



3 July 2024

Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra ACT 2600
corporations.joint@aph.gov.au

Inquiry into the financial services regulatory framework in relation to financial abuse

Dear Joint Committee members

Afterpay welcomes the opportunity to respond to the Joint Committee's questions as part of its Inquiry into the financial services regulatory framework in relation to financial abuse in Australia (the Inquiry).

Financial abuse, family and domestic violence and coercive control are significant and urgent issues in the Australian community. It is vital that the financial services sector continues to work with Government and policymakers to reduce the impact of financial abuse and we support measures that will generate positive and meaningful outcomes for consumers.

We note the Australian Finance Industry Association (AFIA) made a submission to the Joint Committee on behalf of its members, which includes broader context and information about industry best practice as well as case studies on how non-bank lenders are supporting customers experiencing financial abuse.

As an AFIA member, Afterpay endorses its recommendations and supports reforms that would enhance the sector's capacity to assist Australians experiencing financial abuse. We also support the Finance Industry Council of Australia's recent statement of principle on this issue, which said this must include "listening to victim survivors, acting in ways informed by their experiences, and looking at how we can work together to make sure financial products, services and technologies are not susceptible to being misused to perpetrate financial abuse or family and domestic violence".¹

Question 1: What specific policies, systems, processes or other safeguards does your business have in place to identify, respond to and report suspected financial abuse occurring to your customers?

Afterpay is committed to providing consumers with a financial tool that prioritises accessibility, affordability and responsible spending. We have targeted and effective protections in place to mitigate the risk of financial abuse and limit customer exposure to potential financial vulnerability.

As the Inquiry identifies in its Terms of Reference, financial product design plays an important role in preventing and protecting consumers from financial abuse. Afterpay has purposefully designed a product that strengthens our capacity to respond in real-time to customers who may be in financial difficulty or experiencing vulnerability. These safeguards include:

¹ [FICA Statement of Principle on Financial Abuse and Family and Domestic Violence](#), June 2024.



- **IDV and AML/CTF:** At the customer onboarding process, Afterpay carries out relevant identity verification and AML/CTF verification checks on consumers when they open an account with us. This reflects the fact that all BNPL products are subject to the legal regime administered by AUSTRAC, which is no different to the regime that applies to other financial service providers.
- **Cost-effective structure:** Afterpay is a no-cost service for customers who make payments on time, with no interest charged ever. We have purposefully designed a product that generates the vast majority of its revenue from merchants, not consumers.
- **No revolving debt:** Unlike traditional credit products, Afterpay does not allow customers to revolve in debt. We freeze a customer's account if a payment is missed. Conversely, traditional credit cards allow customers to make very low minimum payments that allow debt to revolve at interest rates of 20% or more.
- **Fair fee structure:** Our late fees are capped at a reasonable level, and can never exceed 25% of the original value of the customer's order or \$68, whichever is less.
- **Gradual spending limit increases:** All customers start with low spending limits – \$600 – that gradually increase based on demonstrated responsible repayment behaviour. Likewise, if a customer repeatedly misses repayments, their spending limit decreases. This significantly reduces potential for consumer harm.
- **Clear and consistent communications over the lifecycle of each transaction:** This helps customers understand at every opportunity what they have to pay and when, and therefore how to avoid any late payments. If a customer does miss a payment, we notify them, provide them with notice that fees may apply after a certain date, as well as provide a short period of time to make this payment to avoid a late fee.
- **No enforcement of debt:** We have never legally enforced a debt nor do we sell debts to collection agencies.
- **Moving payment dates:** If a customer thinks they may not be able to make a payment, they can request to move their scheduled payment date to a more suitable date.
- **Additional support and care for customers experiencing vulnerability:** For customers who find themselves in financial stress or experiencing hardship, Afterpay operates a generous, accessible and flexible hardship program for customers. Afterpay encourages customers to contact us at the first sign of stress, and our approach is driven by the particular circumstances of each individual customer. Our customer service team is trained to identify when customers may be vulnerable and sensitively manage cases of customers in financial difficulty. These agents follow our hardship policy, which gives them the power to modify existing payment plans (without ever imposing additional fees or costs on the customer) to suit a customer's financial circumstances and signposts them to the appropriate charities and agencies that support consumers in financial difficulty, if necessary. For example, we provide links to the National Debt Hotline and Way Forward – a service that offers free support for people to manage and repay their debts. Afterpay [became a member](#) of Way Forward in 2021, as a demonstration of our commitment and support for the work of financial counsellors.

- **Engagement with financial counsellors:** Afterpay has a clear contact point for financial counsellors to discuss their client's circumstances and manage their account (for example, flexible payment timelines with no additional fees or costs can be agreed upon). Unlike traditional credit providers, we do not require customers to provide us with evidence of their financial hardship – we accept our customers on face value, and work with them to develop a tailored solution.

This approach is designed to achieve the best outcomes for our customers and is consistent with the Australian Finance Industry Association [Buy Now Pay Later Code of Practice](#) - which mirrors existing frameworks developed by ASIC and other regulatory bodies.

The BNPL Code ensures that providers treat customers experiencing financial difficulty with fairness, respect, and consideration of their specific circumstances. The Code also identifies various factors that may contribute to a customer's vulnerability, such as mental health, domestic or family violence. In line with these requirements, Afterpay trains staff to treat diverse and vulnerable customers with sensitivity, respect and compassion, as well as identify signs of vulnerability.

Afterpay also supports AFIA's [new industry guidance measures to support vulnerable customers](#), which aims to improve training programs to equip staff with the knowledge and skills to help identify and support potentially vulnerable customers, including those with changing payment behaviours who may be suffering from financial abuse. In addition, Afterpay is a contributor to the Federal Government's [Industry Funding Model for Financial Counselling](#) to help ensure increased access to financial counselling services for Australians more broadly.

Question 2: What is the extent of suspected financial abuse identified by any such measures in place?

Financial abuse cases represent a subset of the overall cases of financial hardship that are raised with Afterpay. Although we do not have precise data on suspected financial abuse cases as a proportion of total financial hardship cases, our staff are trained to sensitively handle each individual customer's circumstances. Overall, the number of customers that experience financial hardship with Afterpay is less than 0.5% of our total customer base.

Question 3: What is the impact of the shift of financial products to online platforms on the prevalence of, and ability of your business to identify, respond to and report, suspected financial abuse?

Afterpay has always been a digital-only platform. Our [Target Market Determination](#) (TMD) states that we have purposefully designed a product for customers that are "comfortable with the ease and efficiency of using a digital-only product." TMDs are a core tenet of ASIC's Design and Distribution Obligations regime, which applies to the BNPL sector. This regulatory framework seeks to ensure that consumers are sold products that are suitable for their needs. It does this by requiring financial product issuers and distributors to identify an appropriate target market for their products, and ensure that their product(s) are distributed to the target market.

As a purely digital product, Afterpay has developed customer communication channels and inbuilt consumer protections that reflect this fact. This includes comprehensive communications via the Afterpay App and email, and online customer service and contact channels. Our customers are

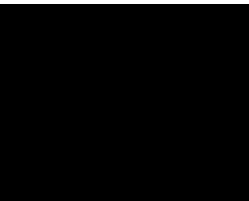


comfortable using these channels to manage their spending and if required, engage with Afterpay's customer support team. At all times, Afterpay staff are trained to engage with customers with sensitivity, respect and compassion and identify signs of vulnerability.

Although Afterpay is digital only, our product design (low spending limits; new customers are required to make their first repayment upfront; capped late fees; no interest; and customers prevented from spending if they miss an instalment), means we are able to better mitigate the risk of financial abuse on our platform.

Conclusion

Thank you for the opportunity to provide this response. Please do not hesitate to contact us if you require further information.



Michael Saadat
International Head of Public Policy