



Nov 8, 2018
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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Re: Senate Inquiry - Credit and financial services targeted at Australians at risk of financial hardship

Dear Committee Members,

We welcome the opportunity to provide a submission to the Economics Reference Committee on the above inquiry. Our submission is confined to:

“[T]he impact on individuals, communities, and the broader financial system of the operations of: (ii) unlicensed financial service providers including ‘buy now, pay later’ providers and short-term credit providers.”

About Zip

Zip Co Limited (‘we’ or ‘Zip’) is an ASX-listed provider of payments and digital retail finance products to Australians in a range of industries including: health, education, retail and travel.

Our business was founded in Australia and our 180-person team are all based locally. Zip is managed by a team with over 60 years of credit experience and is a licensed and regulated credit provider. Zip is also a member of The Australian Financial Complaints Authority (AFCA), the external dispute resolution scheme.

We offer transparent, responsible and fairly priced credit and payments products. Zip does not, and has not, ever offered sub-prime or payday lending services.

The founding of Zip in 2013 was based on the belief that we could provide customers with a better and fairer alternative to the unfriendly credit card model and broken traditional sales finance approach. These products have lengthy applications, are complex and hard to understand, often have hidden and unfriendly terms, and are typically reliant on customers’ revolving high balances and interest.

With over 850,000 customers, and over one billion dollars of transaction volume processed on the Zip platform since inception, it is evident customers recognise the core benefits of Zip and appreciate our unique product offerings.

Zip offers a closed loop payments network and is available at more than 10,000 retail locations across Australia. These retail partners choose to offer Zip in order to enhance their customer payment experience, attract new customers, increase conversions and grow revenues. For these benefits merchants typically pay a merchant service fee higher than a credit card, enabling Zip to offer interest free, fairer and better terms to consumers.

Aligning with our core ethos of financial wellness, in 2016 we acquired Pocketbook. Pocketbook is the Australian market-leading app-based provider of free personal financial management solutions and has over 500,000 users. This free app gives consumers a unified view of their finances, access to market-leading



budgeting tools and empowers them to make informed financial, spending and saving decisions. In 2018, Pocketbook tracked over 500 million transactions, totalling approximately \$200 billion of spend, giving Australian consumers useful and actionable insights into their spending and saving behaviour. The App also provided over 3 million alerts, which have helped Australians save millions in late bill payment fees, unpaid salaries and bank fees.

Zip Products

Our business has two credit products, Zip Pay and Zip Money, and our financial management product, Pocketbook.

Zip Money:

- Suited for medium and large considered purchases.
- Regulated credit product under the National Consumer Credit Protection Act (NCCP) with account limits from \$1,000 to \$30,000.
- Interest free terms on every transaction ranging from 3-48 months, with the majority being 6-12 months.
- A \$6 monthly account fee applies - this is waived if there is no balance owing.
- More than 45% of customers using the Zip Money product are homeowners and home buyers.

Zip Pay:

- Tailored for everyday purchases.
- Unregulated credit product with account limits of \$350, \$500 or \$1,000.
- Interest Free always.
- A \$6 monthly account fee applies - this is waived if there is no balance owing.
- Flexible repayments available, weekly, fortnightly or monthly. Customers are required to make a minimum repayment of \$40 each month.
- The average age of a Zip Pay customer is 31.

Pocketbook:

- Australia's largest personal financial management (budgeting) app.
- Automatically categorises spending, helps consumers build savings, alerts them on fees and helps them achieve their financial goals.

The Terms of Reference

We pride ourselves on offering products with a strong focus on responsibility and financial wellbeing and our business is in no way associated with the other industries noted in the terms of reference.

Our business model and target demographic are vastly different, and we are not a Small Amount Credit Contract (SACC) provider, or consumer lease provider, debt management firm or debt negotiator, and absolutely do not target consumers at risk of financial hardship.

We support government intervention where there is potential consumer harm. Furthermore, Zip welcomes requirements that specify minimum responsible practices by all players in the consumer finance sector.



We believe there is a balance that needs to be struck to ensure a viable and innovative environment delivering better consumer products and experiences remains in place. Any further regulation or guidance should specify the customer outcomes expected, both in terms of conduct and product construct, while providing a guideline on minimum standards, without being overly prescriptive on how businesses use technology and data to meet these objectives. We look forward to working with government, regulators and industry stakeholders on strengthened consumer safeguards.

Responsible Credit

Zip is a responsible credit provider, both as a company core value and through legal obligations under our ASIC regulated Australian Credit Licence. We take this responsibility very seriously.

By leveraging technology to consume and analyse significant amounts of data in real time at the point of application, Zip can offer both a seamless customer experience and make more informed and responsible credit decisions.

Our proprietary credit and decision platform uses technology to access both traditional and alternative credit data. Because of this, we deliver not only better decisions but we also ensure that when a customer is approved, the line of credit is appropriate, the product is suitable for that specific consumer and that each consumer can comfortably afford their repayments under their credit contract.

- We conduct a credit and identity assessment, including a credit bureau check, on every applicant and we have done so since inception. Applications are regularly declined as a result of poor credit history, the consumer's inability to afford the repayments or previous applications for payday or other sub-prime loans.
- Zip was one of the first in the industry to adopt real-time bank verifications on credit applications, extracting bank transactional data to verify both income and expenditure. This step is required for all Zip Money applicants and has recently been introduced into the Zip Pay application process.
- Because of our focus on responsible lending and significant investment in our proprietary credit underwriting platform, the loan book performance, delinquency and bad debt rates are considerably better than market comparables. We reported in our most recent ASX disclosure (FY 19 Q1) gross bad debts of 2.61% and reported arrears of 1.61%, both of which are evidence that we are not lending money to consumers that cannot afford the repayments or are in financial hardship.
- As soon as a Zip account goes into arrears, we lock the account from any further spending until the situation is remediated. This prevents customers from accruing any further debt.
- Late fees constitute around 1% of our total revenue and our business model does not rely on consumers missing payments and being charged late fees for it to be sustainable.
- Our verification process not only confirms that our products are suitable for each customer, but also identifies that many our customers have access to alternate credit and payment products. Despite this, they are choosing to use Zip because they appreciate the interest free feature, and prefer spreading the costs of their purchases over time to meet their individual needs.



As noted earlier, Zip conducts a credit check on every single application. We have also been actively engaged with the Credit Reporting Agencies to understand how Zip, including our Zip Pay product, can participate in Comprehensive Credit Reporting.

Many of our younger consumers have an antipathy towards the Big Four banks and credit cards generally and look to us as a better alternative. We see strong consumer and social benefit where Zip provides a consumer's first credit product experience, along with education, engagement and positive repayment behaviour, to assist these customers to build their credit profile.

Zip is managed by a team with deep credit experience and operates a fully regulated credit product that is managed on the same underwriting and decisioning platform. We understand the obligations when issuing credit, and all products offered by Zip are built with an appreciation of the responsibilities that come with issuing credit.

The Zip Difference

Every Zip transaction is interest free. Our Zip Pay product is always interest free and our Zip Money product offers promotional interest free periods, on average 6-12 months. Our business model does not rely on late payment fees or customers not being able to afford their repayments for revenue. There are no hidden fees and all consumer costs are transparent, upfront and clear. As an example, all of our customer fees are clearly disclosed on our website, on the first page of the application form and on statements.

Both the Zip Money and Zip Pay products are structured to prevent customers from carrying debt for long periods of time. These products require affordable monthly repayments, which repay the balance within months, not years. Unlike credit cards, that only recently moved to using a 3-year repayment period for an assessment of affordability, our assessment process and products have been structured to deliver this from inception.

Our repayment rate means approximately 14 percent of outstanding receivables balance (customer debts) is repaid each month. Effectively our customers repay their entire balance on average every 7 months. Consumers are actively encouraged and given the tools to set their repayments to a frequency that meets their budget, pay cycle and lifestyle whether that be weekly, fortnightly or monthly.

Regulatory Framework

In recent months, there has been increased publicity surrounding unregulated credit and the Pay Later industry. We have built our offering on a foundation of responsibility, customer trust and longevity and we welcome any additional scrutiny on the industry to ensure all players are operating according to expected standards.

Zip is voluntarily participating in ASIC's review of Buy Now, Pay Later services and looks forward to the release of the report later in the year. We believe the report will show that Zip is operating at a very high standard and delivering a real alternative to consumers. We have been actively engaged with ASIC throughout the process and appreciate their positive feedback to date.

As part of the Government's response to the Financial System Inquiry (FSI), *Improving Australia's Financial System 2015*, the Government accepted the FSI's recommendations to introduce both:



1. Design and Distribution Obligations for financial products to ensure that products are targeted at the right people (FSI recommendation 21).
2. A Product Intervention Power for the Australian Securities and Investments Commission when there is a risk of significant consumer detriment (FSI recommendation 22).

Treasury has released for public consultation exposure draft regulation, *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018* to support the above recommendations.

Zip is supportive of a review of ASIC's remit to prevent or respond to significant consumer harm. We support the extension of ASIC's intervention powers to cover both the regulated and currently exempt (NCCP) credit products. Although the Zip Pay product construct falls outside the NCCP and does not charge the customers for the provision of credit, Zip nonetheless adopts many of the requirements under the Act.

Summary

Since inception Zip has focused on delivering transparent, responsible, affordable and flexible credit products.

We are using technology to responsibly deliver great consumer experiences and interest free products, disrupting outdated and unfriendly credit card models. Many of our customers have a credit card but choose Zip as their preferred way to pay instead.

We have never engaged in payday or similar lending practices, nor debt management or credit repair services and we do not rely on customers not being able to afford their repayments to support our business model.

Our low delinquency and bad debt rates are testimony to the responsible lending policies and procedures we have built. Our products are structured to prevent customers from carrying debt for long periods of time and because of this, our customers repay their entire account balance on average every 7 months.

Given the rapid growth of Zip and other alternative payment providers, we support industry reforms that deliver higher minimum standards and behaviours across all consumer lending models.

We pride ourselves on providing fair and transparent financial products, aligned to our core values. We provide a better alternative to credit cards, with a focus on interest free behaviours, flexible and affordable repayment schedules and a commercial model that is built on customer loyalty and engagement.

Yours Faithfully,

Larry Diamond, Chief Executive Officer, Zip Co Limited