

**Klarna Bank AB (publ)
response to MBIE
consultation on Regulation
of Buy Now Pay Later.**

December 2021.

Klarna.

Buy Now Pay Later Project Team
Consumer and Competition Policy Team
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140

By email: buynowpaylater@mbie.govt.nz

Klarna welcomes the opportunity to respond to the Ministry of Business, Innovation and Employment discussion document about buy now pay later (BNPL).

We support the submission made by the Australian Finance Industry Association (AFIA), which recommends the introduction of a voluntary industry code for BNPL providers in New Zealand to adhere to. We believe this represents a proactive and targeted approach to bolstering existing regulation and will ensure consumers benefit from additional safeguards without undermining competition and innovation.

We support MBIE's suggestion that the industry code should be subject to independent review to ensure BNPL providers are addressing the triggers of financial hardship and protecting the interests of consumers. We believe this would represent an effective way of monitoring and evaluating the sector and providing recommendations for evolving the industry code over time.

If the review of a New Zealand BNPL industry code determines that consumers are not being protected adequately, Klarna would be happy to work with the MBIE to help create a proportionate, outcome-based regulatory environment which protects consumers whilst driving competition and enabling continuous innovation in this dynamic sector.

It is vital that regulation does not inadvertently restrict availability of BNPL products to either consumers or the retailers that currently offer these products, and thereby force consumers back towards higher cost traditional forms of credit such as overdrafts and credit cards.

Klarna would be happy to discuss its response with the MBIE if useful.

Yours sincerely



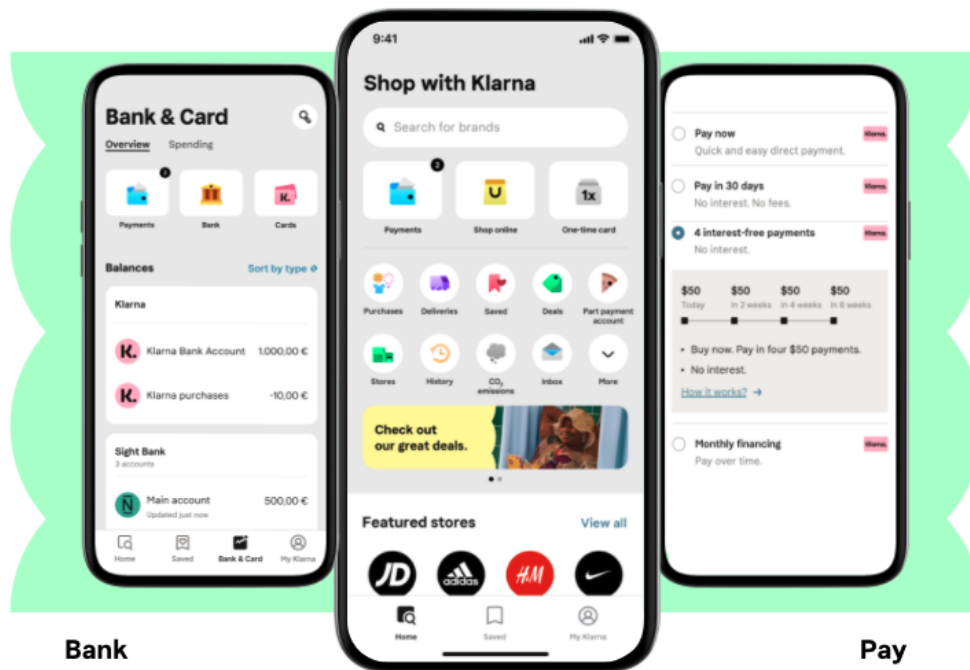
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Who is Klarna.

Klarna offers a fairer, more sustainable way to shop, pay and bank. The business was founded in 2005 in Stockholm, Sweden, with the aim of creating trust online between consumers and retailers. Globally we now have over 90 million consumers and more than 250,000 retail partners across 20 countries worldwide. Those consumers are making over 2 million purchases a day using Klarna, and we have more than 40 million downloads of our app.

We are more than just shopping and payments, having secured our banking licence in Sweden in 2017. We currently have around NZ\$1.4bn of customer deposits directly raised in Sweden and Germany and also offer current accounts in these markets. We also hold the largest Open Banking network in Europe covering 6,000 banks in 23 countries.

People can shop, pay & bank with Klarna. This gives consumers flexibility to save more time for the things they love, and experience a better way to shop.



Bank

An integrated banking experience where you can **take control of your finances** and manage your money in a seamless way.

Shop

Discover thousands of brilliant brands already using Klarna. Get personalised inspiration, exclusive deals, track your deliveries and returns. **Enjoy the freedom to shop responsibly.**

Pay

Pay now, up to 30 days later, or split the cost into manageable interest-free monthly instalments. **Consumer choice** when it comes to fairer and more sustainable payments.

Klarna launched in New Zealand in May 2021 so we are still relatively new to New Zealand consumers. Whilst we are growing, we have only launched one product to date and have less than 1 percent share of the BNPL market.

Our payment product in New Zealand.

Klarna offers consumers the flexibility to pay in 4 interest-free payments at any online store through our app.

- The first payment is taken at the time of purchase with the following three payments taken at 2, 4 and 6 weeks after the first payment.
- Pay in 4 allows consumers to spread the cost of a purchase and better manage their cash flow.

We conduct eligibility checks on each and every purchase to ensure our lending is responsible.

In addition we will gradually increase the credit available to consumers as they prove their ability to repay. This is essential to our business model as we make our money by charging retailers a service fee when a consumer purchases something from them through Klarna, rather than charging consumers interest.

We give retailers their money upfront (less the retailer's service fee) meaning we also take on all the fraud and credit risk of consumers not paying. **We also take on the risk of a retailer not fulfilling orders made by consumers** - i.e. in the event of non-delivery. In these circumstances, our consumers are protected by our [Buyer Protection](#) service, so consumers can shop using Klarna with confidence¹.

Our consumers.

At Klarna we have a set of consumer promises to ensure we always have our customer's best interests at heart and are leading the way in terms of fairer and more sustainable credit:

- **Save time:** by providing simple and secure login, fast checkout, and easy returns.
- **Save money:** by offering discounts and price drops with no unnecessary interest or fees.
- **Manage cash flow:** by helping consumers spread the cost in a way that aligns with their salary cycle through interest free instalments.
- **Informed decisions:** by communicating transparently at all times including checkout, payment reminders, environmental impact of purchases and tracking of deliveries.

The average age of a Klarna consumer in New Zealand is 33 with 26-35 year olds representing the largest age group (41 percent). The average order value with Klarna is NZ\$178.

Our retailers and partners.

Our retailers and partners are finding multiple benefits in providing BNPL payment options to their customers, be that to attract and build loyalty with their customer base, more support to improve their online or instore offering or accelerate their global growth ambitions. As a result, BNPL is now available in a diverse range of consumer markets, from retail verticals such as fashion, electronics and homewares, to service sectors like travel, experiences and vet practices.

¹ <https://www.klarna.com/nz/buyers-protection/>

An industry that has lost touch.

Klarna's consumers are diverse in all aspects, but they share one thing in common - they resent the way the traditional financial industry has profited at their expense. Trust in banks is now at an all time low, and according to the [Edelman Trust Barometer](#), just 52% of people globally trust financial services, the lowest of all business categories².

There are many reasons for this but ultimately banks have built their products and services to ensure that they maximise their income and profits by keeping consumers in debt and at the same time minimising their costs by providing them with very poor service. In New Zealand specifically, Consumer NZ [report](#) that one in five customers had a problem with their bank between June 2020 and June 2021 whilst half strongly agreed that the profits banks make show that they're charging too much³.

So how should you pay.

At Klarna we fundamentally believe that you should pay with the money you have, and consumers are increasingly agreeing, with 57% of millennials not having a credit card. At Klarna around 40% of our global transactions are not credit, through our 'pay now' option. However, there are moments when credit makes sense - this could be for protection or to 'try before you buy' when shopping online to ensure you are satisfied with the product before you pay for it.

The key is **asking the right questions** when choosing credit. Like:

- How much does it cost?
- Is the payment length right for the purchase?
- How does your lender's practices affect you?

Ultimately we believe that if you were designing credit from the beginning to answer these questions, you would start with interest free and short term BNPL as the fairest and most sustainable form of debt.

And we know this is the case from our consumer outcomes, where we consistently deliver above banks and incumbents across all our core metrics:

- **Trust:** Whilst we are so new to the New Zealand market that we do not have a Trustpilot score yet, in [Australia](#) we score 4.3/5 (excellent). This is mirrored in other markets like the [UK](#) (4.5/5 (excellent) with over 17,500 5* reviews) compared to Westpac (1.6/5) or ANZ (1.4/5) which all score below 2 (bad).
- **Loyalty:** Our Net Promoter Score (NPS)⁴ is ~ +80. This is 13x higher than that of traditional credit cards.

² Edelman Trust Barometer 2021,

<https://www.edelman.com/sites/g/files/aatuss191/files/2021-03/2021%20Edelman%20Trust%20Barometer.pdf>

³ Scoop Independent News, 17 June 2021,

<https://www.scoop.co.nz/stories/BU2106/S00309/bank-complaints-on-the-rise-consumer-nzs-survey-shows.htm>

⁴ [Net Promoter Score](#), (NPS) measures the loyalty of customers to a company. NPS scores are measured with a single question survey and reported with a number from -100 to +100. A higher score is desirable.

- **Defaults:** Our default rate - i.e. the percentage of consumers who do not pay us back - is consistently under 1 percent globally, which is 30-40 percent lower than for the default rate for traditional credit cards.
- **Complaints:** Our consumer complaints globally remain significantly lower than the traditional credit sector with only 1 complaint in every 10,000 transactions. The average complaint rate for credit cards is 30-40 percent higher.

We support regulation for society.

Klarna believes that a truly competitive market is the best way to encourage innovation and in turn drive better outcomes for consumers. However, competition alone is not enough in sectors like retail financial services where there is a risk of significant consumer harm if firms do not always act responsibly and in the interests of their customers. Appropriate oversight and guardrails are required.

To fulfil this duty, **state intervention should focus on outcomes rather than simply prescribing processes. Interventions should promote consumer mobility and choice, be flexible and forward-looking, and - crucially - proportionate to the risks (both of the consumer and the product) associated with the products in question.**

In practical terms, we believe there should be increased scrutiny and safeguarding for high risk, high cost forms of credit⁵. However, given BNPL is recognised as being inherently lower risk than traditional credit because it is interest-free, short-term, has structured repayments and clear mechanisms to prevent over-indebtedness, a proportionate approach to oversight is appropriate.

Solutions for New Zealand.

Encouraging industry self-regulation can be an important element of the regulatory framework. It can be more targeted and agile than legislation or (formal) regulation, making it useful for regulating emerging and innovative products and services.

In New Zealand, we think there are reasons to suggest **that industry self-regulation could be an appropriate approach**, many of which are noted in the Discussion Document (e.g. the MBIE references recent RFI Insights research indicating that 75 percent of BNPL customers report extremely high satisfaction with it).

The AFIA BNPL Code in Australia provides a potential model that could be adapted for the New Zealand context. The Code requires signatories to take a responsible approach to the provision of their services through nine key commitments. These are:

1. Focussing on customers;
2. Acting fairly, honestly and ethically;
3. Keeping customers informed about products and services;
4. Making sure the product or service is suitable for the customer, including upfront assessment and existing customer assessment processes;

⁵ This approach has been sensibly demonstrated in the UK with High Cost Short Term Credit (HCSTC) ('payday lending') where [additional regulatory measures](#) were put in place by the Financial Conduct Authority (FCA) to protect consumers given the outcomes they were suffering. See High-Cost Credit Review, FCA, 2019: <https://www.fca.org.uk/firms/high-cost-credit-consumer-credit/high-cost-credit-review>

5. Ongoing review of the suitability of products or services;
6. Dealing fairly with complaints;
7. Offering financial hardship assistance;
8. Complying with legal and industry obligations; and
9. Supporting and promoting the Code.

Taken together, the key commitments address many of the triggers of financial hardship identified in MBIE's Discussion Document. For that reason, we endorse AFIA's suggestion that a similar industry code could be implemented in New Zealand.

Any New Zealand BNPL industry code should not be viewed as a static document. **Klarna supports the MBIE's suggestion that an industry code should be subject to independent review to ensure BNPL providers are addressing the triggers of financial hardship and protecting the interests of consumers.** We believe this would represent an effective way of monitoring and evaluating the sector and providing recommendations for evolving the industry code over time.

We note that a regular periodic review has also been enshrined within the Australian BNPL Industry Code of Practice⁶ to ensure that it continues to build best practice across the industry and promote positive consumer outcomes.

If the review of a NZ BNPL industry code determines that consumers are not being protected adequately, Klarna would be happy to work with the MBIE to help create a proportionate, outcome-based regulatory environment which protects consumers whilst driving competition and enabling continuous innovation in this dynamic sector. We are already working towards this objective in other jurisdictions like the UK and EU at present.

It is vital that state intervention does not inadvertently restrict the availability of low risk, sustainable credit like BNPL to either consumers or the retailers that currently offer these products, and thereby force consumers back towards higher cost traditional forms of credit such as overdrafts and credit cards. This would represent a poor outcome for New Zealand's consumers.

⁶ s7, AFIA Code of Practice for Buy Now Pay Later Providers
https://afia.asn.au/files/galleries/AFIA_Code_of_Practice_for_Buy_Now_Pay_Later_Providers.pdf