



1 August 2022

Mr James Reah
Senior Policy Advisor
HM Treasury
Financial Services Group
1 Horse Guards Road
London SW1A 2H
BuyNowPayLater@hmtreasury.gov.uk

Dear Mr Reah,

CONSULTATION OUTCOME ON THE REGULATION OF BUY NOW PAY LATER

The Australian Finance Industry Association (AFIA)¹ appreciates the opportunity to provide a further submission to the UK HM Treasury on the consultation outcome of the *Regulation of Buy Now Pay Later: response to consultation (BNPL consultation outcomes)*². This submission should be read in conjunction with our earlier [submission](#) lodged in January 2022³.

INTRODUCTION

AFIA is the only peak body representing the entire finance industry in Australia. Our members provide a range of financial solutions to enable consumers and small businesses to thrive. In addition, AFIA members are at the forefront of innovation in consumer and business finance, which enables us to provide unique insights into the emerging digital economy and the opportunities and challenges this presents for governments, regulators, financial firms, and customers.

AFIA's role is to drive industry leadership and represent members' views, facilitate self-regulation through industry codes, and to work with the Australian Government, financial regulators, and other stakeholders to promote competition and innovation to deliver better customer outcomes.

¹ AFIA is the only peak body representing the entire finance industry in Australia.

We represent 158 members, including bank and non-bank lenders, neobanks, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry.

We are the voice for advancing a world-class finance industry, with our members who are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes, and create a resilient, inclusive and sustainable future.

We provide new policy, data and insights to support our advocacy in building a more prosperous Australia

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1083547/BNPL_consultation_response_Formatted_.pdf

³ [https://afia.asn.au/files/galleries/Regulation_of_BNPL_UK_Consultation_October_2021_\(100122\)_Final.pdf](https://afia.asn.au/files/galleries/Regulation_of_BNPL_UK_Consultation_October_2021_(100122)_Final.pdf)

AFIA members include payments and other providers who offer a range of solutions to facilitate transactions and manage money, whether that is budgets for consumers or cashflows for businesses. Our Buy Now Pay Later (BNPL) members were the first in the world to provide simple and integrated payments for customers to purchase goods or services with additional protections contained in AFIA's BNPL Code of Practice (BNPL Code).

OUR SUBMISSION

The value of BNPL

As noted in our previous [submission](#) to you, AFIA supports regulation that is proportionate, scalable and targeted. We believe that regulation should be flexible to continue evolving as markets and customer expectations do.

BNPL is an example of innovation across the value chain, giving customers and merchants greater flexibility and choice in the way payments are made.

AFIA supports the sentiment expressed in the BNPL consultation outcomes that it is "important that the scope of regulation should be proportionate, so that it targets the products with the potential for consumer detriment but does not impede the provision of useful financial products."⁴

We also welcome the acknowledgement that BNPL products are "inherently lower risk than interest-bearing credit products, and that they can be a useful tool for consumers to manage their finances when used appropriately.... [and]...The government's position, therefore, remains that it is important that the regulatory controls applied to agreements which are brought into regulation are proportionate to the risk they present, whilst also providing sufficient consumer protection."⁵

AFIA, together with BIS Oxford Economics and RFI Global, has recently published a [report](#)⁶ on the *Economic Impact of Buy Now Pay Later in Australia (AFIA BNPL Report)* which provides an evidence base to support a proportionate approach to any regulation of BNPL.

The AFIA BNPL Report highlights that BNPL is growing the Australian economy and provides benefits to both consumers and businesses.

Key findings include⁷:

- BNPL is a convenient and low-cost form of credit to consumers and is growing in popularity.
- There are approximately 5.9 million active BNPL accounts in Australia accounting for more than \$11.9 billion in transactions.
- The average BNPL transaction in FY21 was \$151, with users making an average of 16.6 BNPL transactions in that year.
- Complaints and disputes are very low. Only 0.01 percent of customers needed the [Australian Financial Complaints Authority \(AFCA\)](#) to help resolve their complaint with their BNPL provider last year
- The incidence of customers experiencing financial difficulties is very low, with only 0.34 percent of customers needing financial hardship support from their BNPL provider.
- BNPL contributed \$14.3 billion to Australian GDP in FY21.

⁴ Op. cit n 2, p 6.

⁵ Ibid, p 16.

⁶ https://afia.asn.au/files/galleries/AFIA_BNPL_Research_Report.pdf

⁷ For a summary of the key findings see attachment A.

The AFIA BNPL report also shows the BNPL Code is working by providing consumer safeguards, while imposing flexible obligations suitable for the nature of the product, size of the BNPL market, and customer expectations when using the product.

Our research shows that how consumers and businesses are engaging with their money, finances and cashflows is changing. We need to be careful about making straight comparisons between different products, customer experiences, and even consumer attitudes.

Our research also examined behavioural factors associated with BNPL and shows consumers see BNPL and credit cards as very distinct products and they use them in very different ways.

Our BNPL report contains a range of case studies and testimonials from both consumers and retailers that highlight the different way consumers and businesses view the product and the benefits associated with the BNPL:

BNPL User Testimonial

*I've used BNPL since the beginning. I only have one BNPL account and use it once a month to every fortnight. I use BNPL because I don't have to pay the full amount in one go. If I just used my debit card it's all paid in one go, but I may as well have my money in my account for as long as possible. I'm also a platinum member of my BNPL provider so I don't actually pay anything until a fortnight after my purchase. I prefer BNPL over a credit card since it has no fees and automatically splits the payments up with no interest charged if paid off according to their schedule. If I don't have a lot of money in my account I can still buy what I want and pay it off over a short period of time. I use my debit card set up on an auto payment and bank account as a back up payment option and I've never missed a payment. I love it! (BNPL). Credit cards seem old fashioned now. I hope it is here to stay. Easy to use, accessible and available to everyone. No fees or strings attached (from what I have seen at least). **BNPL user, female, 30.***

Merchant testimonial

BNPL suits our business model perfectly and gives clients affordable and easy payment options to pay for the prints and products they truly love, either in full or by instalments."

Our clients are very educated on their purchase options. We promote BNPL X via our website, through our social media posts (Facebook posts and Instagram stories), it is mentioned on several of our client email templates and is also specified on a flyer we hand to clients after their photo session.

BNPL has enabled my business to grow. The option of regular, lower repayments has suited dozens of my clients, and as a result they were able to purchase all of the items they really wanted. It's allowed me to grow overall revenue and also enabled me to upsell and grow my average sale total. Customers are choosing to use BNPL X for a number of reasons. Some use it to order more items but at an affordable rate, some use it to buy items they otherwise wouldn't be able to at the time, whereas others sign up to buy themselves some time over the busy Christmas period.

BNPL X drives approximately 10 percent of my total sales including many I would otherwise have missed. That's 10 percent incremental sales I'm able to gain by offering a more affordable payment solution to my customers.

Clients love having the choice to pay their orders off over select time periods and at intervals of their choice, and with a lower deposit. Plus, they can collect their orders as soon as they are printed which is a real draw card.

BNPL X has been a game changer for us on a number of levels. There are so many benefits. Previously we ran our own layby plans where clients paid a fixed amount via direct debit each fortnight and we held their goods until they were paid for in full.

*While most clients paid on time, we found ourselves having to regularly chase up late or missed payments. Now I don't have to store masses of product anymore while waiting for them to be paid off, and my cash flow on these transactions is pretty much immediate – which is so much better than having to sometimes wait years for an order to be paid in full. **Merchant Y, Australia***

Regulatory framework and AFIA BNPL Code

We note the UK Government intends to release draft legislation for consultation at the end of this year.

As noted in our earlier submission, we consider the BNPL Code is an effective model and its provisions are a useful template for proportionate regulation that is fit for the future.

The BNPL Code, developed by AFIA, is an example of an industry sector taking proactive, targeted action to supplement existing law and regulation by introducing practices and standards suitable for the nature of a nascent product as well as customer expectations. It is also an example of how the practices and standards can more easily be adjusted as the BNPL market evolves and develops.

The BNPL providers accredited to the BNPL Code represent approximately 95 percent of the BNPL market in Australia. A number of signatories have operations in multiple jurisdictions, including the United Kingdom.

Consumers using a BNPL provider that is a signatory to the BNPL Code have a range of consumer protections, including a cap on late fees, and there is an automatic restriction on further use of the product if a payment is missed, which has been introduced to help vulnerable customers stay in control of their spending. Other protections include support if they are experiencing financial difficulties and access to external dispute resolution if they have a complaint they cannot be resolved with their BNPL provider.

The review of AFIA's BNPL Code of Practice is commencing in September 2022. Through this process, we will encourage customers to let us know about their experiences with BNPL, and especially those who have experienced financial difficulties or a change in their circumstances causing them financial stress. We are keen to understand their unique experiences so additional targeted measures can be identified so all customers get the best out of their products.

Closing comments

AFIA would welcome the opportunity to discuss our submission and provide you with further information about our BNPL market research.

Should you wish to discuss our submission or require additional information, please contact me at diane.tate@afia.asn.au

Yours sincerely



Diane Tate
Chief Executive Officer

ATTACHMENT A – THE ECONOMIC IMPACT OF BNPL IN AUSTRALIA – SUMMARY OF FINDINGS