



Saturday, 4 April 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

Zip submission #2

Dear Senator Bragg,

Thank you for the opportunity to make a second submission to your inquiry to specifically address supporting fintech companies during the Coronavirus and ensuring they can survive and keep providing choice to millions of consumers and competition in Australia's financial system.

Zip applauds the Government and the steps it has taken, and the stimulus programs initiated to support Australia through this crisis. Zip believes they have been well thought out and structured to date. However, we believe it is critical these support packages are extended to include established fintech businesses that foster innovation and competition in the Australian financial services ecosystem, supporting Australian consumers and retailers. Many of these businesses do not currently qualify for any of the support packages available and we support the extension of these packages to ensure the last eight years of innovation and competition are not destroyed by the current crisis.

Policy suggestions

- **Access to low interest loans.** Zip suggests the Government extends its low-interest loan packages to include established/emerging fintech lenders (neo banks and BNPL providers). Currently, many established and growing fintechs do not qualify for any of the current stimulus or support packages. This would allow businesses like Zip to support their existing customers with interest and fee waivers, and repayment holidays similar to those offered by the Big Four Banks. The big banks have generously offered six-month repayment moratoriums on a range of loan products (although not credit cards). Fintech lenders seek Government support to provide similar assistance to customers. Currently, fintech's size and commensurate funding obligations preclude this action, which in the current circumstances would be highly beneficial to customers and the Australian economy. Excluding certain sections of the economy that Australians have chosen as more trusted and preferred than the Big Four Banks provides the Big Four with a competitive advantage and stifles the innovative and competitive landscape that has been built up over the last eight years.
- **Extend the new loan guarantee stimulus package** to include fintech and BNPL players. Under this program the government guarantees or provides loss cover for 50% of all new



loans/transactions provided during this period. This would provide significant support for new business which would support millions of Australian consumers and retailers throughout this period. It is critical that retail and consumer spending is supported throughout this challenging period. As a very responsible provider of credit (1 in 100 Zip customers late in any given month compared with 1 in 6 for credit cards) Zip is well placed to continue to offer consumers choice and provide competition to the Big Four Banks.

- **AOFM.** Zip suggests Government offer priority access for fintech and BNPL lenders to the AOFM funding scheme, provided the relevant qualifying criteria are met. BNPL companies currently use public market and bank securitisation and warehouse facilities. Using the current AOFM program to support these facilities would provide strong additional support to the BNPL sector. Certainty and access to debt funding allows fintech and BNPL to continue to offer their services to millions of Australian consumers and thousands of Australian retailers.

Overall

The policy suggestions above would:

- continue to foster fintech innovation and competition to Australia's Big Four Banks. BNPL meets the needs of millions of customers and thousands of retailers, and plays a significant part in the Australian economy;
- ensure eight years of fintech investment and the driving of innovation and competition, is not wiped out overnight;
- allow fintechs to continue to compete against the big banks, who are bolstered by significant government support packages, and now using this crisis to advertise aggressively, and increase market share as smaller players are unable to compete;
- BNPL has significant distribution, no different to the big banks, with customers and merchants (Zip has 1.8 million customers and 21,000 merchants) and is supporting a large part of the Australian economy.

Background on Zip

Zip is an established player in Australia's consumer finance, BNPL and small business lending sector having more than 1.7 million customers in Australia who shop at over 22,000 Australian merchants. These range from large household names like Bunnings, Target, Kmart and Officeworks down to small SME's like hairdressers, vets and dentists.

Zip has three products:

- **Zip Money** – a product regulated under the National Consumer Credit Protection Act (NCCPSA) which provides a digital line of credit to consumers of up to \$50,000 (approx. 400k customers);
- **Zip Pay** – a BNPL product not regulated under the NCCPSA (although under other laws) which offers a 'no-interest ever' digital line of credit to consumers of up to \$1,500 (approx. 1.3m customers); and
- **SpotCap** – a unsecured online lender providing SMEs loans of up to \$500,000.

Over the last three years in Australia BNPL's share of retail (ex food) sales in Australia increased from ~\$2bn in 2017 to ~\$7bn in 2019 and is expected to increase to ~ \$12bn in 2021 (UBS Report "Australian Economic Perspectives").



Zip funding

Zip funds credit to customers through a number of securitisation facilities. Zip now has over \$1.1bn in receivables and borrowing facilities totalling \$1.145 bn. Under normal circumstances, with transaction volumes, repayments and bad debts running at projected numbers this would provide capacity for approximately three months of ongoing originations. Before Coronavirus, Zip was planning to complete a rated issuance from its Master Trust in late April / early May.

With volumes now running ahead of projections, and repayments and bad debts expected to change adversely, Zip is concerned that in the absence of an increase in borrowing facilities, its funding capacity will be exceeded and it will have to curtail volumes, restricting access to affordable credit for its 1.7 million consumers to the detriment of its 22,000 merchants in Australia.

Zip would be happy to discuss these ideas further.

Yours faithfully

Peter Gray, Co-founder, Chief Operating Officer
Zip Co Ltd