

Statement on Buy Now, Pay Later

ACCIE welcomes innovation in the payments industry and recognises the customer desire for convenience filled by Buy Now, Pay Later (BNPL) solutions. In the interests of consumers, merchants, and the payments industry, ACCIE believes that the current BNPL environment must be regulated, with BNPL solutions recognized as short term credit. Therefore, ACCIE calls for BNPL solutions to be considered under the Consumer Credit Directive (CCD), with credit worthiness assessments and other credit risk checks to be required. This would both ensure a level playing field in the industry and greatly increase consumer protection. Fundamentally, both BNPL and credit cards are a form of credit allowing customers to spread the cost of purchases, however, there are important differences between the two that ought to be taken into account. ACCIE would therefore like to draw attention to the similarities and differences between BNPL and credit cards¹.

For consumers, BNPL solutions may be a useful option for low value loans borrowed over the short term. Yet, credit cards provide more flexibility with longer term repayment schedules, and a higher credit limit. Additionally, credit cards offer the customer extensive protection against fraudulent transactions and other unforeseen circumstances, as well as direct dispute procedures upon non-delivery or delivery of non-compliant product, entirely handled by the credit card issuer. In comparison, BNPL solutions do not offer these customer services and are more vulnerable towards fraud, usually performing only soft checks on the consumer's identity (especially online)². The BNPL dispute procedure requires the consumer to contact the merchant who determines whether they begin a dispute procedure, after which the BNPL provider rules in favour of either the consumer or merchant³. On the other hand, credit card issuers are legally obliged to offer most of the above-mentioned services and protections^{4,5}, and even more for competitiveness reasons. BNPL providers can determine themselves the level of consumer protection they provide. Credit cards also provide additional services not available with BNPL solutions, such as insurance on certain purchases, and rewards, including cash back and air miles, etc. Furthermore, because merchants generally only have one BNPL partner, consumer choice is very limited. In addition, for the time being, BNPL is restricted to purchases made at certain major retailers whereas credit cards are widely accepted across the board, and can be used to purchase a vast array of products and services.

Although legally required upon an application for a credit card⁶, hard credit checks are not always required when a consumer takes out a BNPL loan. While it could be positive for the consumer in cases where BNPL does not negatively affect their credit score, it also means that responsible BNPL use does not build a positive credit score in those cases where hard credit checks are not carried out. Furthermore, it is easier for consumers to rack up debts with more than one BNPL provider, increasing the complexity of keeping track of spending, and leading to potential high levels of indebtedness⁷. Consumer understanding of BNPL is also a concern – with FCA research⁸ showing that some customers

¹ This paper is a comparison between BNPL and credit cards in the strict sense. Charge cards on which the balance must be repaid within 3 weeks are not covered within the scope of this document.

² CNBC, "[Criminals love buy now, pay later: How fraudsters exploit popular interest-free payment plans](#)", November 2021.

³ CNBC Select, "[What consumer protections do you have with 'Buy Now, Pay Later' services? Here's what you need to know](#)", October 2021.

⁴ [Directive](#) on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, Articles 11 & 14.

⁵ [Directive](#) on payment services in the internal market, Article 97.

⁶ [Directive](#) on credit agreements for consumers, Articles 2 & 8.

⁷ Forbes, "[Buy Now, Pay Later: The 'New' Payments Trend Generating \\$100 Billion In Sales](#)", September 2021

⁸ Financial Conduct Authority, "[The Woolard Review – A Review Of Change And Innovation In The Unsecured Credit Market](#)", 2021.

do not view BNPL as credit. In addition, the broad variety amongst BNPL solutions makes the solution as a whole less transparent. There is a risk therefore that customers do not scrutinise their purchase as deeply as in the case of a credit card purchase, where the consequences of failure to repay are clearer. Consumers were also found to believe that BNPL was regulated and came with protections. BNPL providers need to ensure customers know what they are signing up for, and clear customer communication should meet the same regulatory standards as other credit providers under the CCD.

For merchants, the fees charged for a BNPL transaction are generally between 2 and 8% of the transaction amount⁹. This is nearly twice or three times what card schemes usually charge¹⁰. ACCIE notes that, similarly to the interchange fees and other card service costs, there is a potential that such transaction costs are transferred to consumers by product price increase on the items that BNPL mostly choose. On the other hand, although revolving cardholders might also incur in high interest fees, these are not comparable to those of BNPL that occur upfront in the purchase process, as revolving is basically an option that each cardholder can take after purchase. This means that if BNPL becomes a trend, consumers might absorb “by default” a premium price for an option that actually would always be applicable through revolving as part of their card credit line.

Core differences between credit cards and BNPL:

	Credit card	BNPL
Access to credit facilities	✓	✓
Low amount short-term consumer loan	✓	✓
Consumer can sign up for credit at the point of sales (in-store/online) when purchasing a product	✗	✓
Available for most in-store & online purchases	✓	✗
Interest free credit*	✓	✓
Late payment fees are legally capped, i.e. credit provider cannot collect interest over a certain percentage on late payments	✓	✗
Credit provider is legally obliged to provide certain information on the loan upon marketing and signing of the contract	✓	✗
Credit provider is legally obliged to run credit checks on the consumer before granting credit, e.g. preventing over indebtedness	✓	✗
Consumer can choose their credit provider (competitiveness)	✓	✗
Insured purchases, e.g. against non-delivery, damaged goods, etc.	✓	✗
Extensive protective services, e.g. against fraud ¹¹	✓	✗
Credit provider holds payments in case of dispute until clearing	✓	✗
Reward programmes, e.g. cash back, air miles, etc. ¹¹	✓	✗

⁹ Finextra, “[Looking beyond the Buy Now, Pay Later hype](#)”, June 2021.

¹⁰ CBInsights, “[Disrupting The \\$8T Payment Card Business: The Outlook On ‘Buy Now, Pay Later’](#)”, March 2021.

¹¹ The specific services depend on the product features and added value services defined in the product contract.

* May vary depending on credit card provider, however many credit cards offer an interest free period.