

Submission on Buy-Now, Pay-Later: Understanding the triggers of financial hardship and possible options to address them

Your name and organisation

Name	<i>Alaine Perrott</i>
Organisation (if applicable)	<i>Masters candidate at Tech Futures Lab Over 10 years' experience in the banking and financial services industry (NZ & UK)</i>

Responses

Economic regulation	
1	<p>Do you agree with our assessment of what the benefits are from BNPL? Yes / No / Not sure Are there others? Please provide details.</p>
	<p><i>Additional consumer benefits:</i></p> <ul style="list-style-type: none"> - <i>Can be used to pay for unexpected / emergency items e.g. replacement fridge, new tyres</i> - <i>Fast application and approval process meaning no pre-arrangement is needed</i>
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	<p><i>As per your assessment plus additional consumer benefits detailed above in Q1</i></p>
3	<p>As a business accepting BNPL to pay for goods and services, please outline the benefits of BNPL? If you are a small business, are there any additional benefits from accepting BNPL?</p>
	<p><i>As per your assessment</i></p>
4	<p>Do you agree with our assessment of how BNPL will evolve in New Zealand? If not, please provide details.</p>
	<p><i>Yes. In addition it is likely that other players will enter the market, for example big tech companies (Apple, Google) and e-commerce (Amazon)</i></p>
5	<p>How do you think emerging BNPL business models eg partnerships with credit cards, banks etc. will impact consumers? Please provide details</p>
	<ul style="list-style-type: none"> - <i>Greater choice</i> - <i>More personalised offerings</i>

	<ul style="list-style-type: none"> - <i>As competition increases, cost should reduce</i> - <i>Wider societal benefits through inclusion of other measures e.g. carbon footprint calculation</i> - <i>Lenders could become more aggressive in their attempts to win business to the detriment of consumers e.g. hard selling, hidden terms and conditions</i> - <i>Consumers could be at increased risk of over-indebtedness as credit becomes too prevalent and easy to take out</i>
6	<p>Do you agree or disagree with our summary of the types of financial hardship that could occur from BNPL? Please provide details</p>
	<p><i>I agree. In addition:</i></p> <ul style="list-style-type: none"> - <i>As merchants pay BNPL fees, this means the price of their goods / services will be inflated and all consumers pay more whether they choose to use BNPL or not. This has the potential to cause financial hardship on a wider scale, particularly where the cost of other payment methods is passed directly on to the consumer.</i> - <i>As consumers are able to pay BNPL instalments by credit card, this is a form of 'double dipping' which means they risk over indebtedness by taking out additional credit. For example consumer takes out 1 x BNPL of \$100 to be repaid in 4 fortnightly instalments. First instalment of \$25 is paid by credit card → credit card bill for \$25 received and minimum payment of \$5 is made leaving \$20 owing → 2nd BNPL instalment of \$25 is paid by credit card → 3rd BNPL instalment of \$25 is paid by credit card → next credit card bill received totalling \$72 (\$20 + 20% interest p.a. + \$25 + \$25) and minimum payment of \$5 is made leaving \$67 owing → final BNPL instalment of \$25 is paid by credit card. BNPL provider considers payments are complete and offers consumer another \$100 meanwhile only 30% of the original debt has actually been repaid as it has just been transferred to the credit card provider and the consumer must continue to meet these repayments in addition to any further BNPL repayments. This has the potential to very quickly lead to being unaffordable and cause financial hardship.</i>
7	<p>As a consumer (or consumer representative), have you faced financial hardship from BNPL? Yes / No / Prefer not to answer</p> <p>If yes, under what circumstances have you faced financial hardship from BNPL? Please select all that apply and provide details, if possible:</p> <ul style="list-style-type: none"> • You had multiple BNPL accounts • Your credit limits were increased beyond what you could afford • Because of the timing of your BNPL instalments and other expenses • Because as a household, you were unable to afford the BNPL instalments • You focused on the first payment rather than the total cost of the product or service • You responded to BNPL marketing and as a result purchased more than you could afford • You missed an instalment and faced missed fees (default fees) • Your circumstances changed (e.g. change in employment) and you were no longer able to afford the instalments • Other

8	<p>Do you live in a household with multiple BNPL accounts? Yes / No / Prefer not to answer</p> <p>(If Yes), has your household experienced financial hardship because as a household you could not afford the full cost of the good or service?</p> <p>Yes / No / Not sure</p>
9	<p>As a BNPL consumer (or consumer representative) (select one only)</p> <p>A) Do you value having a hard credit check being conducted OR</p> <p>B) Would you prefer a soft credit check that doesn't leave a 'footprint' on your credit score?</p> <p>C) Please explain the reasons for your answer</p>
	<p><i>I value having a hard credit check being conducted because it:</i></p> <ul style="list-style-type: none"> - <i>Encourages consumers to be selective (provided they understand the implications) and discourages creation of accounts with excessive numbers of providers</i> - <i>Enables other providers to see when applications have been made and act responsibly</i> - <i>Creates a more equal system between BNPL and other competitors e.g. credit card providers</i> - <i>BNPL providers should also report back to credit agencies on payments received, completion etc to provide a complete view of consumer behaviour and contribute to credit scores and history</i>
10	<p>What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL?</p>
	<p><i>Advantages:</i></p> <ul style="list-style-type: none"> - <i>Provides a fairly standardised measure to assess lending risk</i> - <i>Provides a level of transparency as consumers are able to check their credit report and see the information recorded on them, as well as their score. If there are incorrect or fraudulent entries there is a process to challenge these.</i> <p><i>Disadvantages:</i></p> <ul style="list-style-type: none"> - <i>Time i.e. application and approval process may take longer</i> - <i>Cost of carrying out credit check</i> - <i>'Point in time' measure i.e. doesn't take into account changing circumstances</i> - <i>Doesn't take affordability into account</i> - <i>Consumers with no or little credit history can be disadvantaged e.g. younger people or new migrants as this can mean a lower score and unwillingness to lend due to lack of information.</i> - <i>Equally consumers who've had a 'blip' in their past and are now back on track may be disadvantaged as information e.g. debt enforcement is retained on record for 4 years.</i>

	<ul style="list-style-type: none"> - <i>Not every provider reports to credit reference agencies creating gaps in information</i> - <i>Information and scores held by each of the 3 credit reference agencies (illion, Equifax, Centrix) is not comprehensive and varies between agencies</i> - <i>If BNPL providers only look at credit scores rather than the complete report, they will not gain a true understanding of the consumers financial health. For instance someone with a good credit score may be servicing their debt currently but adding more may make it unmanageable and cause financial hardship.</i> - <i>Credit reports don't show account balances so there is no way to tell how much is actually owing</i>
11	<p>What other/additional steps could BNPL providers take to assess affordability for consumers?</p> <p>What are the disadvantages (including costs) of these steps?</p> <p>What are the benefits of these steps?</p>
	<ul style="list-style-type: none"> - <i>Proof of income</i> - <i>Transaction analysis (use service provider e.g. Credit Sense, Decision Logic, link to consumers bank accounts via Akahu or analyse bank statements)</i> - <i>Require evidence of a consumer consistently adhering to a budget</i> <p><i>Disadvantages:</i></p> <ul style="list-style-type: none"> - <i>Time i.e. application and approval process may take longer</i> - <i>Cost</i> - <i>'Point in time' measure, doesn't take into account changing circumstances unless done in real time</i> - <i>May not be comprehensive</i> <p><i>Benefits:</i></p> <ul style="list-style-type: none"> - <i>More accurate affordability assessment reducing risk to provider and consumer</i>
12	<p>How might affordability assessments be conducted when BNPL credit limits are increased?</p>
	<ul style="list-style-type: none"> - <i>Using real-time affordability assessments (when available)</i> - <i>Update affordability assessment at time when limit increase is requested by consumer or being considered by provider (consumer to agree)</i> - <i>Update affordability assessment at regular intervals e.g. every 6 months</i>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
	<p><i>Costs:</i></p> <ul style="list-style-type: none"> - <i>Would vary dependent on process</i> <p><i>Benefits:</i></p> <ul style="list-style-type: none"> - <i>Greater protection for consumers that they are not encouraged to spend beyond their means</i> - <i>Minimisation of physical, emotional and mental harm associated with indebtedness e.g. domestic violence, alcoholism, gambling, suicide</i>

	<ul style="list-style-type: none"> - <i>Reduced risk of non-repayment for BNPL providers</i>
14	Are there any other ways to ensure BNPL credit limits are increased responsibly?
	<i>I believe affordability is the best measure</i>
15	Are there any other issues with consumers having multiple BNPL accounts that we have not identified?
	<i>Having multiple BNPL accounts could encourage fraudulent activity e.g. money laundering</i>
16	<p>How effective and practical would it be to share information with other BNPL providers of consumer accounts which have been frozen?</p> <p>Not effective / Somewhat effective / Very effective Not practical / Somewhat practical / Very practical</p> <p>Please provide details.</p>
	<p><i>Advantages:</i></p> <ul style="list-style-type: none"> - <i>May limit the opportunity for consumers to get further into debt</i> <p><i>Disadvantages:</i></p> <ul style="list-style-type: none"> - <i>This would encourage discrimination and anti-competitive behaviour. The approach indicates this information is limited to BNPL providers and does therefore not include other credit providers. I believe it would be more equitable for BNPL providers to report this information to credit agencies.</i>
17	How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?
	<i>By reporting to credit agencies</i>
18	<p>What are the costs (including disadvantages) of the approaches you describe in Question 17?</p> <p>What are the benefits of the approaches you describe in Question 17?</p>
	<p><i>Costs and disadvantages:</i></p> <ul style="list-style-type: none"> - <i>The costs are equivalent to those faced by other credit providers</i> - <i>Disadvantages for the consumer are that they may not be able to access further credit which may be required for essential items</i> <p><i>Benefits:</i></p> <ul style="list-style-type: none"> - <i>Benefits to consumers are that it would be harder to access further credit therefore they would not compound their situation.</i> - <i>In addition it lessens the risks for providers.</i>
19	What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?
	<ul style="list-style-type: none"> - <i>Allow consumers to choose their payment date and frequency</i> - <i>Allow consumers to choose a payment amount and frequency they are comfortable with and then calculate the term accordingly</i>

	<ul style="list-style-type: none"> - Allow consumers to make additional payments over and above their agreed repayments and then allow them to choose whether this reduces the recurring amount or shortens the term - Ability to change amount, date and/or frequency should a consumer's circumstances change <p><i>NB: all of the above should be provided without additional cost or penalty charges to the consumer</i></p>
20	<p>What are the costs (including disadvantages) of such tools and processes?</p> <p>What are the benefits of such tools and processes?</p>
	<p><i>Costs and disadvantages:</i></p> <ul style="list-style-type: none"> - Administrative overhead for BNPL providers - Less certainty for BNPL providers when they will receive payments <p><i>Benefits</i></p> <ul style="list-style-type: none"> - Reduces (financial) stress on the borrower and mitigates potential harm - Reduces no. of missed payments and associated admin for BNPL providers - Reduces collection charges and associated admin for BNPL providers
21	<p>When making BNPL transactions, how could consumers be made more aware of the total costs of their purchases?</p> <p>What are the costs of these tools?</p> <p>What are the benefits of these tools?</p>
	<ul style="list-style-type: none"> - Government or industry sponsored online calculator allowing consumers to verify exact cost of borrowing and which also highlights the relevant terms and conditions of the specified lender - Increased transparency of all costs including repayment schedule, potential missed payment fees, debt collection charges etc - Ensure costs are added to consumers budget - Annual statements provided to consumers by BNPL providers detailing total spend (including breakdown by category e.g. clothing, automotive, medical) and related charges (including breakdown by category e.g. missed payment charges, default charges, debt collection charges)
22	<p>As a consumer (or consumer representative), what has been your experience of receiving help from BNPL provider/s if you missed an instalment and/or faced financial hardship?</p>
	<p>N/A</p>
23	<p>How could BNPL providers be more responsive to consumers relying on BNPL to pay for essential goods and services?</p> <p>What are the costs of these tools?</p> <p>What are the benefits of these tools?</p>
	<ul style="list-style-type: none"> - Budgeting assistance

	<ul style="list-style-type: none"> - Assistance with building financial capability - Financial coaching / mentoring - Provide exemption from account freezes for essential goods and services transactions - Start saving / build a credit balance once repayments have concluded so that customers are more prepared for future items - Give consumers the option to set aside a portion of their limit e.g. limit is \$500 and \$300 is set aside for essential goods and services leaving \$200 for other purchases.
24	Do you have any comments on the diagrams above summarising the triggers of financial hardship, how they occur, and the features which could mitigate financial hardship?
	<i>There are other trigger points like 'life events' e.g. job loss, separation, illness that can also create financial hardship. BNPL providers won't be able to control when they occur however they may be able to receive early warning if they are well connected to their customers. For instance consumers suddenly change the types of products they purchase.</i>
25	Do you agree with our view that the lack of affordability assessments is likely to be a key reason why some consumers using BNPL face financial hardship?
	Yes
26	Do you have views on the overall objective of the BNPL sector?
	<p>Yes:</p> <ul style="list-style-type: none"> - <i>I believe that in order for the BNPL sector to deliver long-term benefits to consumers, BNPL providers need to be focused on more than pure profit. I believe their objective needs to be creating products and services that are truly aimed at helping customers, building financial capability, improving wellbeing and incentivising people rather than penalising them and that will create a positive impact.</i> - <i>In addition as long-term benefits to consumers include larger sources of credit e.g. mortgages, BNPL should be used as a mechanism to improve and maintain customers credit scores and history as (in conjunction with affordability) these will determine how much they are able to borrow in the future</i>
27	Do you have any views on how the interests of consumers could be protected?
	<p>Yes:</p> <ul style="list-style-type: none"> - <i>Promote the development of comparison tools across BNPL and other credit providers (similar to the telecommunications industry initiative) to make it easier for customers to compare products and services and their costs.</i> - <i>Include BNPL providers in the Banking Ombudsman Scheme's scope (along with other credit providers) so that complaints can be made to them and a consolidated view can be generated across all credit providers.</i> - <i>Regulate the BNPL sector so that charges are capped, services are transparent and value-driven.</i>
28	Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?

	<p><i>Yes. I believe there is an element missing from the defined criteria which is improving consumer financial wellbeing. Specifically:</i></p> <ul style="list-style-type: none"> - <i>Building capability through education, incentivising good financial behaviour, coaching and mentoring</i> - <i>Facilitation of wealth development. BNPL services should be aimed at getting people into a better financial state in the future not locking them into relying on BNPL services indefinitely.</i>
29	<p>Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.</p>
	<p><i>Agree with points detailed. Overall with the increased use of BNPL services, if the status quo is maintained it is certain that there will be increased instances of financial hardship. Comparable examples of where this has occurred are 'mobile shopping trucks' and payday lenders.</i></p>
30	<p>What are the costs and benefits of Option One for any relevant parties eg consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL? Please provide evidence if available.</p>
	<ul style="list-style-type: none"> - <i>Consumers and businesses are at the mercy of BNPL providers</i> - <i>BNPL competitors who are subject to regulation will struggle to compete</i>
31	<p>Do you have any comments on the discussion of Option Two: Government establishes appropriate incentives for BNPL providers to have an industry code which addresses the triggers of financial hardship? Please provide evidence if available.</p>
	<ul style="list-style-type: none"> - <i>Consumers and businesses are at the mercy of BNPL providers who choose not to abide by it</i> - <i>BNPL competitors who are subject to regulation will struggle to compete</i> - <i>As the proposal is for a voluntary code, there need to be strong incentives for BNPL providers to abide by it.</i> - <i>A review in itself would likely be insufficient. There should be expectations set around improvements to be made. The results of the review should be made publicly available to consumers in an easily digestible format e.g. 5-star rating.</i>
32	<p>What are the costs and benefits of Option Two to any relevant parties eg consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.</p>
	<ul style="list-style-type: none"> - <i>May create a form of legitimacy for BNPL providers that adhere to the code</i> - <i>Predatory practices may still exist should BNPL providers choose not to adhere to the code</i> - <i>There is still a risk that BNPL competitors who are subject to regulation will struggle to compete</i>
33	<p>How could Option Three be designed (including the timing of requirements) to ensure the BNPL delivers long-term benefits to consumers? Please provide evidence if available.</p>

	<i>I don't have sufficient experience or knowledge in onboarding organisations to regulatory frameworks to answer this question</i>
34	What are the costs and benefits of Option Three and how it is designed to any relevant parties eg consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.
	<ul style="list-style-type: none"> - <i>Option 3 would provide the greatest level of protection for consumers however costs are likely to increase as a result</i> - <i>It does not afford any protection to businesses accepting BNPL as a payment option</i> - <i>It would put BNPL providers on an equal footing with competitors</i> - <i>Some competitors are already finding that CCCFA regulation is too restrictive and are unable to provide existing products or lend to customers they have in the past. BNPL providers may also find that their customer base decreases as a result.</i>
35	Do you have any suggestions on how we could measure and track progress against whether BNPL is delivering long-term benefits to consumers? Please provide evidence if available
	<ul style="list-style-type: none"> - <i>Measure and track the type of goods / services BNPL is being used for, especially to identify essential goods / services over luxuries as these could be indicators of financial hardship.</i> - <i>Measure and track the no. of consumers using BNPL against other types of credit / payment methods to measure increase / decrease in market share.</i> - <i>Measure and track consumer demographics e.g. age. Your discussion document states that most BNPL consumers are aged 45 or under. If BNPL providers are delivering long-term benefits I would expect to see this increase over time.</i> - <i>Measure and track the average no. of BNPL accounts customers have at any one point in time or over a defined period e.g. 1 year.</i> - <i>Measure and track churn for each BNPL provider i.e. how long customers remain with them. This could be an indicator of the quality of their product / service offering.</i> - <i>Measure and track customer limits and how much they are increasing over time as this could be a potential early indicator of the onset of financial hardship.</i> - <i>Measure and track the time for customers to repay their BNPL against the original purchase projection. Deviations could be indicators of financial hardship as different arrangements need to be made to repay over a longer period.</i> - <i>Measure and track financial wellbeing of consumers using BNPL to see whether their financial wellbeing increases over time (whilst controlling for other factors).</i>
36	Do you have any suggestions on how we could measure and track progress against whether BNPL is delivering long-term benefits to consumers? Please provide evidence if available.
	<i>This is a repeat of Question 35</i>

Other comments

If consumers are relying on BNPL services for essential items, freezing their account when an instalment is missed may not be a responsible response as they may not be able to source

these items by other means. Instead BNPL providers could take a medium-long term view and work with customers to reach an agreement.