Media Note

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Does CBA's BNPL product spell the end of Afterpay?

Boutique Australian equity specialist Datt Capital’s managing director and CIO Emanuel Datt has provided the following analysis and feedback on Australia's largest bank, Commonwealth Bank (CBA), foray into the buy now, pay later ('BNPL') space with the introduction of a new product, creatively named 'Commbank BNPL'.

He notes:

CBA have been quiet investors in the BNPL industry since August 2019, where they made an initial investment of US$100 million into a private Swedish bank Klarna who offer their own BNPL product.

This investment was increased by another US$200 million in January 2020 with CBA holding 5% of Klarna. Ostensibly, this investment was made with the perception that CBA could assist in Klarna's product rollout to Australian customers.

To date, Klarna's Australian launch has been largely an abject failure, barely making a dent in the local market. Merchant adoption has been minimal with many who offer Klarna as a payment option, prominently advertising their participation in AfterYaY Day - an annual sales day run by BNPL market leader Afterpay.

The launch of Commbank BNPL appears to be a blunt admission that Klarna's product has failed to gain traction in the local market. A cursory glance at the product design for Commbank BNPL reveals several fatal flaws that will almost certainly lead to the same outcome as Klarna locally.

Australian BNPL users span across the spectrum in terms of age as the industry has matured and hit the mainstream. A significant portion of BNPL users make use of multiple BNPL providers. In many ways, the BNPL has supplanted credit card penetration and usage especially for small-scale transaction values under $2000. This long tail of transactions and consumers is what has driven the incredible growth experienced by the broader BNPL industry as a whole over the last 4 or so years. This increase in demand from customers has led to a requisite increase in supply-side adoption of BNPL services by merchants. **The key point here is that customer demand is what has driven supply.**

Commbank BNPL fails in the sense that it focuses too heavily on the supply (merchant) side of the equation without any compelling proposition for the customer themselves. As a CBA executive is quoted saying "We are going to treat it like it is credit”. CBA has stated that it would conduct credit checks and would block customers if they were in arrears with other providers. This is in addition to higher proposed late fees than currently charged by Afterpay.

This level of intrusiveness and friction on the demand side coupled with the lack of lead generation tools on the merchant side leads us to conclude this proposed product will be just another commoditised fringe BNPL product unlikely to capture significant market share.

Interestingly, Afterpay are close to launching their own banking application, Afterpay Money, in an alliance with CBA's arch-rival Westpac (WBC). Afterpay intends on integrating the banking and BNPL services into a single interface in time.

As we first noted three years ago, we consider Afterpay's BNPL offering to be the platform upon which additional financial services can be offered and it appears as though this forecast is coming true. Afterpay have commented that future product launches will not be interest-bearing, in line with its ethos of monetising its services from the supply side. Early indications are that Afterpay will launch another product directly competing with CBA's AdvancePay - a short-term payday lending facility. There is no question that the Afterpay brand is more highly recognised and respected amongst a broader swath of society than CBA.

Accordingly, in this instance, we are inclined to back the entrenched, customer-centric market leader than the new entrant to the field coming out of a large conservative institution.

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About Datt Capital

Founded in 2007, Datt Capital is a Melbourne-based Australian focused Long-only Fund Manager. Datt Capital is focused on generating alpha by structuring its portfolio in a unique and uncorrelated manner, across asset classes. Its investments consist primarily of listed equity, debt and derivatives solely in Australian markets.

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