



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

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Submission to the Ministry of Business, Innovation and Employment (MBIE) Inquiry into the Buy Now Pay Later (BNPL) Sector

Zip Co NZ Limited (Zip) welcomes the opportunity to submit in response to the MBIE inquiry into the BNPL sector.

Zip Co was founded in Australia in 2013 and now operates in 13 markets, with approximately 8 million customers and 55,000 merchant relationships. We offer fairer, more transparent, and more cost-effective (often free) forms of unsecured credit. Our sector and company have grown quickly in response to a strong consumer transition from traditional forms of credit - which are often opaque and expensive - to those Zip and our sector provides.

Fintech businesses like Zip can be a powerful driver of competition and innovation in financial services, helping to reduce the cost and complexity of finance to businesses and households - increasing the availability of credit, and reducing financial exclusion. We play a key role in providing consumers and businesses with better financial outcomes and in strengthening the New Zealand financial system.

Our BNPL product in New Zealand enables consumers to pay for goods and services over six weeks, without paying any interest or fees. We charge a low late fee (which is capped in aggregate) in the event consumers are late in paying. Importantly, we have a wide range of consumer protection mechanisms in place:

- Zip lends small amounts (<\$1,500) on a non-recourse basis, for less than 42 days, and our primary product does not charge interest, credit fees, establishment, or any other weekly/monthly fees. Our business model relies on our customers' ability to pay us back, so we're able to lend on a recurring basis. Importantly, a large majority of our income is derived from retailers, rather than consumers.
- Zip integrates directly with retailers, takes the cost of a good (or service) and splits the payment into four equal instalments over six weeks. Consumers are notified of repayments, which are automated by the Zip platform. If a repayment does not occur, a default fee is applied (subject always to a cap).
- Our service is provided on a transaction-by-transaction basis with relatively low levels of credit extended (our average transaction size is approximately \$150). Further, the payback period is short and cannot be extended. Approximately 80% of repayments are made via debit cards.
- Importantly, Zip's platform utilises a third-party credit check as a key component of its approval process to ensure prudent lending decisions.
- Customers that have overdue repayments have their accounts frozen and cannot make further transactions. Zip's default fees are capped at \$40 and do not compound - meaning debt cannot 'spiral' and potentially result in a 'debt trap' - as can happen under traditional finance such as credit cards. A grace period is applied before default fees are charged.

- Default fees received are materially lower than the costs associated with our bad debts.
- When customers in default contact us, we typically offer flexible repayment plans that may include the waiving of any late fees, and repayment over a longer period of time.

Zip's products provide consumers with:

1. an improved ability to manage their household budgets by spreading the cost of goods and services;
2. markedly lower cost credit than alternatives (often zero), especially credit cards; and
3. a transparent and simple credit solution.

We use a credit reference agency to assess potential customers' ability to pay, and have checks in place to ensure we don't extend credit to customers who have not been able to pay us back in the past. We provide extensive information to our customers designed to help them avoid late payments, including:

1. Information at the checkout stage regarding late fees and how they may be applied.
2. Reminder texts one day before each instalment due date for first time customers, and emails four days ahead of each instalment due date.
3. In the event that the customer has insufficient funds on a due date, a text message and email stating the repayment has been unsuccessful and that a late fee may apply.
4. A reminder email sent the day after a late fee is added.

We note that - while our primary business activity is the provision of credit contracts (rather than consumer credit contracts) - Zip's activities are governed by, among other legislation:

1. the Credit Contracts and Consumer Finance Act 2003 (CCCFA);
2. the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA);
3. the Fair Trading Act 1986;
4. the Consumer Guarantees Act 1993;
5. the Privacy Act 1993;
6. the Unsolicited Electronic Messages Act 2007; and
7. the Unsolicited Electronic Transactions Act 2002.

In addition, Zip has elected to adopt additional measures within its platform over and above what may be considered the minimum required by relevant legislation. For example, we use third party credit assessment data and cap our late fees.

Zip is developing and building relationships with other industry stakeholders – including consumer representatives and financial counsellors – in order to ensure we strongly understand our customers and stakeholders and can mitigate risk as effectively as possible.

We are working with a credit reference agency and other industry participants to develop an 'indebtedness indicator' designed to mitigate the risk to consumers who may inappropriately open an excessive number of BNPL accounts, leading to a potential over-exposure to BNPL credit.

Proportionate regulation

Zip strongly supports high quality regulation that mitigates potential risks to consumers, enables merchants to grow effectively, and encourages financial technology firms like Zip to innovate and invest to the long-term benefit of consumers. We collaborate closely with governments and regulatory agencies in all the markets in which we operate, and we apply international best practices within our New Zealand business.

Zip is a signatory to the Australian BNPL Code of Practice which came into force on 1 March 2021 (the Australian BNPL Code). The Australian BNPL Code was recommended by a 2019 Senate (Economics References Committee) enquiry: *Credit and hardship: report of the Senate inquiry into credit and financial products targeted at Australians at risk of financial hardship*. The Australian BNPL Code was officiated by the Australian Finance Industry Association (AFIA), and codifies and strengthens consumer protection mechanisms and minimum standards of behaviour in areas including assistance for consumers who may be in positions of hardship or financial difficulty.

Zip supports the adoption of a similar regulatory framework in New Zealand. The Australian BNPL Code is working effectively. We are willing to work closely with MBIE, other financial regulators and stakeholders including consumer representatives, in order to design and implement a best practice code that is suitable for New Zealand. It is important to note that such a code would not be static, but rather dynamic, and continuously monitored to ensure it remains fit-for-purpose in the future.

We believe the challenges such a regulatory model may present are all able to be overcome by a carefully designed and implemented New Zealand code of practice.

Thank you for the opportunity to contribute to MBIE's consideration of the BNPL sector. Please let us know if we are able to provide further information. We look forward to continuing to work together.

Yours sincerely,

Zip Co NZ Limited

Submission on Buy-Now, Pay-Later: Understanding the triggers of financial hardship and possible options to address them

Your name and organisation

Name	Director, Regulatory Affairs
Organisation (if applicable)	Zip Co NZ Limited

Responses

Economic regulation	
1	<p>Do you agree with our assessment of what the benefits are from BNPL?</p> <p>Yes</p> <p>Are there others? Please provide details.</p>
	<p>The success of the Buy Now, Pay Later (BNPL) industry can largely be attributed to the fact its products have displaced traditional credit products because they:</p> <ul style="list-style-type: none"> i) are lower cost, often free; ii) simple to understand and use; and iii) cannot result in a customer falling into a debt trap.
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	N/A
3	<p>As a business accepting BNPL to pay for goods and services, please outline the benefits of BNPL? If you are a small business, are there any additional benefits from accepting BNPL?</p>
	N/A
4	<p>Do you agree with our assessment of how BNPL will evolve in New Zealand? If not, please provide details.</p>
	<p>We believe BNPL will continue to evolve as a feature of a broader suite of financial products and services, rather than a standalone product.</p>
5	<p>How do you think emerging BNPL business models e.g. partnerships with credit cards, banks etc. will impact consumers? Please provide details</p>
	<p>We believe the BNPL sector, new business models and features will continue to evolve in response to changing consumer preferences. Partnerships between</p>

	<p>fintechs with banks and other financial institutions will likely increase in number as each sector focuses on providing those products and services that are ‘core’ business and look to other specialist providers to provide complementary services.</p>
6	<p>Do you agree or disagree with our summary of the types of financial hardship that could occur from BNPL? Please provide details</p>
	<p>The suggestion that BNPL ‘creates financial hardship’ needs to be taken in context. BNPL providers (without exception, we believe):</p> <ul style="list-style-type: none"> • lend low initial amounts, which may increase in response to positive repayment behaviour; • lend on a transaction-by-transaction basis – that is a customer cannot fully draw down on a line of credit and default in short succession; • cap late fees; and • prevent further borrowing where a customer is late in paying, preventing further credit exposure. <p>Unlike traditional forms of credit, BNPL cannot result in a customer falling into a ‘debt trap’ nor ‘debt spiral’. BNPL is used as a household budgeting tool in order to smooth the cost of both essential and discretionary goods and services. The fact BNPL is increasingly available in more retail and service sectors – including groceries – is evidence of consumers’ desire for payment options above and beyond traditional ones.</p> <p><i>Financial hardship triggered by a missed instalment fee</i></p> <p>As the consultation paper notes, late fees are almost always capped at a certain financial amount or percentage of the total transaction amount (whichever is lower). The total amount a customer may be required to pay back is therefore very low compared to products which charge interest that compounds, and do not restrict access to further borrowing in response to default.</p> <p><i>Financial hardship when instalments are not missed</i></p> <p>Zip has processes in place to help identify customers that may be experiencing financial hardship while also paying back on time. We will continue to work with consumer representatives, including debt charities and debt counsellors, to help ensure our products are used by consumers for whom they are suitable.</p> <p>While a minority (approximately 20%) of customers choose to undertake BNPL transactions via credit cards, this may be for reasons including a customer’s desire to obtain ancillary benefits like Airpoints or loyalty points. Where a consumer has capacity within their credit card limit to purchase goods or services, the ability to spread those payments over an additional period (before that purchase may incur interest) provides a benefit to that consumer.</p>
7	<p>As a consumer (or consumer representative), have you faced financial hardship from BNPL? Yes / No / Prefer not to answer</p> <p>If yes, under what circumstances have you faced financial hardship from BNPL? Please select all that apply and provide details, if possible:</p> <ul style="list-style-type: none"> • You had multiple BNPL accounts • Your credit limits were increased beyond what you could afford • Because of the timing of your BNPL instalments and other expenses • Because as a household, you were unable to afford the BNPL instalments • You focused on the first payment rather than the total cost of the product or service

	<ul style="list-style-type: none"> You responded to BNPL marketing and as a result purchased more than you could afford You missed an instalment and faced missed fees (default fees) Your circumstances changed (e.g. change in employment) and you were no longer able to afford the instalments Other
	N/A
8	<p>Do you live in a household with multiple BNPL accounts? Yes / No / Prefer not to answer (If Yes), has your household experienced financial hardship because as a household you could not afford the full cost of the good or service? Yes / No / Not sure</p>
	N/A
9	<p>As a BNPL consumer (or consumer representative) (select one only)</p> <p>A) Do you value having a hard credit check being conducted OR B) Would you prefer a soft credit check that doesn't leave a 'footprint' on your credit score? C) Please explain the reasons for your answer</p>
	N/A
10	<p>What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL?</p>
	<p>Zip supports the usage of credit checks to determine a customer's suitability for BNPL approval, or creditworthiness.</p> <p>Credit checks enable BNPL providers to assess whether and how much to lend to a consumer on an individual basis. Where a consumer has a strong credit score, we may lend a higher initial amount and, conversely, where a consumer has a low or no score we may choose not to lend to them or lend a lower amount.</p> <p>In addition to performing credit checks, Zip is a contributor to the comprehensive credit reporting (CCR) system, which has the following additional benefits:</p> <ol style="list-style-type: none"> Consumers are able to benefit from the demonstration of positive repayment behaviour. Consumers are able to recover from adverse credit events more quickly than would otherwise be the case. CCR enables consumers with a limited or no credit footprint – for example younger people who may be living at home without having taken on traditional forms of credit – to develop and build a credit profile.
11	<p>What other/additional steps could BNPL providers take to assess affordability for consumers?</p> <p>What are the disadvantages (including costs) of these steps?</p> <p>What are the benefits of these steps?</p>

	<p>BNPL provides free or low-cost access to credit, and the products are explicitly designed to mitigate potential risks of harm to users. Traditional affordability checks would not be commensurate with the potential risks to consumers from using BNPL, and would reduce access to a form of credit that many individuals and households rely on as an alternative to traditional – often opaque and expensive – forms of credit.</p> <p>Customer feedback indicates that BNPL users would view an assessment of their income and expenses as being overly intrusive from a privacy perspective, and not commensurate with the potential risks the products may present.</p>
12	<p>How might affordability assessments be conducted when BNPL credit limits are increased?</p>
	<p>Credit limits are typically only increased in response to positive repayment behaviour, which indicates the customer is willing and able to use BNPL capably and responsibly.</p> <p>Zip makes a discrete lending decision at a transaction level, so an increased credit limit does not automatically enable a customer to increase their credit level.</p>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
	<p>The application of affordability assessments when credit limits are increased (or decreased) would not be commensurate with the negligible increase (decrease) in risk the customer would be exposed to.</p>
14	<p>Are there any other ways to ensure BNPL credit limits are increased responsibly?</p>
	<p>Zip's credit limits are dynamic, and only established, increased, or decreased in response to analysis that includes both internal and external data – primarily the repayment behaviour of the customer.</p> <p>It's important to note a customer could only attain credit at the upper end of their credit limit if they were able to demonstrate strongly positive repayment behaviour.</p>
15	<p>Are there any other issues with consumers having multiple BNPL accounts that we have not identified?</p>
	<p>No.</p>
16	<p>How effective and practical would it be to share information with other BNPL providers of consumer accounts which have been frozen?</p> <p>Not effective / Somewhat effective / Very effective</p> <p>Not practical / Somewhat practical / Very practical</p> <p>Please provide details.</p>
	<p>It would be both effective and practical to share information with other BNPL providers of customer accounts which have been frozen (or rather customers that may be in default).</p>

	Zip is working with a credit reference agency and other industry participants to develop an ‘indebtedness indicator’ designed to mitigate the risk to consumers who may inappropriately open an excessive number of BNPL accounts, leading to a potential over-exposure to BNPL credit.
17	How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?
	Zip is working with a credit reference agency and other industry participants to develop an ‘indebtedness indicator’ designed to mitigate the risk to consumers who may inappropriately open an excessive number of BNPL accounts, leading to a potential over-exposure to BNPL credit.
18	What are the costs (including disadvantages) of the approaches you describe in Question 17? What are the benefits of the approaches you describe in Question 17?
	We believe this functionality could be built and implemented in a cost-effective way, with limited disadvantages.
19	What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?
	We have not seen material evidence that the timing of BNPL instalments (which are approximately \$40 on average) trigger financial hardship. Zip allows customers to amend the timing of instalment payments, and is looking at other ways to give customers more payment flexibility, including an ability to ‘bundle’ repayments on a particular day. Zip offers customers the ability to change the day of the week repayments are made in order to align with (for example) pay days. Customers are also able to request deferment of payments over a short period. Where customers appear to be in financial difficulty we work more closely with them to assist them.
20	What are the costs (including disadvantages) of such tools and processes? What are the benefits of such tools and processes?
	We believe this functionality could be built and implemented in a cost-effective way, with limited disadvantages.
21	When making BNPL transactions, how could consumers be made more aware of the total costs of their purchases? What are the costs of these tools? What are the benefits of these tools?
	At the time of purchase, Zip clearly communicates the total cost of the consumer’s purchase, including the amounts and dates of each repayment. Our app clearly sets out the customer’s outstanding balance, and the date and amount of each upcoming repayment.
22	As a consumer (or consumer representative), what has been your experience of receiving help from BNPL provider/s if you missed an instalment and/or faced financial hardship?

	N/A
23	<p>How could BNPL providers be more responsive to consumers relying on BNPL to pay for essential goods and services?</p> <p>What are the costs of these tools?</p> <p>What are the benefits of these tools?</p>
	<p>BNPL increasingly forms an important part of consumers' financial toolkits. Our products are used to smooth payments for both essential and discretionary goods and services. In our experience the use of BNPL products to pay for essential items is not correlated with financial hardship.</p> <p>The ability for consumers to use BNPL to pay for essential items – including in situations where expenses might be higher than usual, for example 'back to school' periods – means those expenses are more manageable. Consumers able to use BNPL in these situations – where expenses are potentially not easily avoided – are less likely to be forced to use higher cost forms of credit like credit cards and payday loans.</p> <p>Further, we see a high proportion of repayments being made early, which suggests our product is used as a short-term budgeting tool.</p>
24	<p>Do you have any comments on the diagrams above summarising the triggers of financial hardship, how they occur, and the features which could mitigate financial hardship?</p>
	<p>Our comments are included in our responses to previous questions.</p>
25	<p>Do you agree with our view that the lack of affordability assessments is likely to be a key reason why some consumers using BNPL face financial hardship?</p>
	<p>We have not seen material evidence that consumers using BNPL face financial hardship beyond that which is (in most cases) caused by a change in consumers' circumstances (for example the loss of employment or illness). In such circumstances, Zip has clear and accommodating policies in order to assist such consumers.</p> <p>We do not believe the addition of affordability checks would lead to a material reduction in financial hardship commensurate with the burden such checks would impose on BNPL providers and consumers, when considered in the context of the comprehensive protections already in place.</p>
26	<p>Do you have views on the overall objective of the BNPL sector?</p>
	<p>We agree with the Government's view of desirable long-term benefits to consumers of the BNPL sector.</p>
27	<p>Do you have any views on how the interests of consumers could be protected?</p>
	<p>We believe the interests of consumers could be protected by an effective industry code of practice.</p>

28	Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?
	Zip believes some standardisation in areas like treatment of consumers in financial hardship may be helpful. We believe such standardisation should be outcomes-based however, given BNPL providers have differing consumer demographics and differing products.
29	Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.
	Zip supports the development of a regulatory framework that gives consumers confidence in the BNPL sector and its products, merchants confidence that their consumers will be protected, and BNPL providers certainty such that they are able to continue to invest and innovate on behalf of consumers.
30	What are the costs and benefits of Option One for any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL? Please provide evidence if available.
31	Do you have any comments on the discussion of Option Two: Government establishes appropriate incentives for BNPL providers to have an industry code which addresses the triggers of financial hardship? Please provide evidence if available.
	Zip strongly supports the establishment of appropriate incentives for BNPL providers to develop and implement an industry code which addresses potential triggers of financial hardship. We worked closely with the Government, regulators, and other external stakeholders to successfully develop such a code in Australia.
32	What are the costs and benefits of Option Two to any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.
33	How could Option Three be designed (including the timing of requirements) to ensure the BNPL delivers long-term benefits to consumers? Please provide evidence if available.
	Zip does not support the application of the CCCFA to regulate BNPL products. Such an approach would not be commensurate with the potential risks to consumers of using such products. Further, there is a risk that the sector would modify or remove BNPL credit products, to the extent that access to this free or low-cost credit would be severely restricted or eliminated.
34	What are the costs and benefits of Option Three and how it is designed to any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.

	The costs of complying with CCCFA requirements would not be commensurate with the limited benefits the application of this legislation would yield.
35	Do you have any suggestions on how we could measure and track progress against whether BNPL is delivering long-term benefits to consumers? Please provide evidence if available
	We believe BNPL delivers significant long-term benefits to consumers as they transition away from opaque, expensive forms of credit to lower-cost, more transparent options. Any evaluation of the costs and benefits of BNPL should adopt as a 'counterfactual' the scenario where BNPL transactions would otherwise be facilitated by traditional forms of credit such as credit cards.
36	Do you have any suggestions on how we could measure and track progress against whether BNPL is delivering long-term benefits to consumers? Please provide evidence if available.
	Please see our response to question 35.

Other comments

	No further comment.
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