

Afterpay Limited ASX: APT

ASX Announcement

16 November 2020

ASIC Review of Buy Now Pay Later Industry

Afterpay Limited (Afterpay) welcomes the latest report from ASIC in relation to the Buy Now Pay Later (BNPL) industry.

The report highlights that ASIC's new product intervention power and the forthcoming design and distribution obligations, which focus on consumer outcomes and harms rather than imposing prescriptive compliance obligations, will play an important role in promoting good consumer outcomes. It also comments that there is a significant role for industry self-regulation with broad industry support and commitment to ensure good consumer outcomes.

This is consistent with the Government's Senate Select Committee on Financial Technology and Regulatory Technology, which recommended regulation that is fit-for-purpose and considers the various emerging products and business models.

ASIC's report recognises the significant shift from traditional forms of payment and the declining usage of credit cards. Consumers are benefiting from more choice as competition from newer players is expanding a previously narrow, bank dominated payments industry.

ASIC's report demonstrates that BNPL is a collective term to describe a range of new businesses with fundamentally different business models. While Afterpay is clearly the largest of the companies profiled (73% of the total value of BNPL transactions), Afterpay represents a relatively small proportion (27%) of BNPL related consumer debt.¹

This is a result of Afterpay's differentiated business model that is unlike traditional credit or other BNPL providers, with built-in consumer protections that ensure average transaction values remain the lowest (\$147 versus up to over \$8,000), payment terms are strictly short-dated (6-8 weeks versus up to 60 months) and customers cannot revolve in large or accumulating amounts of debt. Customers are immediately suspended from using Afterpay if they miss a single instalment payment. Unlike others, Afterpay does not rely on customers to drive revenue, generating the majority of revenue from merchants (over 85% in FY20) and its customers prefer debit cards over credit cards (over 90% of all Afterpay transactions in Australia are linked to debit cards).

¹ ASIC Report 672: Figure 3, page 7; Figure 4, page 8.

Key metrics relevant to positive consumer outcomes have continued to improve since ASIC's review period (2018 - 2019). In particular, Afterpay's Gross Loss is currently industry leading (<1% globally in FY20) and late fees as a percentage of underlying sales has reduced to <14% globally in FY20.

ASIC's consumer research identified the potential for financial stress among users of different financial products categorised as BNPL. Afterpay's own research of 144,000 Afterpay customers found that there is no causal link between spending on Afterpay and changes in spending on essentials.² For customers who find themselves in trouble, Afterpay offers a generous and accessible hardship program where flexible payment timelines with no additional fees or cost can be agreed upon. Afterpay has never enforced a debt nor does it sell debts to collection agencies.

The ASIC Report concludes that surcharging and price inflation practices are more likely to occur for higher value purchases and / or where the price of goods is less transparent and negotiable. This correlates with Afterpay's own research where we have found that there is no statistical relationship between merchant growth in Afterpay and how much their prices change.

Afterpay looks forward to participating in the Government's upcoming review of the regulatory architecture of the Australian payments system, including whether the general policy and regulatory framework adequately accommodates new and innovative technology, such as the BNPL sector.

Afterpay remains committed to our customers and to working with ASIC, the Government, industry, consumer groups and all stakeholders to promote consumer protection outcomes and a competitive Australian FinTech industry.

Authorised by:

Anthony Eisen
CEO & Managing Director

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For further information contact

Investors	Company	Media
Marie Festa EVP Investor Relations & Communications marie.festa@afterpay.com +61 405 494 705	Amanda Street Company Secretary amanda.street@afterpay.com	Melissa Patch Director of Communications melissa.patch@afterpay.com +61 412 124 195

² Exactly the same number of consumers (16%) decreased their spending on essentials at the same time as they increased their spending on Afterpay, as the number (16%) who decreased their spending on Afterpay.)