

# The role of Buy Now Pay Later services in enhancing competition in the Australian economy

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Discussion paper

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# Introduction

The Australian retail, financial, and online advertising markets are all highly concentrated in Australia. As the last 20 years of attempts to increase competition in these sectors has shown, there is no silver bullet to address the market power of dominant firms in Australia. That said, there is clear consensus that new firms, and new entrants, have the capacity to disrupt existing arrangements and, in turn, increase the amount of competition and reduce prices for consumers. Conversely, barriers to the entry and growth of new entrants play a key role in maintaining the high degree of market concentration in key Australian industries.

The rise of online retail, the growing reluctance of a significant number of consumers to rely on consumer credit, and technological innovation are all driving the rapid uptake of a wide range of new consumer products and business tools. One of the most significant new developments in this space is the emergence of so called Buy Now Pay Later (BNPL) services such as those offered by Afterpay, Klarna and Zip among an expanding range of other new offerings. Significantly, innovation in the BNPL market is not just disrupting the competitive dynamics in the consumer transaction market, but in the customer acquisition market that is currently dominated by companies like Google and Facebook as well.

While competition between BNPL providers means that their products are all slightly different, unlike credit card issuers, the primary source of revenue for BNPL platforms is the merchant fee they receive from retailers for the customer acquisition services they provide. This provides merchants an alternative to Google and Facebook to attract customers, rather than the interest rates and late fees that underpin the profitability of credit cards.

Afterpay, for example, receives just under four per cent of the sales revenues from merchants who source their customers from their platform.<sup>1</sup> If those merchants were seeking a transaction service alone, they could choose from the wide range of much cheaper transaction service options such as credit cards and debit cards. BNPL products typically offer free or low-cost payment instalment plans to consumers looking to bring forward one off purchases and/or make lumpy payments without the inconvenience of applying for a small personal loan or the cost of relying on credit cards. Credit card providers offer a cross subsidy between the large number of customers who carry debt on their high interest credit cards and the small proportion of customers who pay off their entire balance each month to avail themselves of the 'interest free' periods offered on some cards. Contrastingly, BNPL providers typically rely on merchants' willingness to pay for a low cost

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<sup>1</sup> Afterpay (2021) *Annual Report*, <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/08/APT-FY21-Annual-Report.pdf>

customer acquisition service that gives them improved access to a growing cohort of consumers who prefer zero or low cost transaction and instalment services to credit cards.

Customer acquisition is a key service for businesses of all sizes looking to grow or protect their revenues from new competition. Just as Google and Facebook help merchants to find potential customers, so too do BNPL services. As platforms that link consumers seeking low cost and convenient instalment payment options to firms seeking low-cost customer acquisition services, BNPL providers are simultaneously in direct competition with both online search and social media platforms such as Google and Facebook and credit card providers like Visa, Mastercard and the major banks. Google and Facebook receive over 80 percent of online advertising revenue in Australia and Visa and Mastercard are responsible for 90 percent of the value of all credit card transactions in Australia.<sup>2</sup>

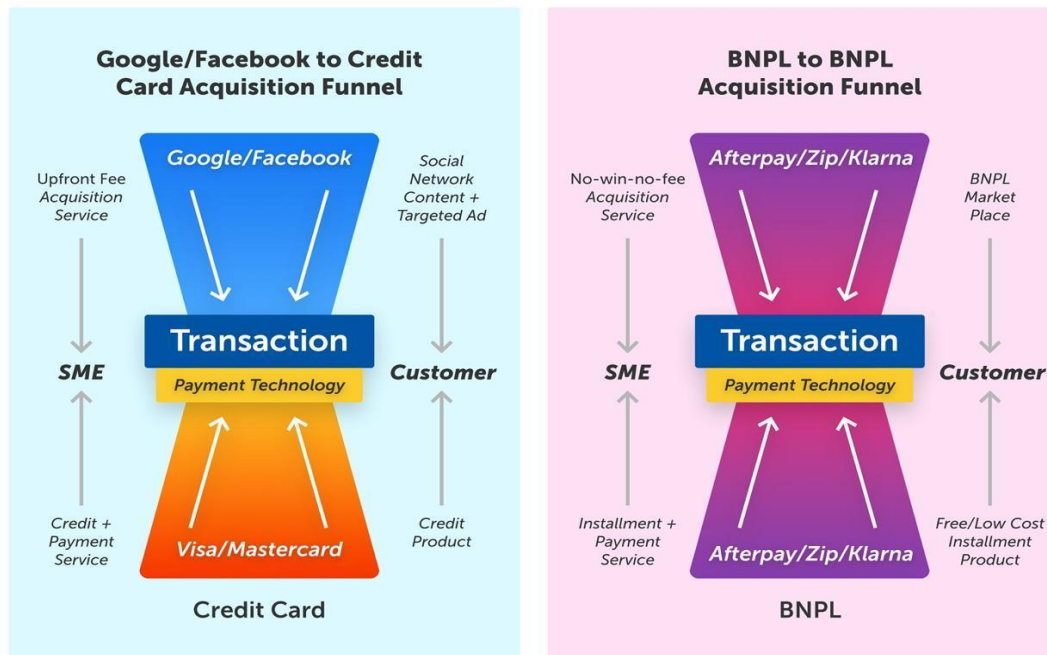
Just as Google provides free search services in order to draw an audience that can be sold to merchants, and just as Facebook provides free social networking, news and entertainment services to draw an audience that can be sold to merchants, BNPL providers provide free or low-cost consumer friendly instalment products in order to draw an audience that can be offered to merchants. Merchants who successfully attract, and then execute a transaction with, a consumer delivered by a BNPL platform then pay a fee for both the customer acquisition and payment instalment service. Importantly, as the merchant fee is only paid on successful sales all merchants are, in effect, pooling the risk that customer acquisition services do not always work, with 100 percent of the cost of BNPL customer acquisition services being paid by the subset of merchants who make successful sales. While this pricing structure is obviously valued by merchants, it makes it difficult to compare the cost of customer acquisition services provided by BNPL providers with those offered by social media and search companies.

Figure 1 summarises the structural differences between the traditional reliance by merchants on online platforms for customer acquisition services and financial services firms for transaction services with the integrated model offered by BNPL providers. Whereas merchants who pay a fee to firms like Google and Facebook for customer acquisition services also need to pay a transaction fee to, for example, credit card providers, merchants who use BNPL services typically obtain both customer acquisition and transaction services in one bundled fee. Significantly, as the merchant fee is only paid on successful sales it is difficult to directly compare the fee paid for bundled customer acquisition/transaction services on successful sales made via BNPL services with the customer acquisition fees charged by Google and Facebook, for example, on clicks and displays.

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<sup>2</sup> Statista (2021) *Share of the number of credit card purchases made with Visa or Mastercard in Australia from 2010 to 2021*, <https://www.statista.com/statistics/1037862/australia-visa-and-mastercard-purchase-number-share/>

**Figure 1: Comparison of credit card and BNPL customer acquisition/transaction models**



There is no impetus for merchants to reveal the total amount they spend on customer acquisition via online advertising, or traditional advertising, and no suggestion that some customers who do not consume advertising have been cross subsidising customers who are found through those channels. Despite this, there have been suggestions by some that the cost of BNPL acquisition and payment instalment services should be separately identified at the point of sale and a surcharge imposed on customers to capture the costs of this one form of customer acquisition and instalment service.

This paper argues that such an approach would be anticompetitive, stifle innovation in the finance sector, and increase costs for consumers. Such an approach would likely result in customers being encouraged to switch to other products, such as credit cards, which may have lower point of sale merchant fees but also have higher trailing fees and higher overall costs to consumers. In addition to this potential for direct harm to consumers, by singling out BNPL customer acquisition services, as opposed to those offered by companies like Google and Facebook, for point-of-sale cost disclosure, attempts to treat BNPL fees as 'transaction fees' would serve to entrench the market dominance of existing search engine and social media platforms in the customer acquisition market. Likewise, while BNPL services have proved very popular to younger consumers who do not want to hold credit cards and pay high interest rates, but do need to smooth payments for lumpy transactions, creating an obligation on BNPL services to disclose their customer acquisition plus payment instalment service fees at point of sale would also impede the ability of BNPL platforms to continue to erode the market share of high interest credit card issuers.

# What is customer acquisition?

Australian businesses rely on a diverse and growing array of practices to attract and retain customers, ranging from product innovation, pricing, and traditional advertising to loyalty programs, product bundling and cold calling. The costs of these individual activities are rarely itemised by firms in their annual reports and almost never separately added on to sale prices in a retail setting. Consumers who do not watch television or buy newspapers do not expect to receive lower priced consumer goods which are heavily advertised and electricity customers who stay with their same provider year after year do not receive discounts linked to the avoided customer acquisition costs they deliver via their loyalty to their existing electricity provider.

For example, according to its annual report, AGL spends around \$101 per new customer on 'customer acquisition'<sup>3</sup> but despite this cost, new customers are often offered lower prices than existing customers. AGL is not required to disclose the cost of customer acquisition to its customers in its billing.

Likewise, omni-channel retailers (that is, retailers with both a physical retail footprint as well as an online store) do not typically price their products according to whether the customer is making a purchase online or at a physical store, even though distribution and customer acquisition costs across these channels differ markedly.

Before BNPL competition arrived, businesses (large and small) seeking to purchase customer acquisition services would typically spend money upfront on advertising in traditional media or online and, if successful, customers would likely use credit cards as a source of transaction service and credit service. There is little competition in the online customer acquisition market, little competition in the credit card market, and, as a result, high prices for both.

Whereas customer acquisition services including social media advertising and search engine advertising charge fees for displaying ads to potential customers that are unrelated to whether the customer ultimately purchases a product, BNPL providers typically only charge a fee for introducing or attracting a customer to a merchant when the customer they introduce, or attract, actually makes a purchase. While this significantly reduces the risk to merchants that their customer acquisition budget will be expensive and ineffective, an attribute that the rapid growth of BNPL providers demonstrates merchants clearly value, it also means that fee for the customer acquisition service is collected at the time of the transaction and only collected from merchants who ultimately make a sale (as opposed to

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<sup>3</sup> Richardson (2019) *The costs of market experiments*, <https://australiainstitute.org.au/report/the-costs-of-market-experiments/>

other customer acquisition services that charge for the number of times an ad is ‘displayed’ or for ‘clicks’ on a link). The reliance of BNPL provider on a ‘no win no fee’ charging model is both a significant reason for its rapid uptake and provides a particular challenge when comparing the ‘cost’ of BNPL with other customer acquisition services (as all of the BNPL fees are collected from the subset of consumers who actually made a purchase)

But while the BNPL customer acquisition fee is collected at the time of purchase, it is clearly not a ‘transaction fee’ in any meaningful sense. If BNPL fees were paid in advance (on likely sales) or in arrears (on actual sales) then they would not need to be disclosed to customers at the point of sale. However, if regulation was to be used to change the timing of the BNPL customer acquisition fee it would:

1. Increase upfront costs for firms with both risk and cashflow implications
2. Increase the volume of transactions and transaction costs between merchants and BNPL providers
3. Lead to a significant distortion in commercial arrangements of one form of small but rapidly growing customer acquisition provider to the benefit of the larger incumbents

Customer acquisition is a large and rapidly evolving market. Not only are the competitive dynamics with the customer acquisition market important in their own right, they have significant consequences for upstream and downstream users. A highly competitive customer acquisition market offering a diverse range of services and pricing structures will help to enhance competition in retail markets more generally. Small businesses in particular benefit from having access to no win no fee customer acquisition options with no upfront cost.



# The role of cross subsidies in online competition

A cross subsidy refers to the situation where the profits made from one good or service are used to lower the price (subsidise) the price of another good or service. For example, supermarkets have been accused of using some products (such as milk) as a 'loss leader' to draw people into their store where they are then likely to purchase other (high profit) items. While cross subsidisation is not illegal in Australia, it can be captured by the general abuse of market power provisions in the *Competition and Consumer Act*.

Cross subsidisation is very common in online competition due to the phenomena of 'joint production'. Joint production refers to the situation where the production of one good (for example news for a newspaper) simultaneously produces another good (eyeballs to consume advertising). In turn it is common for the price paid for a newspaper to be well below the full cost of producing, printing and distributing the newspaper as the price is cross subsidised by advertising revenue. In turn, the lower cover price of the newspaper increases the sales of the newspaper and, in turn, the advertising revenue the newspaper can collect.

Cross subsidies sit at the heart of online competition, for example:

- Free games are often cross subsidised by ads displayed in the game
- Free search engines are cross subsidised by the sale of consumer information to firms seeking customer acquisition
- Free social media networking is cross subsidised by the sale of consumer information to firms seeking customer acquisition

Of course, cross subsidies are also common in the credit and transaction markets with 'interest free' credit cards and 'loyalty points' delivering significant benefits to some consumers at the expense of others. In the credit card market, this cross subsidy has attracted the attention of policy makers because it has facilitated the transfer of wealth from lower socio-economic status households to higher socio-economic status households.<sup>4</sup>

In economic theory, most cross subsidies will not be sustainable in the long term as competitors eventually identify the group that is being exploited and offer a better priced product to them. However, in practice impediments to new entrants often allow cross subsidies to be maintained for long periods. These barriers to entry often include:

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<sup>4</sup> Brookings (2019) *How Credit Card Companies Reward the Rich and Punish the Rest of Us*  
<https://www.brookings.edu/opinions/how-credit-card-companies-reward-the-rich-and-punish-the-rest-of-us/>

- Economies of scale
- Regulatory barriers
- Consumer apathy caused by confusion/switching costs/fear of the unknown

Until recently credit card companies had benefited from a number of economic, cultural and regulatory barriers to entry which had delivered high profits, low levels of innovation and stable cross subsidies between some of their customers who pay high fees and high interest rates and the minority who pay low fees and receive significant 'loyalty rewards'.

As predicted by economic theory, BNPL providers have developed new products which simultaneously disrupt multiple markets while unwinding some of the cross subsidies that had stabilised in both the credit card and customer acquisition market.

Younger consumers in particular have shown a reluctance to rely on credit cards and these customers account for a disproportionately large percentage of BNPL users. For example, while ASIC estimate that those aged 25-34 account for 38 percent of BNPL transactions<sup>5</sup> that same cohort only account for around 15 percent of the Australian population. This trend away from credit card use and towards BNPL services being driven by younger consumers is also apparent internationally.<sup>6</sup> Similarly, a large number of merchants have rapidly embraced customer acquisition services that rely primarily on fees for successful sales rather than 'impressions' or 'click throughs'. In creating a platform that brings these two different groups together for mutual gain, BNPL providers have removed a profitable segment of the market for both credit card companies and online advertisers alike. Creating idiosyncratic regulation to force the disclosure of the cost of customer acquisition services by BNPL providers alone would likely lead to a reduction in competition in the customer acquisition market and the transaction market and, almost inevitably, lead to higher total prices for consumers.

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<sup>5</sup> ASIC (2020) *Buy now pay later: An industry update*, <https://asic.gov.au/media/5852803/rep672-published-16-november-2020-2.pdf>

<sup>6</sup> CardRates.com (2022) *Credit Card Ownership by Age, Income, Gender & Race in 2022*, <https://www.cardrates.com/advice/credit-card-ownership-by-age-income-gender-and-race/>

# Which price matters?

Advertisements for home loans are required to include a ‘comparison rate’ to reflect the fact that the amount and timing of a range of upfront fees, monthly fees, annual fees and the timing of the interest rate calculations themselves all play a major role in determining the total cost to a homebuyer of securing finance from different providers. That said, the choice of the ‘default mortgage size’ plays a dominant role in calculating the ‘comparison interest rate’ as, for example, a product with high monthly fees and slightly lower monthly interest rates would look ‘relatively cheap’ for a large default mortgage size but ‘relatively expensive’ for a small default mortgage size. When regulators choose a default mortgage size for calculating ‘comparison rates’ they inherently prefer one pricing structure over others.

Similarly, credit card issuers make significant profits from the inability of individuals to anticipate which fees and charges they are most likely to pay. Many consumers opt for ‘low fee, high interest’ cards on the mistaken belief that they will usually repay their credit cards in full during the ‘interest free’ period. In turn, comparing the cost of different credit card options is quite difficult without having an accurate picture of the way in which individuals are likely to use that card. Significant profits can be earned from people who choose a credit card when they are in one situation and continue to use that card after their circumstances change.

The issue of which price to focus on is particularly problematic if regulators choose to treat the bundle of services provided by BNPL providers to both merchants and consumers solely as a ‘transaction cost’ to consumers. There are three major problems with this approach

- 1) Consumers are encouraged to focus on the wrong cost

In early 2021 the RBA published a paper entitled ‘Developments in the Buy Now, Pay Later Market’ in which staff members Chay Fisher, Cara Holland and Tim West wrote:

“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.”<sup>7</sup>

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<sup>7</sup> Fisher, Holland and West (2021) *Developments in the Buy Now, Pay Later Market*, <https://www.rba.gov.au/publications/bulletin/2021/mar/developments-in-the-buy-now-pay-later-market.html>

While economists generally agree that it is preferable for consumers to pay lower prices for identical goods than higher prices, there is no economic reason why the RBA staff should believe it is preferable to encourage consumers to prefer a payment option that has low visible fees at the time of transaction but significantly higher fees and charges over time. Just as a consumer who chose a ‘bells and whistles’ mortgage with a low introductory interest rate and a high standard rate interest rate may be worse off than a ‘basic’ mortgage with a ‘medium’ interest rate and no fee, a consumer who chose to use a credit card over a BNPL service on the basis that the merchant surcharge was lower, as opposed to the total cost of the transaction/credit charges, may be significantly worse off.

This is particularly the case when it comes to credit cards where large amounts of interest are paid on so called ‘interest free’ credit cards by people who do a poor job of predicting their future repayment patterns.

2) It ignores the value proposition for merchants: customer acquisition

Just as the interest free period offered on credit cards is cross subsidised by the high interest rates paid by most credit card users, the interest free and relatively favourable consumer outcomes offered by BNPL providers are funded by the fees paid by merchants for customer acquisition services. But where most consumers have poor visibility into the total future cost of their credit card use, and even less visibility on the cost of available alternatives, merchants purchasing customer acquisition services have a relatively high degree of visibility and capacity to make such comparisons. And it is the combined willingness of merchants to obtain customer acquisition services from BNPL providers, and the desire of consumers for the structure of BNPL products, that makes the economics of BNPL services viable. In short, if BNPL products were not mutually beneficial to customers and merchants then products would not be viable, or growing so rapidly.

To ignore the value of the customer acquisition service being purchased by the merchants in describing the ‘cost’ of the whole bundle of services as a transaction fee is both inaccurate and, more concerning, would have a significant impact on the competitiveness of the BNPL sector. As the RBA staff note, the whole point of disclosing the fee is to change consumer decision making at the point of sale.<sup>8</sup> As such, imposing consumer surcharges is likely to be counterproductive in the aims of lowering transaction fees and increasing payments competition.

It is also important to note that as BNPL fees are only paid on successful customer acquisition simply comparing the ‘price’ of customer acquisition services offered by BNPL and other online platforms exaggerates the cost of BNPL acquisition services to merchants

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<sup>8</sup> Fisher, Holland and West (2021) *Developments in the Buy Now, Pay Later Market*, <https://www.rba.gov.au/publications/bulletin/2021/mar/developments-in-the-buy-now-pay-later-market.html>

as it ignores the large reduction in risk faced by merchants using BNPL services for customer acquisition.

It will reduce competition and entrench the dominance of existing digital sales channels. The rise of BNPL services is one of the only significant competitive threats to emerge to the dominance of the customer acquisition market of Facebook and Google. Just as their business models are based on a cross subsidy between customer acquisition and free content, the BNPL business model is based on a cross subsidy between customer acquisition and free/low-cost payment instalment products. For example, only 9.6 per cent of Afterpay's revenues come from late fees<sup>9</sup> and these late fees, payable on a small percentage of transactions, are associated with significantly higher costs to BNPL providers than the on-time transactions. Further, as BNPL providers have grown, the percentage of their revenue from late fees has declined. In short, growth in revenue from late fees is clearly not the business model of BNPL providers.

However, if the value exchange model between merchants and consumers that sits at the heart of BNPL products is unwound by regulation, while the cross subsidies at the heart of Google and Facebook are allowed to remain, then the potential for new competition to emerge in the customer acquisition market will be significantly curtailed. The ultimate costs of stifling new forms of competition in the customer acquisition market will be borne by merchants, particularly small business, and younger consumers.

- 3) Unlike the credit card networks the BNPL sector is diverse, competitive and innovative

Some have suggested that as BNPL services have become more popular, they are now 'must take' payment methods for retailers, in the same way that a retailer must accept a payment method such as Visa or Mastercard. The implication of being 'must take' is that merchants have no choice but to offer a BNPL service or else face the prospect of losing sales to competitors that do offer a BNPL service.

While the growing popularity of BNPL services among merchants and consumers may suggest that, at some point, BNPL services may become 'must take' payment methods in the future this is clearly not the case in the present nor would it support a case for regulation in the future.

The BNPL industry is still at an early stage of development and subject to significant competition. There are now over 15 BNPL services in Australia, with clear evidence that increased competition is putting downward pressure on fees. This competition now includes PayPal, which has launched a BNPL service with zero costs to consumers and no incremental costs to merchants. And in recent months, the Commonwealth Bank announced that it will

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<sup>9</sup> Afterpay (2021) *Annual Report*, <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/08/APT-FY21-Annual-Report.pdf>

pay merchants a 4 percent cash incentive for processing StepPay BNPL transactions on CBA merchant terminals.

Cash registers were, for many decades, considered a 'must take' transaction mechanism for most retailers but, despite their obvious importance, competition among cash register providers meant that cash transaction management went without specific regulation or regulatory concern.

The fact that BNPL services are growing, both in terms of the products on offer and the number of transactions, provides strong evidence that the market is working well rather than evidence that specific regulation of the market is required. Similarly the broader historical regulatory context in which BNPL services operate must also be considered. For example, it is important to note that the dominant international credit card duopoly was launched in Australia in 1984 and was not subject to specific RBA regulation until 2004, by which time they represented around 36 percent of consumer spending.

# The current market

After 30 plus years of steady growth, the credit card market in Australia has stagnated even as the trend towards online shopping continues and the decline in the use of cash has accelerated.<sup>10</sup> The decline in large part reflects the reluctance of younger consumers to use credit cards due to the high fees and high interest rates. Despite the lack of growth, credit cards still account for 45 per cent of all card-based transactions in Australia.

In tandem with the decline of traditional high-interest credit, digital wallets and mobile payments are rapidly becoming common with the most recent RBA data (pre-COVID 2019) showing digital wallet transactions (including Apple Pay and Google Wallet) accounting for 8 per cent of in-person transactions,<sup>11</sup> while more recent Roy Morgan Research showed 9.8 per cent Australians in 2020 used digital mobile payment services, up from 6.8 per cent the previous year.<sup>12</sup> Apple and Google hold around 99 percent of the smartphone market combined and Apple holds approximately 80 percent of the digital wallet market. Mobile devices are the next generation of financial infrastructure akin to today's card networks.

BNPL products provide consumers with a low-cost alternative to credit cards while providing business, large and small, with a low fee, low risk customer acquisition service. Specific advantages of BNPL for firms include:

- It allows firms to target their customer acquisition spending at a market segment that is hard to reach
- It combines that customer acquisition strategy with low-cost transaction and payment instalment services with no upfront cost to consumers
- There is no initial outlay required for social media advertising, via for example Google or Facebook, which might not deliver any revenue.
- It is administratively simpler and cheaper for businesses than offering their own 'lay by' service while, due to risk pooling, making it possible to immediately provide the product to consumers.

Google and Facebook now have a combined online advertising market share of over 80 per cent in Australia.<sup>13</sup> Their market dominance is of concern to both the parliament (as

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<sup>10</sup> RBA (2021) *Payments System Statistics*, <https://www.rba.gov.au/statistics/tables/>

<sup>11</sup> RBA (2019) *The 2019 Consumer Payments Survey*, <https://www.rba.gov.au/payments-and-infrastructure/consumer-payments-survey/>

<sup>12</sup> Roy Morgan (2020) *Afterpay, Apple Pay and Google Pay are driving the adoption of new digital payment services*, <http://www.roymorgan.com/findings/8308-digital-payment-solutions-december-2019-202003100329>

<sup>13</sup> ACCC (2019) *Digital platforms inquiry - final report*, <https://www.accc.gov.au/publications/digital-platforms-inquiry-final-report>

evidenced by the tri-partisan support for the news media bargaining code) and the ACCC. According to ACCC Chair Rod Simms:

“Digital platforms are also unavoidable business partners for many Australian businesses. Google and Facebook perform a critical role in enabling businesses, including online news media businesses, to reach consumers. However, the operation of these platforms’ key algorithms, in determining the order in which content appears, is not at all clear.”<sup>14</sup>

New products like BNPL provide a significant competitive threat to their current dominance of the customer acquisition market and a growing number of businesses, particularly small businesses, now use the BNPL platforms as an alternative source of significant customer acquisition.

Any efforts designed to increase price competition in the transaction services market need to be carefully considered both in terms of the qualitative differences between BNPL and credit card products and through the prism of the likely impact of any such changes on the larger, and more economically significant, customer acquisition market.

At the same time, BNPL products are still at an early stage of development. The sector itself is subject to significant competition from new startups, traditional banks, and the global technology companies. This is a very different context to the one that confronted the RBA in the early 2000s when it decided to regulate the major international card schemes, which were essentially operating a duopoly that was driving up costs for merchants.

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<sup>14</sup> ACCC (2018) *ACCC releases preliminary report into Google, Facebook and Australian news and advertising*, <https://www.accc.gov.au/media-release/accc-releases-preliminary-report-into-google-facebook-and-australian-news-and-advertising>



# Conclusion

BNPL services are simultaneously out-competing credit cards in the growth market of younger consumers and providing one of the few viable forms of competition to Google and Facebook in the online customer acquisition market. The fact that business, large and small, Australian and international, are willing to pay the merchant fees being charged by BNPL providers, and the fact that the BNPL market is itself a highly competitive segment with multiple competitors, low barriers to entry, and that existing financial institutions are themselves beginning to enter, suggests that the ability of BNPL to exploit market power is minimal.

While it is obvious why credit card providers and companies like Facebook and Google would like to see new regulations that treat BNPL services differently to other customer acquisition platforms, it is not clear why some public policy makers seem to share that view. The most likely explanation is that the pace of innovation is so rapid in a number of overlapping markets, and the significance of cross subsidies within and between those markets so great, that analysts are placing new products into old categories.

While it could be argued that even if regulatory change allowed firms to disclose BNPL fees at the point of sale that few firms would take up that option, leaving aside the dangers of creating idiosyncratic rules for a rapidly changing market, such an outcome would still raise a number of important issues:

1. If no firms disclosed the BNPL fee, then there could be no possible benefit to consumers
2. If some firms disclosed BNPL fees for combined transaction/customer acquisition services they would likely discourage the use of BNPL (due to the apparent high fee, a fee that is currently being absorbed by profit maximising firms who have chosen the BNPL customer acquisition service for its low cost) and in turn push consumers onto higher cost services like credit cards
3. BNPL providers would be incentivised to change their fee model in ways that would be harmful for consumers, for example, lowering time-of-purchase fees but increasing other fees charged to consumers and merchants.

In short the likely outcome of BNPL fee disclosure are likely to be an increase in costs to consumers, slower growth in BNPL penetration, and the retention of market share by Google, Facebook and the credit card providers.