



9th December 2021

Submission to the Ministry of Business, Innovation & Employment
on the
Buy-Now, Pay-Later Discussion Document

Alcohol Healthwatch is an independent charitable trust working to reduce alcohol-related harm. We are committed to working in accordance with the principles of te Tiriti o Waitangi and the cornerstones of the Ottawa Charter. We are contracted by the Ministry of Health to provide a range of regional and national health promotion services. These include: providing evidence-based information and advice on policy and planning matters; coordinating networks and projects to address alcohol-related harms, such as alcohol-related injury and fetal alcohol spectrum disorder; and coordinating or otherwise supporting community action projects.

Thank you for the opportunity to provide feedback on the above-mentioned discussion document.

We would like to speak to this submission if the opportunity arises.

If you have any questions on the comments we have included in our submission, please contact:

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Executive summary

1. Alcohol Healthwatch acknowledges the Ministry of Business, Innovation and Employment for the opportunity to provide feedback on the policy options to regulate the new and emerging Buy-Now, Pay-Later (BNPL) sector, with the interest of people experiencing financial hardship in mind.
2. Whilst there are some potential benefits of BNPL providing a low-cost, no interest/fee payment alternative to credit cards payments, we support the views of the financial mentoring sector that the BNPL service could create financial hardship for consumers, especially in an unregulated environment.
3. In addition, we are strongly concerned that purchasing alcohol (online or in-store) by using BNPL services may further increase its economic accessibility, fuelling increases in alcohol use (or maintaining high levels of drinking) and resulting in alcohol harm to drinkers and others.
4. It is clear that alcohol should not be considered an ordinary retail product. It is a psychoactive substance with dependence-producing properties,¹ and of all drugs available in society, is the most harmful (when harm to users as well as others is considered).^{2,3} Restrictions to its accessibility and availability are among the most effective of all measures to reduce harm.
5. BNPL services offering alcohol products to be sold and advertised at a perceived lower cost is particularly concerning. Consistent research shows that the economic accessibility of alcohol is a key driver of alcohol use, harm and inequities in harm.⁴ Price appears to be particularly important for low income, heavy drinkers, a population group that experiences disproportionately more harm from each drink.
6. Whilst we are aware of very few bottle stores currently using BNPL services, there is significant potential for this to change. This is because, since COVID-19, there has been significant growth in the number of online alcohol retailers seeking to provide 'essential' alcohol purchases during lockdown.
7. Rapid online alcohol delivery (within 2 hours) is a specific concern with regards to online alcohol delivery. Any introduction of BNPL services in this market would significantly increase the risk of harm.
8. In the past year, many New Zealanders have turned to alcohol to cope with the impacts of the COVID-19 pandemic. Alcohol Healthwatch is also especially concerned that many heavy drinkers have increased their alcohol use during and post-lockdown. Inequities in drinking have also been observed, with a higher proportion of Māori drinkers continuing to drink more than usual coming out of lockdown (20% drinking more than usual in Level 1, July 2020) compared to non-Māori (14%).⁵
9. Whilst Alcohol Healthwatch acknowledges the benefits that the BNPL sector can bring to customers, there are clear risks when it has the potential to increase access to harmful drugs such as alcohol. This is likely to be the reason that Laybuy do not allow its services to be used for the purchase of alcohol.
10. It is imperative to put in place a set of robust regulations that protect consumers from any financial hardship and harm from increased drinking. In general, our recommendations include:
 - Alcohol products should be excluded from any BNPL services or other unregulated credit-like services;
 - Alcohol products should not be advertised or sold with fractional costing;
 - Apply the Credit Contracts and Consumer Finance Act 2003 to regulate the BNPL sector (i.e. option 3); and
 - Conduct a public inquiry into the online promotion, sale and delivery of alcohol.

Alcohol use in Aotearoa New Zealand

11. Of all drugs available in society, alcohol is the most harmful.^{2,3} This is due to the wide-ranging harms to the user and to others, not due to its wide popularity in use.
12. Each year more New Zealanders are harmed by the drinking of others, than from their own drinking.⁶ New Zealand research shows that having a heavy drinker in your life also predicts lower health status and personal wellbeing.⁷
13. In 2020/21, almost four in every five (78.5%) New Zealand adults aged 15 years and over reported drinking alcohol in the past year, equating to 3,248,00 adults.⁸ This prevalence was significantly lower than in 2019/20 (81.6%) and had returned to around the level of past-year drinking in 2011/12 (79.5%).
14. The overall prevalence of, and inequities in, hazardous drinking in the total population has remained unchanged over many years. In 2020/21, almost one in every five (19.9%) New Zealand adults were classified as having a hazardous drinking pattern, equating to 824,000 adults aged over 15 years and over.⁸ Males (26.9%) were two times more likely to drink hazardously than females (13.2%).

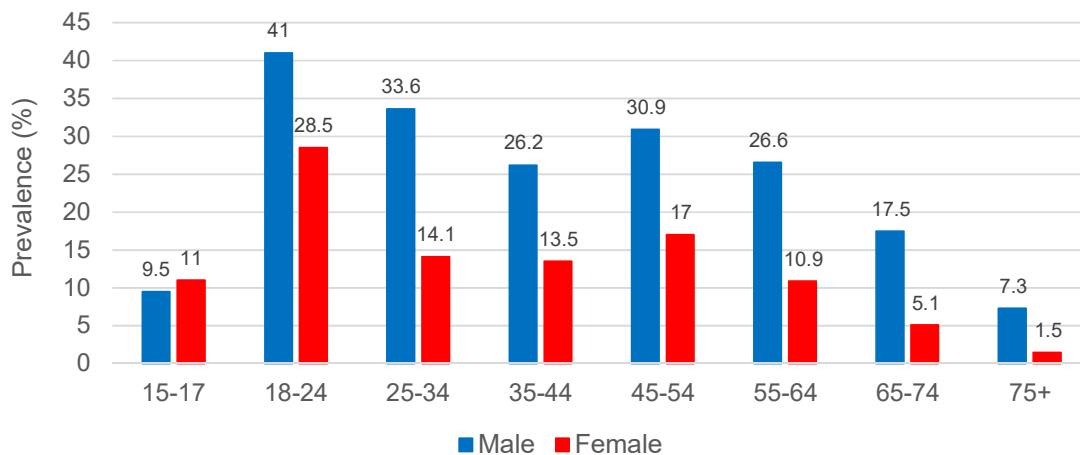


Figure 1. Prevalence of hazardous drinking among New Zealand adults aged 15 years and over (NZHS 2020/21)

15. Young adults between 18 to 24 years were among the heaviest drinkers in 2020/21 (41% males, 28.5% females).⁸ As shown in Figure 1, hazardous drinking prevalence remains high across males in every older age group.⁸

➤ **Inequities**

16. Stark and long-standing ethnic inequities in hazardous drinking persist, and are particularly experienced by Māori, Pacific and socio-economically deprived populations.
 - In 2020/21, Māori men were 1.61 times, and wāhine Māori 1.89 times, more likely to report hazardous drinking than non-Māori men and women.⁸
 - Among Pacific men and Pacific women, the prevalence of hazardous drinking was 39.8% and 16.1% respectively.⁸ Compared with 2019/20, hazardous drinking prevalence among the total Pacific population and Pacific men was significantly higher than the total non-Pacific population and Pacific men; this was not the case for Pacific women.
 - Among drinkers, 53.4% of Pacific men and 29.2% of Pacific women reported hazardous drinking. The adjusted ratios showed that Pacific male drinkers were 1.58 times more likely

to drink hazardously than non-Pacific male drinkers and Pacific female drinkers were 1.41 times more likely to drink hazardously than non-Pacific female drinkers.

- Among all male drinkers, both Māori men and Pacific men had the highest prevalence of drinking 6+ drinks in one occasion at least monthly (48.6% prevalence & 48.5% respectively) and weekly (31.3% & 32.6% respectively).⁸
 - Whilst New Zealanders in the most deprived areas were 15% less likely (70.4% prevalence vs 85%) to be past-year drinkers compared to those living in the least deprived areas, they were significantly more likely to drink large quantities (6+ drinks on an occasion) at least monthly (33.9% vs 22.9%) and weekly (20.7% vs 11% among drinkers).⁸
 - Women drinkers living in the most deprived areas were 1.45 times more likely to report drinking 6+ drinks on an occasion monthly compared to women living in the least deprived areas (25.8% prevalence vs 14.4%).⁸ They were also 2.41 times more likely to report drinking 6+ drinks on an occasion weekly compared to women living in the least deprived areas (13.8% prevalence vs 6.3%).⁸
 - Among male drinkers, those living in the most deprived areas were 1.67 times more likely to have a heavy drinking occasion at least weekly compared to those living in the least deprived area (27.2% prevalence vs 15.1%).
17. Inequities in hazardous drinking (and harm) are driven by inequities in the social, economic and physical/environmental determinants of health. Aotearoa New Zealand's pro-drinking environment (with low alcohol prices, proliferation of alcohol outlets and ubiquitous alcohol marketing) is a key driver of alcohol harm inequities.

Feedback on the key aspects of the BNPL Discussion Document

Alcohol Healthwatch believes that alcohol retailers should not be allowed to offer BNPL services as an alternative payment method

1. Alcohol Healthwatch recognises some potential benefits of BNPL, as it provides a low-cost, no interest/fee payment alternative to credit card payments. However, we support the views of the financial mentoring sector that the BNPL service could create financial hardship for consumers.
2. The Discussion Document ascribed the growth of the BNPL sector to its ability to take advantage of consumer psychology, by giving consumers instant access to goods and services at a perceived lower price on the first instalment, instead of focusing on the full payment. The speed of online transactions may further enhance consumer's impulse to purchase.
3. Alcohol Healthwatch's perspective is that the availability of alcohol products on BNPL platforms may enable alcohol purchases and/or trigger the desire to purchase alcohol (and purchase more alcohol than planned) at a perceived lower price.
4. The price of alcohol and its affordability are well-known to be key drivers of consumption in Aotearoa New Zealand.⁴ Of particular concern, alcohol has been regularly increasing in affordability over many years and in 2020, was more affordable than at any other time since the late 1980s.⁹
5. Nielsen research shows that alcohol products are the most sensitive to price promotion in New Zealand supermarkets.¹⁰ It has also been found that the majority (55%) of New Zealand drinkers purchase their alcohol when sold on promotion (cited in ¹¹).
6. We therefore believe there are fundamental risks in having alcohol available at (perceived) reduced prices, akin to the negative impacts of discounting and promotions of alcohol on increasing alcohol use. Alcohol Healthwatch is concerned that vulnerable drinkers are at an especially high risk when alcohol products for sale are perceived to be at a lower cost (as they would be using BNPL services).
7. Research shows that cheap alcohol is more likely to be purchased by drinkers that experience the most serious harms from alcohol, including heavy drinkers¹² and Pasifika and Māori drinkers.¹³
8. The availability of alcohol at low alcohol prices facilitates moderate drinkers becoming heavy drinkers, and heavy drinkers transitioning to dependent drinkers. We suggest that BNPL services are, in effect, offering alcohol products at a low price even if the full cost is received later.
9. Reducing the economic accessibility of alcohol can reduce the likelihood that New Zealanders will transit to heavier drinking and therefore reduce the long-term suffering for drinkers, whānau and communities.
10. This will support the Government's recent efforts and increased funding to reduce addiction in New Zealand.

➤ **The public health impacts of online sale and delivery of alcohol products**

11. In Aotearoa New Zealand, online alcohol sales were classified as essential services at the start of the COVID-19 pandemic. Anecdotal evidence showed that there had been a surge in online alcohol sales during various lockdown periods in 2020 and 2021;^{14,15} and also a surge in demand for addiction services, including for alcohol and drug overdoses.¹⁶
12. In Auckland, the number of online-only alcohol retailers increased from 136 in December 2019 to 200 in October 2021 (47% increase). This doesn't include the large number of physical liquor stores that have also developed and commenced online sales since the pandemic.¹⁷

13. The impacts of the pandemic, together with growth of online alcohol sales, are yet to be determined. Some impacts of the pandemic on alcohol use will likely be immediate, whilst others will occur over a more extended time period.¹⁸ The longer-term impacts of the COVID-19 pandemic are believed to include the normalisation of home drinking, reinforcing or introducing drinking as a way to self-medicate symptoms of stress, anxiety, boredom and an increased prevalence of newly diagnosed patients with alcohol use disorders (as well as relapse among persons with a disorder).¹⁹⁻²³
14. Of the 19% of New Zealand drinkers that increased their drinking during Level 4 lockdown in 2020, “feeling stressed out/anxious” was given as the third most common reason (as a reason among 38% of participants drinking more than usual).⁵
15. In general, the evidence is that increased physical availability of alcohol leads to higher levels of consumption and harm.²⁴ The simplest theoretical explanation for these relationships is that these effects come from reductions in the cost of alcohol – either in purely monetary terms or via increased convenience of purchasing.²⁵ The growth of online alcohol markets can reduce both of these costs and thus contribute to potential increases in harm.²⁶
16. The ability to pay for alcohol using BNPL services may also reduce barriers for drinkers to purchase multiple alcohol products that they cannot afford (snowballing effects), also resulting in **bad debts for the BNPL service providers**.
17. Lastly, allowing alcohol products to be available on e-commerce or BNPL platforms may further contribute to the normalisation of alcohol products in New Zealand, when customers see them being sold alongside non-addictive commodities.

Alcohol Healthwatch believes that BNPL will evolve and extend to offer more alcohol products online

18. The alcohol industry is technologically innovative, as seen from the large increase in the number of off-licences that offer internet sales and deliveries since the COVID-19 pandemic. Likely, online alcohol purchases via BNPL services and rapid online delivery will continue to evolve and expand in Aotearoa New Zealand. Whilst there are only a few alcohol retailers (mainly boutique wine retailers) currently offering BNPL services as an alternative payment method, we believe there is a risk that this will change.
19. We recognise that many of the seven BNPL providers currently in Aotearoa New Zealand (including Afterpay, Humm, Zip, Laybuy, Genoapay, Openpay and Klarna) have off-shore operations. We are seeking that alcohol sales are prohibited within New Zealand BNPL commercial websites.

Overarching concerns with BNPL services – exclusion from ‘consumer credit contract’

20. The BNPL sector is highly unregulated. It is currently excluded from the regulations under the Credit Contracts and Consumer Finance Act 2003 (CCCFA), as BNPL products do not charge interest or fees (except for missed payment fees).
21. BNPL companies are not obliged to comply with any consumer credit contracts under CCCFA. Requirements include:
 - Reasonable and cost-based fee;
 - Lenders provide adequate disclosure;
 - Lenders comply with the responsible lending obligations; and most importantly
 - Lenders must assess a consumer’s financial position or assess whether the consumer is likely to be able to repay the credit without substantial hardship.

22. The lack of the above obligations for BNPL services places consumers in a vulnerable position to receive the credit they cannot repay.
23. Alcohol Healthwatch identified key BNPL services providers in Aotearoa New Zealand (Table 1). Service providers set different terms and conditions for their products, but a common requirement is that consumers must be 18 years and above and show proof of New Zealand identity (passport or driver licences).
24. BNPL services are tied to retailers on both the BNPL platforms as well as retailers' websites. Services are delivered through the payment systems of the retailer's via credit cards provided by consumers. The payment systems are also integrated to retailer's websites similar to other financial products such as PayPal.

Table 1. Key features of BNPL services provides in Aotearoa New Zealand

Service	Hard or soft credit check at the time of registration	Other terms	Repayment schedule
Afterpay	Soft credit check	Pre-approval amount subject to the amount of the first instalment	4 instalments every fortnight. The first instalment (25% of the original price of the order) at the time of purchase A \$10 initial late payment penalty and a further \$7 is charged if the payment remains unpaid after seven days of the due day, up to \$40 for each order
Zip	Soft credit check	Initial spend assessed at \$550 Payment processing fee at 1.6% of service, Credit fees and charges	4 instalments every fortnight. The first instalment (25% of the original price of the order) at the time of purchase \$10 late penalty fee, up to \$40 for each order
Humm	Soft credit check	Two sets of terms and conditions: Small items (up to \$1,000) & Big items (up to \$10,000) An establishment fee of \$20 and a \$2.50 monthly account fee applies to big items	Small items - 5 equal instalments every fortnight or 10 equal weekly instalments Big items – repayment over 6,9,12 months to 24 months, but depends on retailers \$10 late penalty fee
Laybuy	Soft credit check	Loan amount subject to approval in addition to any transaction assigned to customers from time to time.	Six equal weekly payments of an amount of one-sixth of the purchase cost \$10 late payment fee and a further \$20 if the payment remains unpaid seven days after the due date, up to \$40 per item
Genopay	Hard credit check	Loan amount between \$20 to \$1,000 subject to approved account limit	Pay 10% upfront and the rest in 9 automatic weekly payments. A late penalty of \$10 (GST inclusive) to each missed payment.

		Loan must be approved before customers can use the service with a merchant	
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➤ **BNPL services and alcohol purchases**

25. The current BNPL sector in Aotearoa New Zealand is unregulated (Table 2).
26. Only one service provider (Laybuy) has excluded alcohol products from their services on moral grounds.*
27. All but one BNPL service provider in Alcohol Healthwatch’s investigation had alcohol products available for purchase. There are very few bottle stores currently included in these BNPL services, but as noted previously, this may change over time.

Table 2. Key features of alcohol policies and alcohol availability of BNPL service providers in Aotearoa New Zealand

Service	Alcohol Policy	Alcohol availability
Afterpay	No	Yes
Zip	No An individual retailer may set a minimum spend as a general policy	Yes
Humm	No	Yes
Laybuy	Do not support alcohol retailers as alcohol products are listed as one of the unsupported products	No
Genopay	No	No

28. All BNPL platforms that sell alcohol do not display alcohol retailers on their online platforms. Respective alcohol retailers are searched by using keywords such as alcohol, wine and beer.
29. These BNPL platforms themselves do not advertise or promote alcohol products on their homepage. However, price-based promotions are found on e-commerce sites such as TheMarket.com. The following is a screenshot of Black Friday promotion of a wine company on TheMarket website, which offers the BNPL payment method. The price-based promotion is advertised as ‘spend \$100 save 5%, \$150 save 7%, \$200+ save 10%’.
30. Should alcohol be permitted for BNPL services, it is imperative that promotion of alcohol does not occur on the homepage.

* Laybuy. 2021. Sign up for Merchant. <https://merchant.laybuy.com/nz/onboarding> (Accessed on 18 November 2021)

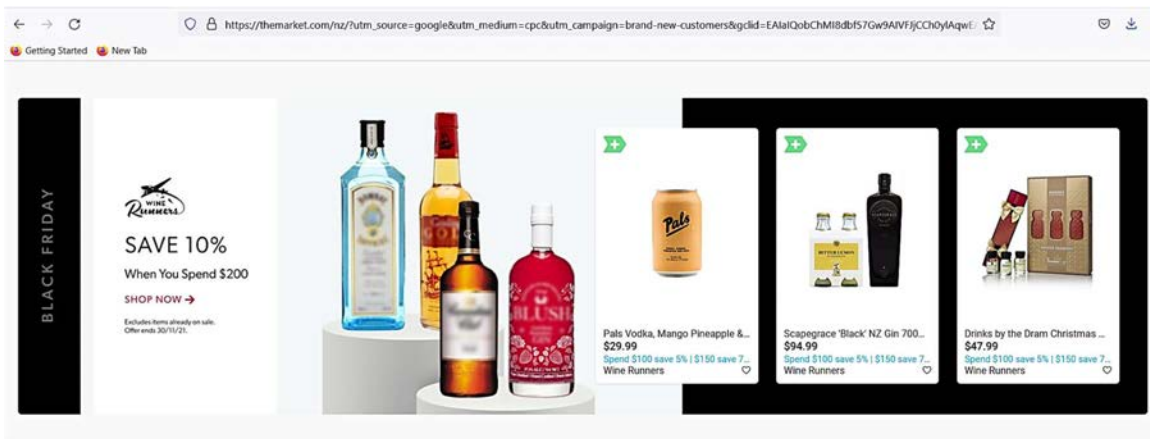


Figure 2. A screenshot of *Black Friday* promotion of a wine company on the e-commerce (TheMarket) platform. BNPL payment is available through ZIP.

Hazardous drinkers and dependent drinkers may face financial hardship from BNPL services, especially those with low income

31. Alcohol Healthwatch strongly believes that BNPL services can impose financial hardship on hazardous drinkers and dependent drinkers if the BNPL sector is left unregulated or without any control over alcohol products sold on these platforms.
32. As mentioned previously, the price of alcohol and its affordability are key drivers of consumption in Aotearoa New Zealand.⁴
33. Through BNPL services, drinkers can purchase alcohol products at **perceived low costs**. For the examples below, the initial upfront payment of alcohol products on both Afterpay and Zip is only 25% of the full payment. A 1-litre bottle of spirit only costs \$10.75 or 34c per standard drink at checkout (exclusive of delivery cost)(Table 3).
34. Of particular concern, BNPL services to purchase addictive substances may create the potential snowballing debt for dependent drinkers who are already struggling with their addiction. Dependent drinkers can consume the first order before completely paying off the total cost of the order, and they can continue to make a second purchase at a perceived low cost.

Table 3. A breakdown of the price paid at POS through two of the BNPL services

Vendor	Service	Product	Unit price	Unit price per standard drink	Price per bottle at point of sale (POS)	Price per standard drink at POS	Delivery time
Te Whare Ra Wines	Afterpay	2017 TWR Pinot Noir (13% ABV)	\$50	\$6.50	\$12.50	\$1.62	3-5 working days
Queenstown Merchant Liquor	Afterpay	Jim Beam White 1 Litre	\$42.99 (sale price)	\$1.36	\$10.75	34c	Overnight delivery
Mischief with wine	Zip	Mischief mixed 6 packs (13%-13.5%BV)	\$135	\$2.89	\$33.75	72c	Unknown

35. As shown in Table 3, a bottle of spirits can be purchased for as little as \$10.75 up front.
36. If a drinker purchased six bottles (750-ml) of wine using ZIP (Table 3), they would be making four payments in total for their purchase. The amount of alcohol purchased for this single transaction equates to 46.75 standard drinks at 72c per standard drink at the first instalment.
37. Based on the average number of standard drinks available in 2020 – 2 standard drinks per day per capita (18+ years)²⁷, it would take around 24 days to consume all the wines (around three-fortnight repayments if the products were delivered within five working days).
38. However, it would only take less than ten days to consume the wines if the products were consumed at a higher rate of 5 standard drinks per day. Only half of the products would have been paid (delivery within five working days), leaving half of the debt outstanding after the alcohol has been consumed.
39. Based on the above scenario, BNPL services reduce the barriers for dependent drinkers to purchase alcohol products, which may increase their financial hardship. In addition, such services may also increase their financial burden if they cannot afford to make their payments on time or pay their credit limits.
40. Alcohol Healthwatch is particularly concerned about vulnerable drinkers who disproportionately purchase cheap alcohol. In New Zealand, cheap alcohol is more likely to be purchased by those that experience the most serious harms from alcohol, including heavy drinkers¹² and Pasifika and Māori drinkers.¹³
41. It is important to note that 7% of male drinkers and 5% of female drinkers in 2012/12 reported experiencing financial harms from their drinking. This equated to 165,000 drinkers.²⁸ Increasing any further financial impacts, through BNPL, would be unacceptable.

➤ ***Alcohol available online may fuel family harm and child maltreatment***

42. Measures to restrict the accessibility of alcohol, rather than increase access, are required to reduce the high level of harm from alcohol in New Zealand.
43. The potential for BNPL services to increase online alcohol sales is problematic. Online alcohol sales and deliveries may lead to increased home drinking and hence family violence and child maltreatment. This situation is exacerbated by increased home drinking due to the COVID-19 restrictions. It is well-known that alcohol use is a major contributor to violence, with research²⁹ demonstrating that heavier alcohol use, by either partner, increases both the likelihood and severity of intimate partner violence. More than one-third of family harm incidents involve alcohol.³⁰
44. Massey University research found that purchasing online alcohol delivery during pandemic restrictions was associated with heavier drinking (75% higher odds) in the past week, while purchasing from supermarkets was not. Sixteen per cent of those purchasing online repeat ordered online to keep drinking after running out.³¹
45. A 2020 survey of 1,600 people in Victoria, Australia, found that high-risk drinkers regularly used on-demand alcohol delivery services (alcohol beverages were delivered in 30 minutes or less).³² People who used the services were more likely to experience or cause alcohol-fuelled harm than other people.³²
46. It is clear that online alcohol sales have grown considerably in recent years and stronger measures are required to reduce their accessibility.

Alcohol Healthwatch recommends requiring the BNPL sector to undertake a more robust affordability assessment of customers

47. It is imperative that the Ministry impose more robust regulations on the BNPL sector in New Zealand to keep pace with the development of the new and emergency non-credit payment alternative.
48. This may include a more robust assessment of customers, which can be transferred from the current Responsible Lending Code.³³ Lenders must exercise the care, diligence and skill of a responsible lender in all its dealings with borrowers and guarantors, including advertising. Lenders must also comply with the specific listed lender responsibilities set out in the CCCFA.
49. In personal communication with a lender,³⁴ lenders must exercise diligence with clients to understand their character and conduct. When applied to BNPL, Alcohol Healthwatch questions how these financial services will determine if their customers have any problems with alcohol, including identifying the client's previous spending patterns on alcohol products. We recognise this issue applies to all online alcohol sales.
50. Without such checks and balances, BNPL services risk increasing the potential for alcohol abuse and harm in New Zealand.

Feedback on the regulatory options for the BNPL sector

51. Alcohol Healthwatch acknowledges the benefits that the BNPL sector may bring to customers, provided that there is a set of robust regulations that protect consumers from any financial hardship.
52. Based on the evidence of alcohol harm in our society, restrictions to the accessibility of alcohol will protect drinkers and others around them. In general, our recommendations include:
 - Alcohol products should be excluded from any BNPL services or other unregulated credit-like services;
 - Alcohol products should not be advertised or sold with fractional costing; and
 - A public inquiry should be conducted into the online promotion, sale, and delivery of alcohol.

➤ Feedback on option one – status quo

53. Alcohol Healthwatch **does not support** the status quo. Evidence from the Discussion Document, as well as the wealth of evidence on the harms from alcohol in New Zealand, already justify the need to regulate the growing BNPL sector.

➤ Feedback on option two – the BNPL sector set their industry code, and ongoing review of the BNPL sector

54. Whilst this option provides more flexibility for the new sector to evolve, we agree with the view of the Ministry that the voluntary industry code is not effective and lacks credibility.
55. Lessons can be drawn from the Advertising Standards Authority Codes on the standards of the Advertising and Promotion of Alcohol. The evidence is that there remains no high-quality evidence that self-regulatory content restrictions are effective.³⁵
56. In contrast, there is a large body of evidence demonstrating the ineffectiveness of industry self-regulatory codes in preventing alcohol-related harm; and in preventing children, young people and other vulnerable persons being exposed to alcohol marketing.^{36,37}
57. We believe that there are many weaknesses of industry self-regulatory codes, including their:
 - voluntary nature;
 - limited scope;
 - inability to enforce penalties or meaningful consequences; and

- fundamental conflicts of interest inherent to their purpose.

58. Alcohol Healthwatch supports the Ministry's proposal to review the BNPL sector regularly.

59. Should an industry code be the preferred option, we recommend that the Ministry require the BNPL sector to implement a minimum unit price for alcohol products sold through BNPL services in New Zealand. In addition, no same day deliveries should be permitted.

➤ **Feedback on option three – apply CCFA to regulate BNPL products**

60. Alcohol Healthwatch supports this regulatory option. We strongly recommend the Ministry exclude alcohol products or any advertising of alcohol products with fractional costing from BNPL services or other credit-like services.

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