



21 January 2020

Senator Andrew Bragg  
Chair  
Senate Select Committee on Financial Technology and Regulatory Technology  
Parliament House  
CANBERRA ACT

Via email transmission: [fintech.sen@aph.gov.au](mailto:fintech.sen@aph.gov.au)

Senator Bragg,

Thank you for the opportunity for Zip Co Ltd to make this submission to the Senate Select Committee on Financial Technology and Regulatory Technology.

The submission has been structured to provide your committee with background on Zip specifically, and information on the wider Buy Now Pay Later (BNPL) sector.

We have then laid out issues pertinent to Zip, for the committee's consideration.

### **Who is Zip?**

Zip Co Limited (Zip) is an ASX-listed company and a leading player in the digital retail finance and payments industry. Zip offers point-of-sale credit and digital payment services to the retail, education, health, home improvement and travel industries. It operates under the Zip Pay, Zip Money and Pocketbook brands. Zip has a presence in Australia, New Zealand, the United Kingdom, the United States and South Africa.

Zip is focused on offering transparent, responsible and fairly-priced consumer products, and breaking the mould of unfair and complex traditional credit products that rely heavily on interest. Its platform is entirely digital and leverages big data in its proprietary fraud and credit decisioning technology to deliver real-time consumer responses.

Zip is managed by a team with over 50 years' experience in retail finance and payments and (in Australia) is a licensed and regulated credit provider.

Zip listed on the ASX in 2015 and now has around 330 staff - and growing.

## How Zip Works

Zip offers consumers a line of credit. Repayments can be adjusted to suit an individual's needs, allowing them to pay at their own pace, interest free. To sign up securely and quickly, users complete an online application. Identification, bank and credit checks are conducted on every application using Zip's proprietary decisioning software, with the result of the application provided to the consumer in real time.

- **Zip Pay** offers an interest-free line of credit up to \$1,500 for smaller, everyday purchases; and
- **Zip Money** offers a line of credit up to \$30,000 with interest-free periods on every purchase (between 3 and 48 months).

Zip's business model is based on five key principles:

- i. Interest-free terms, flexible repayments and simple and transparent fees;
- ii. Significant investment in decisioning technology and data science;
- iii. Credit and identification checks for all applicants;
- iv. A revenue model that does not rely on customers falling behind. In fact, only one in 100 Zip customers are late in any given month, compared with one in six for credit card customers that struggle with repayments; and
- v. Being paired with financial management tools to encourage responsible spending.

## Zip History & Key Personnel

Zip was founded in 2013 by Larry Diamond and Peter Gray. Larry has 19 years' experience in retail technology and investment banking at Pacific Brands, Macquarie Capital and Deutsche Bank. Peter has 25 years' experience in the consumer and retail finance industry and is an operations and consumer credit expert.

## Zip – Key Metrics<sup>1</sup>

- 20,875 merchants as at Q2 FY20 – 65% YoY growth;
- 1.76 million customers as at Q2 FY20 – 71% YoY growth;
- \$563 million transaction volume in Q2 FY20 – 85% YoY growth.

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<sup>1</sup> Zip [Quarterly Update 13 January 2020](#)

## **The Buy Now Pay Later sector – Key Metrics:**

- 20% of all e-commerce in Australia is BNPL<sup>2</sup>.
- 250% BNPL growth in 2018 alone<sup>3</sup>.
- 1 in 5 Gen Xers use BNPL<sup>4</sup>.
- 1 in 2 BNPL customers stopped using their credit cards<sup>5</sup>.

## **Zip as an Exporter of Financial Services**

Zip's business is built on innovation and proprietary technology that is highly focused on customer experience. It is a business model developed in Australia but now being exporting to the world.

Zip has established a direct presence in the United Kingdom and New Zealand, which have retail turnover of \$US630 billion and \$US96 billion a year respectively. Zip has also investments in a United States and a South African BNPL company. The United States and South African have retail markets of \$US5 trillion and \$US67 billion a year respectively.

## **Zip and Policy Engagement**

Zip is a licensed and regulated credit provider and is a member of the Australian Financial Industry Association (AFIA). Zip is now involved in AFIA's development of an industry Code of Practice, which was a recommendation of the Senate Economics Committee's February 2019 report *Credit and financial services targeted at Australians at risk of financial hardship*.

Zip is also a participant in shaping financial services and payments policy and along with this submission to the Senate Select Committee on Financial Technology and Regulatory Technology, intends to make a submission to the Reserve Bank of Australia's 2020 *Review of Retail Payments Regulation*. Zip also worked with the Australian Securities and Investments Commission and its 2018 Report 600 *Review of buy now pay later arrangements*.

## **Zip - Regulatory Load**

While Zip is an ASX listed company, it is small compared with other well-established financial services players in Australia. But despite its size and resource limitations it is compelled to engage with the following bodies and comply with the following legislation.

Regulators:

- Australian Competition and Consumer Commission (ACCC);
- Australian Financial Complaints Authority (AFCA);

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<sup>2</sup> Calculated from Spaceship Invest and internal Zip data – November 2019.

<sup>3</sup> Australian Retailers Association *Buy Now Pay Later – New? Old? Better?* (October 2019)

<sup>4</sup> Roy Morgan *Single Source* (Australia) February 2018.

<sup>5</sup> Mozo *Buy Now Pay Later report* (2019)

- Australian Securities and Investments Commission (ASIC);
- Australian Transaction Reports and Analysis Centre (AUSTRAC);
- Australian Office of the Information Commissioner (AOIC).
- Australian Prudential Regulation Authority (APRA);
- Reserve Bank of Australia (RBA); and
- The Treasury.

## Legislation

- Anti-Money Laundering and Counter-Terrorism Financing Act 2006;
- Australian Securities and Investments Commission Act 2001;
- Corporations Act 2001;
- National Consumer Credit Protection Act 2009;
- Privacy Act 1988;
- Treasury Laws Amendment (Design and Distribution and Product Intervention Powers) Act 2019; and
- ASX Listing Rules.

## Topics for Consideration

The banking and financial services sectors have undergone significant and rapid change over the last five years as technology-driven innovation has enabled:

- new providers of financial services to launch and develop products at lower cost than traditionally has been the case;
- an increase in the pace of innovation;
- the delivery of simpler products in ways far quicker and more convenient than previously;
- a shift away from traditional providers who have not embraced technology or simplicity;
- regulators and firms to better understand and respond to consumer preferences;
- more robust privacy and security protections; and
- an increased ability for firms to share information with regulators and law-makers.

The increased pace of change presents challenges for the firms themselves – in terms of complying with laws and regulation written before such technologies were developed, and government/regulators – in staying abreast of technological change and enabling legislation to respond accordingly.

### **A: Regulatory Mismatch and Uncertainty**

Against this backdrop of change, Zip believes that in the Australian environment value could be added via more collaboration between bureaucrats, legislators and regulators in the very early stages of regulation development so as to avoid regulatory overlaps and inconsistency around conduct and compliance. For instance:

- There seems to be a mismatch between Australian consumer credit law and development of Australian privacy law. In February 2019, ASIC was updating its [Regulatory Guide 209](#) *Credit licensing: Responsible lending conduct* (RG 209). In this ASIC asked whether a data recipient collecting personal information for one purpose (for example, account data for checking affordability) could use the information for a secondary purpose not originally intended (for instances, identifying vulnerability or hardship). This position differs from the draft Consumer Data Right (CDR) Rules that say use of data collected under the auspices of the CDR should only be used for the original purpose of collection.

Collaboration with regulators at an early stage would provide fintechs with the opportunity to demonstrate how they were using data and technology to not only provide great consumer experiences, but also in meeting and delivering the minimum standards expected by both regulators and broader community

### **B: Regulatory Architecture**

The co-ordination and collaboration discussed above might be provided by the replication of a fintech body similar to the Council of Financial Regulators (CoFR). CoFR now has four members – the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Reserve Bank of Australia (RBA) and The Treasury.

In a fintech setting such a body would co-ordinate and set the fintech regulatory agenda - and avoid inconsistencies, overlaps and conflicts. Along with the bodies mentioned, this fintech version of CoFR might also include other regulators, such as the Australian Competition and Consumer Commission (ACCC) and the Australian Office of the Information Commissioner (AOIC).

### **C: New Payments Platform (NPP)**

The New Payments Platform (NPP) is open access infrastructure for fast payments in Australia. It has been in place since February 2018 and was developed through industry collaboration with the aim of enabling households, businesses and government agencies to make simply addressed payments, with near real-time funds availability to the recipient, on a 24/7 basis.

While Zip is supportive of the NPP we do note there are challenges with access to the platform. First, to be a full NPP participant an entity must hold an authorised deposit-taking institution (ADI) licence and second, make a substantial capital contribution. In our experience, this limits participation to large and established financial institutions, which Zip believes limits delivery of longer-term benefits. Other participants to this inquiry have recommended consideration of alternative arrangements for fintechs to connect to the NPP. This is a position which Zip supports.

## **D: AUSTRAC: data and technology.**

Zip recognises the difficulty of applying broad Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) legislation and regulations across new, innovative products.

At an international level, the Financial Action Task Force (FATF) Recommendations (updated June 2019) has emphasised that:

***...countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation to efficient allocation of resources across the anti-money laundering and countering the financing of terrorism (AML/CFT) regime.***<sup>6</sup> (our emphasis)

Zip supports the FATF's position on FinTech and RegTech<sup>7</sup> which provides helpful guidance as to how the private sector and governments can work together to mitigate money laundering and financing terrorism risk:

***Set clear regulatory expectations and smart regulation which address risks as well as allow for innovation. Better understanding of how existing AML/CFT obligations apply to new technologies, products, services, and new paradigms for the provision of financial services is best achieved by governments and the private sector working together to increase awareness and establish clear guidelines as needed.***

## **Conclusion**

Zip would be happy to engage further on this submission with the Senate Select Committee on Financial Technology and Regulatory Technology.

Yours faithfully,

**Peter Gray**  
**Co Founder, Executive Director and Chief Operating Officer,**  
**Zip Co Ltd**

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<sup>6</sup> Section A (1), page 10, *FATF Recommendations*, updated June 2019.

<sup>7</sup> <http://www.fatf-gafi.org/publications/fatfgeneral/documents/fatf-position-fintech-regtech.html>