, Zip is able to cover its merchants for ALL the fraud and chargeback liability. Card transactions offer no such protection.

Customer insight data

- Providing Zip merchants with access to Zip's customers and data capability, presenting insights on customer behaviour and preference. Merchants use this information to understand consumer behaviours, allowing them to drive volumes, increase increasing basket size, and gain insight on how their customers transact online and instore.

Marketing campaigns

- Zip has 2.1 million customers inclusive of GenY (who statistically have not been adopters of traditional credit products). As Zip is a brand in its own right, merchants benefit from the synergies Zip provides from marketing campaigns which it executes to its customer base. Partnering with Zip, merchants gain access to an engaged customer base. This delivers and assists merchants with loyalty and repeat purchases. Zip caters to the different commercial needs of each merchant. The MSF charged by Zip is a direct contractual fee that the merchant agrees to pay for all these services.

Hope that is useful.

MA

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Attachment - Research

AUGUST 27, 2020

BUSINESS BREAKING NEWS

Afterpay rival Zip Co disappoints with higher bad debt expenses

Afterpay rival Zip Co has booked a disappointing full-year result with higher bad debt expenses and seemingly more to come.

By REBECCA LE MAY

AUGUST 27, 2020

TECHNOLOGY

Afterpay halves losses as customer numbers double, shares hit new high

Shares in tech darling jump past $90 to new high as buy now, pay later pioneer halves its annual net loss to $19.8m.

By DAVID SWAN

AUGUST 27, 2020

BUSINESS BREAKING NEWS

Afterpay says sales double as more customers turn back on credit cards

Buy now, pay later giant Afterpay's sales have doubled as more consumers turn to instalment payments rather than credit cards.

By GERARD COCKBURN

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https://www.theaustralian.com.au/news/latest-news/afterpay-rival-zip-co-disappoints-with-higher-bad-debt-expenses/news-story/667dbe387ffcc619013cf8784d8d3b21

SmartCompany

the proportion of its sales sourced from international markets.

The combined underlying sales contribution from Afterpay's international operations increased to 41% in FY20, up from 18% in FY19.

With plans in place to move into Canada and Asia, its likely Afterpay will soon be making more money overseas than in Australia.

Small businesses appear to be flocking to Afterpay

Afterpay says "rapidly expanding" numbers of small-to-medium businesses are signing onto its platform around the world as the pandemic forces many to adopt new online channels.

While the company did not break down its number of SME users specifically, the number of active merchants on Afterpay increased 72% in FY20, moving from about 32,300 to more than 55,400.

Interestingly, the growing number of smaller companies on the platform supported Afterpay's merchant margins, which remained at about 3.9% of underlying sales.

https://www.smartcompany.com.au/industries/retail/afterpay-financial-disclosure-unpacked/?utm_campaign=SC&utm_medium=email&utm_source=newsletter&utm_content=smartco_daily&utm_term=2020-08-27

https://www.smh.com.au/business/banking-and-finance/fintech-inquiry-warns-against-one-size-fits-all-regulation-20200902-p55rpg.html

NSW LIBERAL Senator Andrew Bragg – says it should be up to Politicians, not regulators, to set policy for new products like BNPL. BNPL welcomed the "self-regulation" approach.

https://www.abc.net.au/news/2020-09-03/buy-now-pay-later-regulation-fintech-senate-inquiry/12614068

Consumers don't need to have legal protections when they use "buy now, pay later" services like Afterpay and Zip, because those companies can just self-regulate, according to a Senate inquiry into fintech...
Buy Now Pay Later: A New Retail Dynamic Has Everyone's Attention | IBISWorld Industry Insider

Margin compression hits humm's BNPL business 25 February 2021 5:47AM John Kavanagh
Consumer lending, Car loans & HP

Zip seeks acceptance
https://www.bankingday.com/login?p=%2fzip-seeks-acceptance

Attachment – Industry Consultation

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Mobile: 0467 873 789

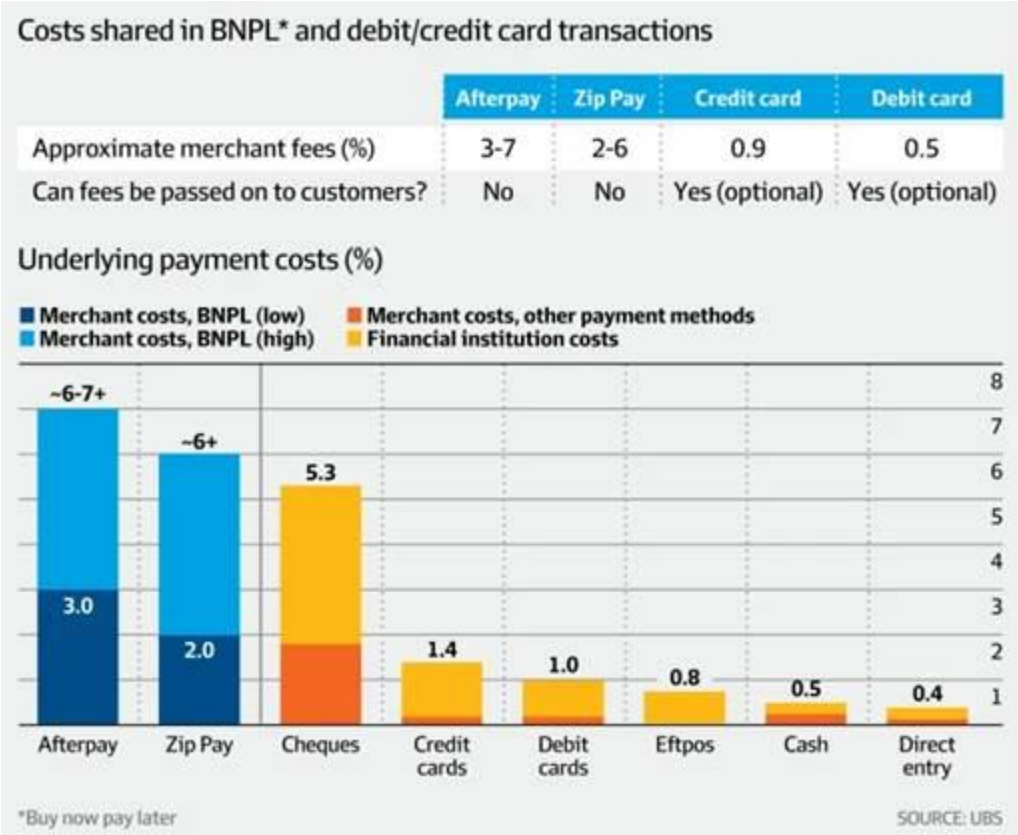
Just some feedback from our industry:

- Whilst BNPL is growing across many facets of retail I don’t believe that it has much appeal for our industry [petrol/convenience]. Our **average transaction value is approx. $9.70** [in 2019] and 39% of merchandise sales are tobacco products at low margins and the balance on the go food and beverages.
- There may be concerns about customers using such services **to buy tobacco** [cartons are over $200 in many cases] yet alcohol may be bought e.g.:

- In terms **of petrol**, according to an ACCC report published in April 2020, national petrol sales were approx. 25billion litres with a value of approx. $35billion. Again this is a low margin products for retailers, commission agents, franchisees etc. It is doubtful whether such BNPL services would be encouraged for petrol sales.
- There **could be an application for automotive workshops** where repairs and servicing may run into hundreds of dollars.

- There may **be benefits for B2B usage of such BNPL** schemes for some small businesses e.g.:
  From an Australian Fintech article:
  Consumer-focused buy now, pay later options are also seeing businesses use their offers to pay for assets.
  “We’ve seen tradies use Openpay at Bunnings and other home improvement merchants to purchase goods to complete jobs. Commonly, tradies don’t get paid in full until the job is complete so using Openpay gives them access to funds that provides a cash flow solution to this challenge,” chief revenue officer of buy now, pay later start-up Openpay, Dion Appel says.
  ASX-listed Israeli fintech Splitit says businesses are also using its offer to extend credit card payments across multiple instalments, with “increasing demand from online merchants who want to use Splitit as a B2B solution”.
  Market darling Afterpay has steadily been taking over shopping centres over the past few years and the concept of splitting shopping payments into bite-sized chunks is becoming more accepted.
  While Afterpay is focused on lower value consumer goods, other fintech founders say there is plenty of growth still to come in the business-to-business space.

There are also concerns about **costs and surcharges** i.e.:



- **Merchant fees** and charges are a real issue. AACS has also come down hard on banks in seeking LCR for customers to be able to reduce fees for retailers.

- **Article in the AFR today:**

Feb 5, 2020 Afterpay's valuation is nuts – but its growth is impressive
The hype around Afterpay's share price overshadows rational discussion of its actual business. Which is a shame, because its growing very nicely.
Aug 27, 2020 – 2.38pm
When a stock has been rammed to the heavens like Afterpay has in the past six months, it's easy to forget there's an actual business inside the bubble.
And judging from its 2020 earnings, it's a pretty impressive one……….Repeat customers – who on average spend $153 per transaction, and have an average outstanding balance of $190 – are obviously less risky than new ones. To further encourage repeat business, Afterpay is building up a loyalty program where rewards are based on repayments, rather than transactions…….

Regards,
JEFF.