

Senators, thank you for inviting us here this morning.

I'm Nick Molnar, chief executive of Afterpay, and this is my co-founder Anthony Eisen.

Afterpay is fundamentally a new service, with effectively the opposite business model to traditional credit.

Afterpay is responding to a purposeful shift by Australians away from traditional credit, and the lack of consumer protections they provide, and to the understandable distrust of big institutions.

I come from a generation that faces fundamentally different financial pressures - especially when it comes to education debt and housing affordability.

It's why more than 85% of Afterpay customers use a debit card, not a credit card. And why 70% of our customers say they're using their credit card less, thanks to Afterpay.

We want people to be empowered, not entrapped, by financial products.

In addition to our submission, we would like to touch on a few key points that help to demonstrate why 2.5 million Australians and 20,000 local businesses are already using Afterpay.

First, let me clear up some of the misconceptions about our business.

We are not a traditional credit product or a payday lender or quite honestly, like some others in the buy now pay later industry.

Afterpay was established to be a free service and we are very proud to say we only make 20% of our revenue from the customer.

The opposite is true for traditional credit products and, unfortunately, some BNPL services built on the foundations of traditional credit models. These products make upwards of 60% of their revenue from the customer.

The traditional credit industry has been built to camouflage customer fees with the objective of maximising income from the customer - Afterpay has a transparent late fee structure that is based on case law and late fees are an incentive to pay on time, not viewed as a source of profit.

You can think of Afterpay as a budgeting tool or a modern-day lay-by, except the customer gets the goods or service up front, which they pay in 4 equal instalments.

We have never been defined as credit when it comes to the National Credit Code - nor do we rely on an exemption - as confirmed by ASIC. We never charge interest.

Our business model is based on people making automatic repayments on time. The better the customer is at paying off their purchases and using us again, the better it is for our business. Pay on time and the service is completely free.

That's because we make the vast majority of our money from retailer fees.

That's the last thing a traditional credit provider wants. Their business relies on customers revolving in debt, paying compounding interest or monthly account keeping fees.

Australians - particularly Millennials - have figured this out, which is why the total number of credit cards in circulation is quickly coming down.

Unlike payday lenders, we do not target Australians at risk of financial hardship and we do not charge crazy interest rates, account keeping fees, annual fees or hidden charges.

Unlike credit cards, Afterpay is not in the business of offering a \$20,000 or even a \$5000 loan. We are not a line of credit; payments are attached to discrete products or services. Which means that we can never be used for a gambling type service.

The average Afterpay purchase sits at around \$150 and the average outstanding balance \$208. Compare that to the average credit card debt of \$4,200.

A single Afterpay purchase cannot be more than \$1,500. And Afterpay limits people to a total of \$2,000. And, you can only ever get to a \$2,000 limit if you have a positive repayment history.

Finally, Afterpay is broad-based and is not confined to limited retail segments. We are relevant to multiple service areas such as health care and dentistry where budgeting tools are particularly required.

Now, let me tell you what Afterpay is.

I am proud to say that Afterpay is one of the safest delayed payment services available to Australians.

The in-built consumer protections provided by Afterpay, frankly, far exceed steps taken by the regulated traditional products and the result is our loss rates are the lowest in the industry.

In fact, we refuse 30 per cent of all purchases and 50 per cent of first-time purchases based on our algorithms and the customers' history.

Be late on one payment, we suspend your account, and you can't buy anything else through Afterpay until you've come good.

Still, there will always be customers who get themselves in financial trouble. Which is why we have a hardship policy that is more robust than the big banks and why we are an active participant in the Australian Financial Complaints Authority.

As innovators, we are always seeking to improve the Afterpay service for our customers and respond to their concerns. Last year, for example, we capped our late fees, contributing to a significant fall in the percentage of late fee revenue.

Senators, Afterpay is in favour of appropriate regulation that recognises innovative new models.

I can see how it's easier to regulate Afterpay like traditional credit products.

But, that is a blunt and simple solution to a more complex issue and one that risks stifling innovation.

A one-size-fits-all regulatory approach will not deliver the best outcomes for the Australians that use our products.

If the last 12 months has made one thing clear, it is that traditional protections and traditional regulation does not deliver positive customer outcomes. Some of our peers in the sector already apply credit checks, but it's not the silver bullet.

Afterpay has publicly supported reforms that would see ASIC's intervention powers extended to cover the buy-now, pay-later sector and create a regulatory framework for the different business models within the same industry.

These reforms are before the Parliament now - they've been put forward by the regulator and are being considered by both political parties.

There is a very real scenario that the industry can be regulated within the month.

In addition to this, one of the main areas we would seek the assistance of the parliament and regulators is corralling the industry so we can better share information around the positive and negative behaviours of our users and understand when people are using multiple products inappropriately.

We are confident the right regulatory balance can be struck for new products such as Afterpay to ensure consumers get the best outcomes with the best protection.

Thank you for the invitation to appear before you today. We look forward to answering any questions.

- ENDS -

Opening statement for tabling with one-pager about Afterpay