

## **AFTERPAY TOUCH GROUP LIMITED (ASX: APT)**

### **ASX Announcement**

25 February 2019

### **Afterpay's Response to the Senate Economics References Committee Report**

Afterpay Touch Group Limited ("**Afterpay**" or "**Company**") wishes to respond to the report released on 22 February 2019 by the Senate Economics References Committee ("**Report**" or the "**Committee**") resulting from its Inquiry into Credit and Financial Services Targeted at Australians at Risk of Financial Hardship.

Afterpay supports the Committee's recommendations relevant to the buy now pay later ("**BNPL**") sector as they are sensible, appropriate and a proportionate policy response to the buy now pay later industry.

Afterpay does not expect any material impact on our business or business model based on the recommendations in the report.

The Senate Committee process highlighted important fundamental differences between the buy now pay later sector and traditional credit products and the need for a separate regulatory framework outside of the National Credit Code.

We welcome comments in the report that Afterpay has brought important competition to the market place and has, in fact, reduced the need for the use of traditional credit for many of our customers.

Afterpay is aligned with policy-makers in that service providers need to find ways to collaboratively utilise technology and share information to ensure that a small segment of the population is prohibited from using services that are not suitable for them.

Afterpay looks forward to our continued engagement with government and regulators as these recommendations are implemented over time.

Afterpay's model and alternative approach to credit since inception has been scrutinised by various reviews and inquiries including ASIC, the Australian Senate and by the New Zealand Government. In each case, it has been found that Afterpay's model, which has been designed with our customers at its centre, requires a separate regulatory framework to traditional credit.

We will continue to take a leadership position in the development of practices and processes that are innovative and industry-leading.

Following are the specific recommendations of the Committee and a summary of APT's position on such recommendations:

**Recommendation 9**

*The committee recommends that the government consider, in consultation with the Australian Securities and Investments Commission, consumers and industry, what regulatory framework would be appropriate for the buy now pay later sector. This regulation should ensure that:*

- *before credit is extended, providers appropriately consider consumers' personal financial situations;*
- *consumers have access to internal and external dispute resolution mechanisms;*
- *providers offer hardship provisions;*
- *products are affordable and offer value for money; and*
- *consumers are properly informed, prior to entering into agreements, about their terms and conditions.*

If adopted by the Government, Afterpay looks forward to working with ASIC, the Government, consumers and industry on a suitable regulatory framework and to achieve the best possible outcomes for consumers.

Afterpay is proud of the fact we already have strong in-built consumer protections in place that in many respects go further than current legislative requirements and the practices of traditional credit providers. On top of this, our technology produces superior results (lower default rates) for consumers than those under traditional credit regimes.

Our industry-leading default rate (<1.5%) indicates that our technology and processes are efficient at limiting, exiting and preventing services being extended to people who shouldn't be using our service. Our business model, which is based on charging the merchant as opposed to the customer, is different to traditional credit providers and relies on repeat customer usage, which can only occur if customers are using the Afterpay service responsibly. In this way our business model is directly aligned with regulatory policy goals.

We take a person's personal financial situation seriously and only increase limits after positive repayment behaviours are shown. For first time customers, we set low initial limits and ensure a person has 25% of the purchase upfront to give us an indication of affordability and commitment. If a person is late on their second repayment two weeks later (or any future payment) their account is immediately frozen.

Afterpay is continuously developing its data and technology capabilities and is well positioned to interact with additional external data sources. Afterpay looks forward to the opportunity presented by open banking. Afterpay also believes there is an opportunity to consider appropriate data sharing among BNPL users to better assess a consumer's BNPL debt profile (see below).

Afterpay supports minimum standards for the industry, including compulsory membership of the Australian Financial Complaints Authority (which we have been a member of since August 2016) and genuine hardship policies that protect those in need.

Afterpay very much supports recommendation around ensuring BNPL products are affordable and offer value for money. Afterpay is a free service for those that pay on time and our late fees are proportionate to our costs, unlike others cited in the Senate committee report. There is no situation where a \$200 debt could be extended for 12 months that include monthly fees of \$72 or 35% of the purchase value.

We make a concerted effort to encourage responsible spending behaviours and ensure that our customers find our product simple to use and easy to understand. This is evident in the high rate of returning customers and that 95% of payments received in the last financial year did not attract late fees.

**Recommendation 10**

*The committee recommends that the buy now pay later sector develop an industry code of practice.*

Afterpay supports the recommendation around developing an industry code of practice for the BNPL sector.

We are well progressed in developing a set of principles and look forward to consulting with our peers and consumers on a workable industry model.

We believe this recommendation will give impetus for improved industry collaboration when it comes to industry standards and better understanding customer profiles. It will also ensure a bar is set at an appropriate level for new entrants in the market.

**Recommendation 11**

*The committee recommends that product intervention powers currently proposed in the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018 legislation be extended to cover buy now pay later products.*

The Government, the Opposition and ASIC are now all aligned that the Product Intervention Powers should be extended to the BNPL industry, which would see the sector covered by a regulatory framework which has the capacity for ASIC to intervene in the market to provide sufficient consumer protections when required. Afterpay has consistently supported this proposition and notes that the Product Intervention Powers Bill is currently before parliament. Afterpay looks forward to the legislation being enacted in the near future.

**ENDS**

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**About Afterpay Touch Group**

Afterpay Touch Group (ATG) is a technology-driven payments company with a mission to make purchasing feel great for a global customer base. ATG comprises the Afterpay and Touch products and businesses. Afterpay is driving retail innovation by allowing leading retailers to offer a 'buy now, receive now, pay later' service that does not require end-customers to enter into a traditional loan or pay any upfront fees or interest to Afterpay. Afterpay currently has over 3.1 million customers and over 23,000 retail merchants on-boarded. Touch comprises innovative digital payment businesses servicing major consumer-facing organisations in the telecommunications, health and convenience retail sectors in Australia and overseas.