



24 February 2021

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Afterpay Submission to the MBIE Regulating to Reduce Merchant Service Fees Issues Paper

Afterpay Limited (Afterpay) welcomes the opportunity to provide a submission to the Ministry of Business, Innovation and Employment (MBIE) consultation on Regulating to Reduce Merchant Service Fees Issues Paper (Issues Paper).

Afterpay notes that this Issues Paper is broad ranging and the main focus is on the retail payment system, rather than buy now pay later (BNPL) services. However, as a key player in the BNPL sector, Afterpay provides this submission in response to some of the issues raised by the MBIE in relation to the BNPL sector.

About Afterpay

Afterpay is an Australian financial technology (FinTech) company listed in the S&P/ASX 20 of the Australian Securities Exchange (ASX). Afterpay employs over 1,000 staff across Australia, New Zealand, the United States, the United Kingdom, and Canada, with further growth underway in Europe and Asia.

Afterpay offers a simple and highly effective platform for consumers and merchants. Afterpay provides a customer-centric product that has resonated with consumers because it has turned the traditional model of credit on its head. Merchants benefit significantly by being part of the Afterpay ecosystem, as it delivers them value, reduced risk, and deeper engagement with customers.

Our platform's success is underpinned by an innovative model which does not seek to charge the customer. While part of a growing BNPL sector, Afterpay differs significantly from other BNPL participants in this regard.

The Afterpay product and platform

The Afterpay service is offered as an option by participating merchants online and/or instore. Customers who choose to purchase products using Afterpay receive the

purchased products upfront and repay the purchase price (or order value) in four instalments (every two weeks) to Afterpay. Afterpay pays the merchant for the purchased product(s) upfront, minus our fee.

Afterpay's merchant fees are structured as a percentage of the order value or purchase price, and in most circumstances, a fixed fee per transaction is also applied.

The interaction between Afterpay and scheme rails

Afterpay does not charge a payment processing fee to merchants, because payment processing is only one component of our overall service. Instead, Afterpay charges merchants for a range of services (see Appendix A). It is Afterpay that incurs the cost of processing payments via the switch-to-acquirer model.¹ As with other merchants, the costs incurred by Afterpay vary according to the type of card used by the customer.

When a consumer completes a purchase with Afterpay, it is Afterpay that appears as the merchant of record on the consumer's debit card or credit card statement. This aligns with other customer platforms connecting merchants and customers across a wide range of sectors and sits in contrast to traditional card payment processing systems. Existing payment networks are the scheme 'rails' on which BNPL services run.

Innovation in the retail payments system

The Issues Paper identifies that merchant service fees are comparatively higher in New Zealand than Australia and the United Kingdom.² While innovation is occurring in the payments systems in New Zealand, many new product providers are operating over the top of card schemes - as users of the scheme rails - and are incurring the high associated costs.³

Despite this, the BNPL industry is growing and diverse, with a high degree of product innovation that is improving outcomes for both merchants and consumers. In contrast, within the traditional payments industry, competition among card schemes can lead to higher costs (i.e. higher interchange fees in order to attract issuing banks).

Instead, the BNPL industry is characterised by competition for both merchants and consumers, and the ability to switch from one BNPL provider to another. Merchants choose whether to offer a particular BNPL service, and can decide not to offer any BNPL service while continuing to accept debit and credit card payment options.

Finally, the value proposition of a BNPL service is different to a payment service. Afterpay offers a broad suite of services beyond its payments functionality to merchants. We have become an important part of the retail offering for a growing number of NZ

¹ MBIE, [Regulating to reduce Merchant Service Fees \(Issues Paper\)](#) p.16 [44]

² MBIE, [Merchant Service Fees \(Issues Paper\)](#) p.22 [68].

³ MBIE, [Merchant Service Fees \(Issues Paper\)](#) p.7.

businesses and their customers who now expect to be able to access more flexible ways of paying that don't require taking out an expensive traditional credit product and in which they can feel confident there are safeguards in place to help them to spend responsibly.

We have thousands of partnerships (large and small) with NZ retailers who integrate with our platform. Importantly, a significant number of our partnerships are with small and medium sized businesses (SMBs).

Afterpay is an important source of new customers for retailers. Millions of customers come to Afterpay to determine where to shop and Afterpay provides leads to its retail partners. Many retailers would not have access to such a large pool of core millennial customers otherwise.

Conclusion

Thank you for the opportunity to make this submission. Please do not hesitate to contact us if you require further input or clarification.

Yours sincerely



Anthony Eisen
Co-Founder & Chief Executive Officer
Afterpay Limited

Appendix A

Benefits for merchants

Afterpay offers a powerful platform for merchants. Because of our customer centric model and platform, Afterpay is able to offer merchants highly valuable access to the significant and growing pool of Millennial and Generation Z customers who are keen to avoid traditional credit products. In addition to this access, the Afterpay model has been shown to drive improved sales performance for merchants across sectors and merchant types. Merchants particularly value Afterpay customers because our responsible spending safeguards ensure that these customers are more loyal and sustainable for merchants over the long term.

The Afterpay platform includes the following benefits for merchants:

- Higher order values,
- Increased number of orders,
- Increased customer base,
- Lower marketing costs,
- Lower customer service costs,
- Lower return rates, and
- Lower fraud rates.

Because Afterpay pays merchants upfront, it helps improve cash flow and eliminates consumer-caused fraud risk for merchants, including the risk of chargebacks.

Afterpay as a marketing platform

Perhaps the most significant benefit the Afterpay platform provides merchants is our powerful marketing ecosystem. Within this ecosystem the Afterpay platform supports merchants to optimise marketing and increase sales through a range of activities:

- **The Afterpay Store Directory** operates on the Afterpay website and smartphone app. Afterpay is generating over 15 million monthly referrals to merchants globally.
- **Afterpay Days** are a bi-annual event where Afterpay merchants serve up offers and promotions to customers for a 36 hour period. Afterpay heavily promotes these days via electronic direct marketing, social media, other digital channels and public relations activities.
- **Digital marketing campaigns** are opportunities for Afterpay to drive mass audience awareness through premium positioning for merchants in banner placements within emails and on the Afterpay app. These are then available to the Afterpay's significant customer base in New Zealand.

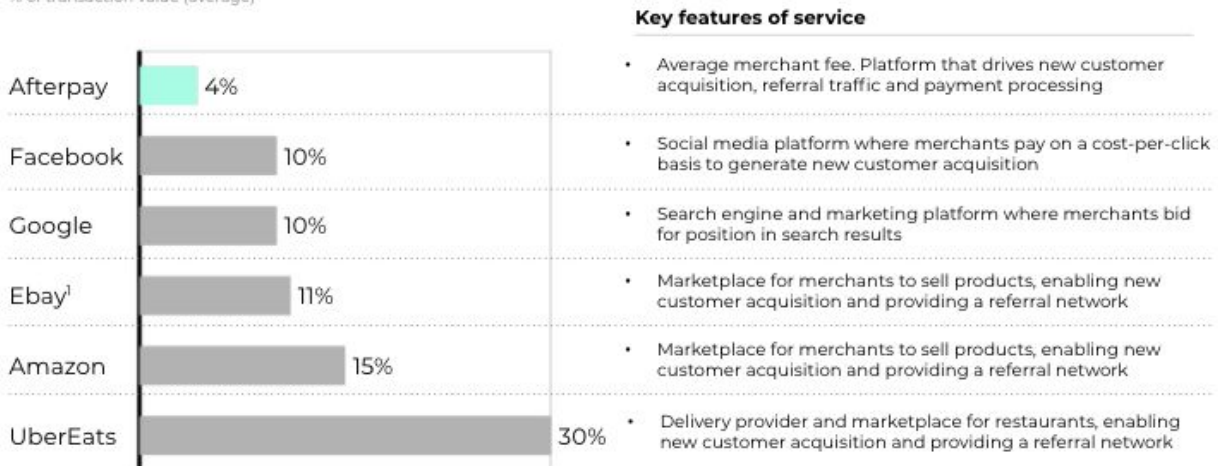
- **Sponsorship and partnership campaigns** allow Afterpay to partner with selected merchants to develop customised and co-branded marketing campaigns funded by Afterpay. Merchants are also featured in various Afterpay consumer marketing campaigns on a regular basis.
- **Data insights** are made available by Afterpay through a number of tools for merchants, including:
 - On-demand reports prepared for enterprise merchants that provide knowledge of their own trading with Afterpay as well as industry benchmarks,
 - Customised reports that provide merchants with deep analysis into particular customers segments or regions, and
 - Insights into the behaviour of Afterpay's customers (e.g. most popular shopping hours) to help merchants optimise their marketing and resource allocation.

As a marketing platform, Afterpay competes with other customer acquisition channels including Google, Facebook, Amazon and smaller players such as Unidays. The fees charged by these companies for customer referrals range from 10 to 15 per cent, which is significantly higher than the typical Afterpay merchant fee (which explains why prices for items frequently purchased using Afterpay have not increased relative to items less-frequently purchased using Afterpay).

Afterpay's merchant fees are low relative to providers of similar services

Merchant fee by customer acquisition channel

% of transaction value (average)



Notes: 1. Based on the midpoint of 10% (Clothing, Shoes & Accessories), and 12% (Music, Books).
Source: Company websites, AlphaBeta analysis