

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS

Commonwealth Bank of Australia

CBA63QON:

Dr LEIGH: You have recently taken a share in the global buy-now pay-later firm Klarna, which is much bigger globally than Afterpay. It has about 90 million users globally compared to 10 million. You've integrated Klarna into your banking app. What has prompted you to move into the buy-now pay-later space? Specifically, what share of Klarna's revenues come from late fees?

Mr Comyn: On the second question, I could happily get the number for you both domestically and globally. It has actually been a focus for Klarna globally. They have, I think, a much lower proportion of late penalty fees, and they're acutely aware of that, but I'd be happy to get that for you separately. Yes, we own just over five per cent of Klarna globally. We're working closely with them domestically. We are much smaller than some of the established buy-now pay-later players who've been in this market for much longer. Clearly, we saw a strategic gap or opportunity there, with the growth of buy-now pay-later. It has certainly well exceeded our expectations from many years ago. We could see the customer demand and the feedback on the experience, so it's an area of the market in which we chose to participate. We also see that payments innovation is going to be one of the most important areas of financial services globally, so we see our investment in Klarna as being more than buy-now pay-later or pay-in-full. We see it much more about working closely with them, exclusively in Australia and New Zealand, to develop innovative payment experiences to benefit our customers.

Answer:

Klarna's business model is based on a partnership with merchants, and does not anticipate significant revenue from consumer late fees.

Late fees have only been applied in Australia since mid-July, so less than two months of data is available. However, at this early stage late fees have been less than one per cent of the value of purchases made.

CBA understands that Klarna's revenue from late fees in other markets is also small.

Klarna's late fees are set at low levels relative to other buy now, pay later providers. Further, Klarna's late fees depend on the value of a customer's order and are also capped, which is not the case for the majority of providers in the Australian buy now, pay later industry.

Klarna also actively seeks to avoid the imposition of late fees by providing clear reminders of upcoming instalments (including in-app and email nudges) to ensure customers are aware and prepared to meet their instalments.

Further information on Klarna's approach is available at <https://www.klarna.com/au/financial-wellness/>