

## Introduction

Tinka has publicly confirmed that she will stay at a maximum of 9.9% interest, irrespective of whether the maximum interest is increased back to 14%<sup>1</sup>. Tinka applauded the temporary reduction to 10% in August 2020 to mitigate against potential liquidity shortages resulting from the (still) raging Covid pandemic and its - back then - unforeseeable consequences across consumers and markets<sup>2</sup>.

Tinka BV would like to take this opportunity to encourage a broader and more holistic view of the consumer credit market<sup>34</sup> and share her observations and market insights to draw attention to two grave loopholes in the consumer credit regulation that remain wholly unaddressed to date:

- A. Buy Now Pay Later (BNPL) as a “cost free” alternative to consumer credit;
- B. Current registration rules at the BKR for consumer credit;

In line with Tinka’s vision to **become the most recommended<sup>5</sup> and responsible<sup>6</sup> deferred payments partner in the Netherlands and beyond**, Tinka has raised these topics directly to the parliament and multiple individual members of the 2nd chamber and suggested pragmatic solutions to permanently close each of the grave loopholes in the current legislation that are actively being exploited by several, mostly international, market parties<sup>7</sup>. To date, Tinka’s concerns and suggested solutions not only remained unaddressed but unanswered. For context about Tinka’s market insights: according to the latest GlobalData’s Banking and Payments<sup>8</sup>, Retail<sup>9</sup> and Consumer<sup>10</sup> databases, Tinka underwrites circa 6% of all purchases processed via deferred payment options in the Netherlands, including invoiced, Buy Now Pay Later and consumer credit. That is about 10% more than Tinka’s main international competitor: Klarna.

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<sup>1</sup><https://www.ad.nl/geld/tinka-wil-betalingsachterstanden-bij-kopen-op-de-pof-terugbrengen-ook-onze-verantwoordelijkheid~aa95b853/>

<sup>2</sup> In fact, Tinka already reduced interest rates a month prior to the regulatory change in August 2020.

<sup>3</sup> Confer the draft of the new Consumer Credit Directive from June 2021:

[https://ec.europa.eu/info/sites/default/files/new\\_proposal\\_ccd\\_en\\_3.pdf](https://ec.europa.eu/info/sites/default/files/new_proposal_ccd_en_3.pdf)

<sup>4</sup> Confer the current consultation in The United Kingdom about Buy Now Pay Later:

<https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation> as well as the Woolard review from Februar 2021:

<https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

<sup>5</sup> Measured by the Net Promoter Score (NPS); Tinka’s current NPS is 56;

<sup>6</sup> Measured by the number of consumers in payment problems; Tinka reduced the number of consumers in payment problems by over 80% since 2015 with the 2020 number being below 4.7% and 2021 trending below 3%; Tinka’s three year target is to limit the number below 0.7%.

<sup>7</sup> For the avoidance of doubt, Tinka has distanced herself with dedication from these practices and discussed pragmatic solutions for herself with the AFM to continue to better protect Dutch consumers.

<sup>8</sup> <https://www.globaldata.com/industries-we-cover/banking-and-payments/>

<sup>9</sup> <https://www.globaldata.com/industries-we-cover/retail/>

<sup>10</sup> <https://www.globaldata.com/industries-we-cover/consumer/>

In this consultation Tinka will elaborate each of the above loopholes in detail and reply to each of the questions of the consultation providing a pragmatic solution and conclude that her recommendation is to extend the current temporary reduction to 10% until these issues are resolved on at least national level.

## Buy Now Pay Later

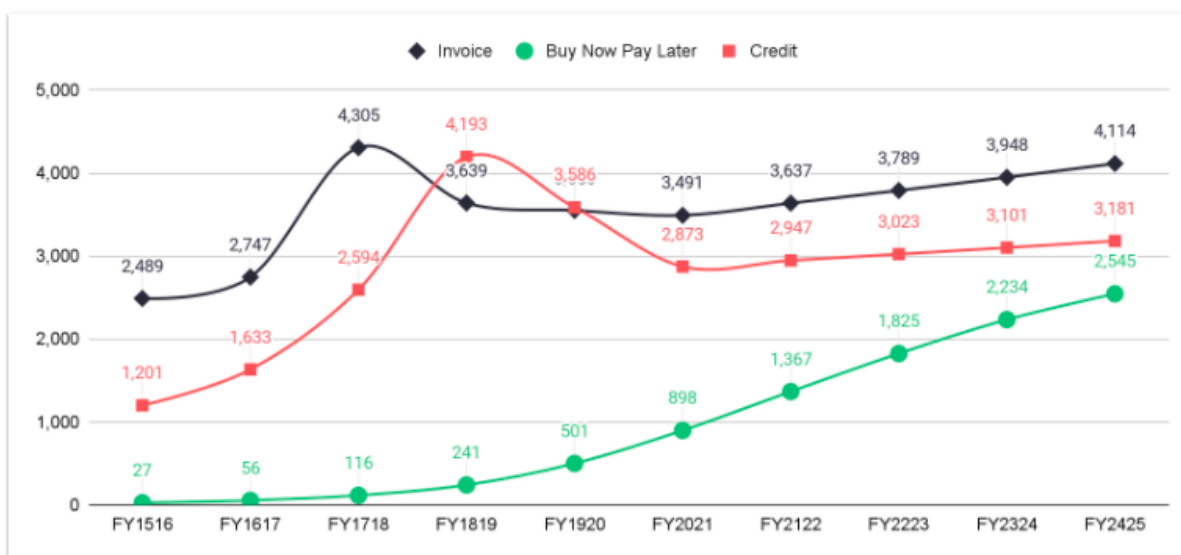
**Buy now, pay later** (BNPL) offers a credit in multiple, typically interest-free installments over one to three months with payment terms under or equal to 90 days. We structure the quick introduction into buy now pay later in the following subsections:

- Historic and predicted growth of BNPL in the Netherlands across EUR, number of consumers and number of transactions;
- High level view of unit economics in the Dutch BNPL market<sup>11</sup>;
- Insights into late payment and administration fees in the Netherlands;
- Insights into the the lack of regulations to protect from over-crediting;
- A plea to the Dutch decision makers.

### Historic and predicted growth of BNPL in the Netherlands

In the Netherlands purchases via BNPL are predicted to grow at a compound annual growth rate (CAGR) of ~23.2% during 2021-2024 for BNPL and are expected to reach ~EUR 2.5bn by 2024<sup>12</sup>. In 2021, total BNPL purchases in the Netherlands are predicted to have reached ~EUR 1.4bn EUR and will have been used by roughly 2.3m Dutch citizens across 13.4m individual purchases averaging at circa 120-130 EUR per BNPL purchase.

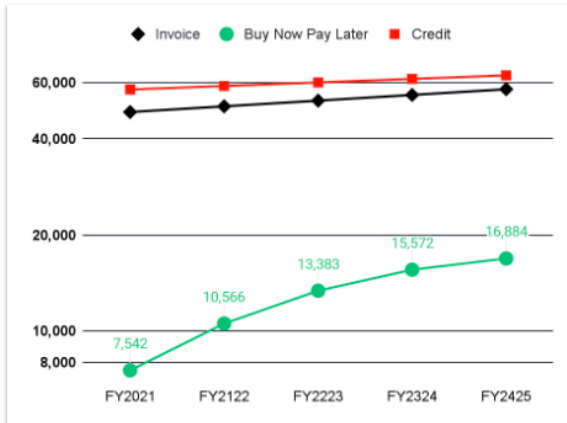
**Dutch BNPL GMV (in mEUR) 2015-2024\***



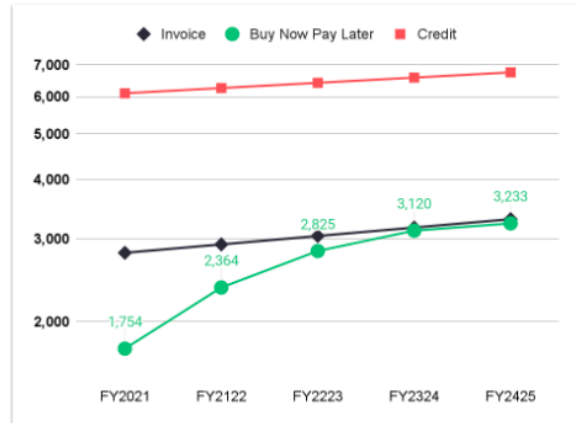
<sup>11</sup> These unit economics are also applicable for consumer credit; however there are luckily no late payment fees allowed for consumer credit issuers. However, some consumer credit issuers get very creative, charging 1-2 EUR monthly account fees while marketing their interest rate at 7.9%.

<sup>12</sup> Sources: a) PayNXT360 Netherlands BNPL Databook 2021, b) GfK; c) <https://factsheet.betaalvereniging.nl/en/> d) Globaldata Banking and Payments database; please note that Tinka's processed GMV is not included in these numbers as Tinka has historically been considered as part of her retail parent Wehkamp. Tinka's market share is about 6% of all processed GMV.

Transactions (x1,000) 2020-2024 - CAGR 17.5%

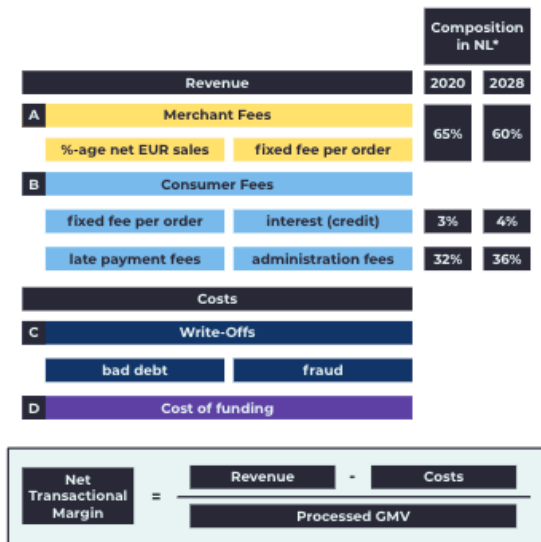


Consumer Base (x1,000) 2020-2024 - CAGR 13%



### Unit economical models when underwriting in the BNPL and consumer credit market

A simplified unit economics (UE) model can be summarised as follows (for clarity costs for consumer care and aftercare, regulatory checks, people, audits, offices, innovation, ... are not considered):



\*Source: PayNXT360 Netherlands BNPL Databook 2021, excludes Tinka revenues

Revenues typically originate from either merchant fees (A) that are based on a share of gross merchandise volume (GMV) and a fixed fee per individual transaction or from consumer fees (B) that are based on a fixed fee per order, interest on the cost of goods or services over a period of time, fees for missed payments and administration charges.

Costs typically comprise of write-offs (C) that are coming from consumers that are unable to pay the costs for the goods they purchased or associated fee or orders placed by fraudsters without the intention to ever pay or of costs of funding (D) to pre-fund payments to the merchant before the consumers fulfilled their payment obligation towards the issuing company.

### Late payment and administration fees

In the Netherlands, Dutch consumers have paid approximately EUR 47.8m in late payment and administration fees for Buy Now Pay Later products in 2020 and are forecast to have paid 81.4m EUR in late payment and administration fees in 2021 representing ca 32% of the revenue streams of Buy Now Pay Later companies<sup>13,14</sup>. This number is expected to grow to a staggering EUR 310m by 2024 - an average of EUR 20 per Dutch citizen - including children.

<sup>13</sup> PayNXT360 Netherlands BNPL Databook 2021

<sup>14</sup> Tinka has less than 3% of her revenues from late payment fees and has actively distanced herself from these practices.

While there is legislation in place to attempt and cap late-payment fees, the supervision of existing legislation is quasi non-existent: Some Buy Now Pay Later companies in the Netherlands charge as much as EUR 13,50 in late payment fees. For an average order amount of EUR 120-130 this is more than 10% in a three month period or more than 40% interest when annualised. The same practices are being applied to smaller purchases. For a smaller EUR 20 purchase these late payment fees represent more than 50% of the initial order value - or more than 200% interest when annualised.

### **Lack of regulation to protect from over-crediting**

BNPL products are marketed as the “cost-free” alternative to consumer credit, which is misleading to say the least. Late payment and administration fees clearly affect consumers who could not afford to pay in the first place and the lack of regulation to protect consumers from over-crediting needs urgent addressing. Woolard, the former Chief Executive of the Financial Conduct Authority (the British pendant to the AFM) issued a review of the BNPL sector demanding immediate and dedicated action<sup>15</sup>. A perspective Tinka shares for the same reasons as mentioned in the “Woolard report”. The European Union has included the BNPL sector in the newest draft of the Consumer Credit Directive<sup>16</sup>, which we applaud. However, by its very nature the European Union can be slow moving and national governments should not sit back and wait to implement the spirit of evidently consumer friendly protection.

### **Plea**

Based on Tinka’s market insights, we firmly believe that waiting for the European Union or the United Kingdom to formulate regulations protecting Dutch consumers is negligent. Tinka follows the very straightforward principle: **if something looks like credit, smells like credit, tastes like credit - it is credit, whatever name you give it**. We plead to the Dutch decision makers to bring BNPL under the consumer credit regulation as soon as possible in order to protect Dutch consumers and do everything in their power to accelerate European legislation. We basically ask the Dutch decision makers to do what they’ve done in the past with success: take the lead!

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<sup>15</sup> Confer the current consultation in The United Kingdom about Buy Now Pay Later: <https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation> as well as the Woolard review from Februar 2021:

<https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

<sup>16</sup> Confer the draft of the new Consumer Credit Directive from June 2021: [https://ec.europa.eu/info/sites/default/files/new\\_proposal\\_ccd\\_en\\_3.pdf](https://ec.europa.eu/info/sites/default/files/new_proposal_ccd_en_3.pdf)

## Registration rules at the BKR

The main function of the Bureau Krediet Registratie (BKR) is to keep records of private parties that have taken out credit to protect them from over-crediting. There are two main points Tinka recommends urgently revisiting when analysing the registration rules at the BKR. Accordingly we structure this section as follows:

- A. Registration limit of EUR 250;
- B. Lack of proportionality of the 5 year registration period for people who unfortunately ended up in payment problems;
- C. A plea to the Dutch decision makers.

### **Registration limit of EUR 250**

The BKR does not allow to register consumer credits that are below EUR 250 which poses a grave challenge when looking at point of sale term loans and clearly the Buy Now Pay Later average order values of EUR 120-130.

The clear loophole in the current registration rules is reconciling term loans (aflopend krediet) with the current registration limit:

- Given average order values for point of sale consumer credit or BNPL term loans are below the EUR 250 registration limit;
- Vulnerable consumers can subscribe to an unlimited amount of these term loans below EUR 250 without having a single protective registration at the BKR;
- The first point at which this fact would be uncovered is when consumers are either in debt-counselling or in administration.

Current BKR registration rules and day to day realities are clearly disconnected.

### **Lack of proportionality**

Currently, the BKR insists on keeping a record for people that unfortunately ended up in a payment problem for a minimum of 5 years. A payment problem is defined as being more than 3 months late in making a regular payment under the credit contract. Tinka understands why the market insists on continuing to have these 5 years in place as it is a powerful tool to threaten consumers with grave consequences should they not pay on time: most credit scoring systems in the Netherlands exclude people that ever ended up in a payment problem historically from access to credit - irrespective of their current situation. This includes mortgages, car leases and sometimes even mobile phone contracts. While there is no real quantitative data about this claim, Tinka prouds herself on having a number of experts in her credit scoring teams that have enough national and international experience across a variety of companies to give merit to this statement.

For the avoidance of doubt: having had a payment problem is one indicator about a person's ability to pay. However, it says little to nothing about the circumstances. People pass away with their assets frozen until the heritage lineage is clarified, people do get divorced, people lose their job or need to transition into a job that pays less temporarily. Tinka does not suggest capturing these data points as clearly this data is highly sensitive, however Tinka does suggest to reduce the record keeping of payment problems to a maximum of one year after payment has been assumed regularly again.

**Plea**

Tinka pleads to the decision makers to

- a. remove the registration limit at the BKR and
- b. to lower the record keeping of payment problems for any individual to a maximum of one year after payment has been assumed regularly again.

## Questions

- 1. In hoeverre denkt u dat het verlagen van de maximale kredietvergoeding bijdraagt aan het beoogde doel om consumenten te beschermen tegen hoge kredietvergoedingen?**

Additional measures relating to consumer credit - such as lowering the maximum credit fee - are only meaningful if and when alternative credit solutions are sufficiently regulated. If this is not the case, a consumer will inevitably fall victim to financing certain purchases through other - unregulated - means such as Buy Now Pay Later. This leaves the consumer exposed without adequate regulatory protection.

- 2. Welke positieve en negatieve effecten verwacht u dat (voor u persoonlijk of in algemeen zin) zullen optreden in geval van een structurele verlaging van de maximale kredietvergoeding?**

Due to the structural change of the maximum credit fee, the number of offers of small credits will further decrease. Tinka is aware of 4 market players which have left the market as a result of the implementation of the temporary reduction of maximum credit fee. Tinka has further become aware of 3 additional players which will cease offering their services should this measure become permanent. Tinka leaves it up to these players to voice their concern.

As a side effect, consumers will seek alternative means to finance purchases, such as Buy Now Pay Later. These products are not regulated and can lead to substantial additional costs for the consumers, should they not pay within 3 months. These costs can amount to interest percentages of 200% on an annual basis. Therefore, if the structural change of the maximum credit fees only applies to consumer credit, this will have no positive effect on the level of consumer protection.

- 3. Herkent u de ontwikkelingen zoals naar voren gekomen uit monitoring van de tijdelijke verlaging van de maximale kredietvergoeding?**

Yes, we recognize the growth of alternative credit products as a result of the temporary reduction of the maximum credit fee. This leads to groups of consumers no longer becoming eligible for consumer credit seeking alternative means to finance their purchases, through Buy Now Pay Later.

- 4. Hoe beschouwt u de mogelijke verlaging van de maximale kredietvergoeding in relatie tot de overige maatregelen en initiatieven die dienen om de problematische schulden terug te dringen?**

Reduction of the maximum credit fee shall have very limited effect on the reduction of problematic debt. Verlaging van de maximale kredietvergoeding zal weinig effect hebben op het terugdringen van problematische schulden.



The danger lies in the fact that the amount of options for small credit reduces even further, shifting consumers to alternative, less regulated products. These alternatives and less regulated products offer no protection against problematic debt and will form a new problem.

#### **5. Denkt u dat de inschatting van de regeldruk juist is?**

Yes, the bureaucracy will not increase, but the effect on the amount of options for small credit will continue to carry through.

#### **6. Heeft u aanvullende aandachtspunten of opmerkingen bij deze maatregel?**

- A. see "Buy Now Pay Later - plea"
- B. see "Registration rules at the BKR - plea"
- C. **Further comments relating to inflation**

The Central Banks are currently considering their position with regard to inflation, citing a "transitory period". While currently still reserved it is wholly unknown whether the Central Banks are revisiting their position should the current trends continue. Should this be the case, lowering the interest rates structurally for consumer credit in the Netherlands directly opposes one of the most effective tools to fight inflation: an increase of interest rates. In the latest press conference of the European Central Bank on 16th December 2021 it reads: "In support of its symmetric 2% inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target."<sup>17</sup>

For context, the Statistics Netherlands (CBS) reports that the consumer price index (CPI) was 5.2 percent higher in November than in the same month last year. The inflation rate in November was the highest in nearly 40 years. In October, the inflation rate stood at 3.4 percent. The rapid increase in inflation is mainly due to the price development of gas and electricity, motor fuels, food and clothing. Gas and electricity prices rose further in November. The year-on-year price increase for gas went up from 30.6 percent in October to 53.0 percent in November. Electricity was 74.9 percent more expensive in November than one year previously. In October, the year-on-year price increase was 39.6 percent. The contribution of gas and electricity to the 5.2-percent inflation in November was more than 2 percentage points. The price development of food and clothing also had an upward effect on inflation. Food was 1.1 percent more expensive in November than one year previously. In October, food prices were up by 0.2 percent. This is mainly due to the price development of potatoes, fruit and coffee. Clothing was 5.2 percent more

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<sup>17</sup> <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216~1b6d3a1fd8.en.html>

expensive in November year-on-year. In October, clothing prices were up by 3.0 percent.

Tinka strongly recommends to maintain the current temporary reduction to 10% until the above-mentioned problems have been addressed, at least on a national level.