



## Introduction

For more than twenty years Equifax has been Aotearoa New Zealand's leading provider of consumer credit reporting information, powering lenders credit decisions for consumers and businesses. Over that time, we have had different names and owners, most recently in 2016 acquired by Equifax, the global information solutions company.

We welcome the opportunity to provide input into the Ministry of Business, Innovation and Employment (MBIE) consultation process. With operations in 24 countries including Australia, the United Kingdom and the USA, we have unique insights into the emergence of Buy-Now, Pay-Later (BNPL) and the changes it is bringing to consumer's appetite for credit; the impact on credit risk assessment by non BNPL lenders; and changes to data standards and processes used by industry and credit reporting agencies to accommodate BNPL.

## Summary

Buy-Now-Pay-Later (BNPL) is the latest innovation in the way people obtain goods and services, making payments post receipt. A BNPL purchase creates a payment obligation upon a person, as does a credit card, personal loan, mortgage, energy account or mobile phone plan.

Given the typically low dollar figure of a BNPL, the question is less about how a single BNPL is assessed and approved and more about the cumulative total amount of debt a consumer may find themselves liable for. This Information is relevant to any further provision of credit, particularly those entities who must make enquiries under the Responsible Lending Code about an applicant's financial commitments.

New Zealand has a robust credit reporting system, with the information supplied on a credit report providing benefits to both consumers and lenders about the borrower's willingness and capacity to pay. Since 2012 New Zealand has operated a positive credit reporting system which enables lenders to see the maximum amount of credit a person may be liable for. We believe BNPL commitments should be integrated into that data pool, not kept from it.

## Recommendations

1. BNPL is relatively new and evolving quickly and access to BNPL provides consumers with additional payment options to suit their circumstances, making it easier for businesses to transact and grow. Therefore flexibility is required in any additional regulation placed on the sector, regardless of whether through a sector-specific Code or a modified series of obligations under the existing Credit Contracts and Consumer Finance Act and the Responsible Lending Code.
2. BNPL is the fastest growing form of credit in New Zealand and it must not become a blind spot for lending. Being able to see a consumer's total payment liabilities is paramount to assessing whether or not to extend further credit, such as a mobile phone plan, mortgage or credit card. The supply of BNPL information for a credit report helps create risk transparency amongst all lenders; any regulatory initiative arising from the consultation should encourage BNPL providers to supply information to credit reporting agencies.
3. How a credit reporting agency records a BNPL application on a consumer's credit file (soft v. hard credit enquiries) or subsequently uses the information for scoring purposes are issues that have already had considerable work done in the UK and Australia and more recently by the Retail Credit Association of New Zealand (RCANZ), the established industry body that sets credit reporting data standards. Any regulatory initiative arising from the consultation should work with RCANZ to resolve potential concerns about reporting of and disclosure of BNPL activity.

## Buy-Now, Pay-Later in New Zealand

For decades after World War II, New Zealanders obtained goods on credit through hire purchase or paid by instalment with lay-buy. Then, in the eighties, credit cards arrived and displaced hire purchase as a form of obtaining goods on credit. Now, a new innovation has appeared in the form of BNPL, and Kiwis, like their Australian counterparts, are showing a strong interest in obtaining goods and services through it.

Clearly, BNPL is giving consumers a way to pay for goods that meet their specific needs. It can benefit people whose credit risk profile - including data such as poor repayment history, defaults, bankruptcy - would have seen them declined for a credit card or personal loan and whose next alternative would have been a high interest payday loan. Now that consumer can make a critical purchase, such as having their car repaired, using a BNPL and spreading the payments over a set period of time without incurring interest.

As a stand-alone use of BNPL, as this example for a specific purchase shows, the benefit of BNPL when managed well enables people to avoid punitive interest payments or creating an onward-going credit facility.

However, the Consultation Paper identifies that significant numbers of consumers have multiple BNPLs and there is potential risk of future consumer harm when consumers open new BNPL accounts, based on successful repayment of previous ones, without regard to whether a consumer has other obligations at the same time to other BNPL providers or indeed other forms of traditional credit products.

## Credit reporting information

New Zealand has a sophisticated credit reporting system governed by a strong regulatory framework.

In 2012 the addition of new data elements meant that credit reporting no longer was focussed on the risk a black mark, credit adverse information that could stop a person from obtaining credit.

Instead, the data reported to credit reporting agencies now represents four pillars of information:

1. What the total amount of credit available to them is, and the type of each line of credit
2. How well a person is currently managing their credit commitments (repayment history information) including whether they are in a hardship situation
3. Credit application history
4. Credit adverse information, such as bankruptcy or a default (failure to make a payment)

While the last dataset (credit adverse) is the one many people think still represents credit reporting, the reality is only 6.28 per cent of all New Zealand credit reports contain adverse information. For the overwhelming majority of people, their credit profile and the scores attached to them are driven by positive data supplied in the first two categories; how much credit they have available, including the type of credit; and are they making the required payment on time.

Both of these are important in the lending process, particularly having visibility into a consumer's total credit liability. The consultation paper correctly identifies the challenge of assessing a consumer's total credit limit, but has expressed that in terms of BNPL providers need to understand what a consumer's other BNPL commitments are before offering an additional BNPL.

However, the need to understand a consumer's total credit limit is equally necessary for all credit providers when considering an application for credit.

Visibility of information is integral to credit reporting and credit risk assessment. Equifax would be concerned that sharing of BNPL information would be restricted to other BNPLs or in any way siloed or split off from the existing credit reporting ecosystem. This would create a blind spot for lending in the economy, preventing the sharing of information on the fastest growing form of credit in New Zealand.

The long history of credit reporting has demonstrated that the integrity of lending is advanced by having the widest range of relevant data contributors, a data sharing arrangement reflecting a wide range of credit - mortgages, personal loans, credit cards, equipment hire, payday lenders, telco and utilities. While the range of contributed information from each may vary, what is contributed can be seen by all.

Equifax also notes that New Zealand has well-established governance for credit reporting information with the Credit Reporting Privacy Code (CRPC) overseen by the Office of the Privacy Commissioner (OPC). This sets out requirements for notification, transparency, rights of correction and complaints, with annual compliance reports to, and the possibility of investigations by, the OPC. This holistic approach with the OPC as regulator and a potentially modified CRPC should be maintained.

Similarly, just as the CRPC can be amended to accommodate the BNPL sector's needs, so too can the data standards required to make contribution to the credit reporting system easier for the BNPL sector. The local industry body (RCANZ) has already established data standards to support BNPL data being shared with other credit products.

Additionally, supply of BNPL information is particularly beneficial for younger demographic groups. BNPL is rapidly becoming the first type of credit sought by a young person and may be, along with their mobile phone, the only evidence of credit activity. The absence of credit activity can be problematic when developing a credit score for an individual.

## Key insights from other BNPL markets

### Equifax AU

Equifax Australia has the largest collection of BNPL data of the Australian credit reporting agencies and in early 2021 examined the trends in BNPL before and during Covid phase-1, finding

- BNPL credit report enquiry volume for 2020 grew by 39 per cent versus 2018, outpacing all other consumer lending products, particularly credit cards and personal loans which slowed with the onset of COVID.
- 21 per cent of all consumer credit reports now show a BNPL enquiry in the past five years
- BNPL customers are less likely than other borrowers to use another form of consumer finance (Credit Cards or Personal Loans)
- When BNPL customers do have another form of consumer finance they are much more likely to go delinquent, or have adverse records - a BNPL consumer with a credit card is twice as likely to have an adverse event (missed payment, or default) in the past four years.
- Overall, an analysis of consumer enquiries revealed that BNPL customers consistently display higher levels of risk compared to other borrowers and those regularly using BNPL have consistently lower credit scores than other borrowers across all age bands

### AU Regulation

Leading BNPL providers developed an industry Code that has three tiers for credit assessment based on a dollar threshold (see appendix).

Australia's conduct regulator, ASIC, has signalled it will also assess BNPL under a new power it has regarding a product's ongoing suitability for the intended target market of consumers.

### Equifax UK

Using bank transaction data Equifax UK did an innovative study of using a sample of over 96,000 current accounts, and examined more than 120,000 BNPL transactions from Dec 20-Oct 21 which found that:

- 28% of the adult population were actively using BNPL in October 2021. Actively using means they made at least one BNPL repayment in a calendar month. This is up from 23% in Dec 20, suggesting 2.6m more people are using BNPL now than were at the start of the year.
- BNPL users spend on average 51% more (£19.62) on fashion each month than those that do not use BNPL (£58.23 vs £38.61). BNPL users spend on average 31% more (£48.29) on discretionary items (e.g. electronics, toys, hobbies, sports equipment) than those that do not use BNPL (£202.13 vs £153.84).

Equifax UK also commissioned a survey in November 2021 and found:

- 47% of consumers believe BNPL can be used as a budgeting tool
- 47% of people using BNPL say they spend more when it's an option
- The average spent on an item (or basket) bought through BNPL is £290.30. Most people (13%) tend to use it for basket sizes between £101 and £150
- 43% of BNPL users admit to having missed a repayment, 9% say it happens often. 47% of those missing a payment say they've been charged a late payment fee

**UK Regulation**

In October the UK government published a consultation on how regulation should work, with BNPL to be regulated in a "proportionate way" by the Financial Conduct Authority (FCA) and for the inclusion of creditworthiness assessments, affordability checks and requirements for treating people in financial difficulty fairly. Rules on how this is to be achieved will be developed by the FCA. Further work is also to be done with credit reporting agencies on the details of recording BNPL with credit reporting agencies.

This consultation closes on 6 January 22.

# AFIA BNPL code – tiered checks



New <\$2,000	New >\$2,000	New >\$15,000	Existing >\$3,000	Existing >\$15,000
<p>If applicant doesn't meet base criteria, then BNPL must also obtain information on income &amp; expenses (may use benchmarks) OR credit check OR equivalent check on debts and liabilities</p>	<p>Regardless of meeting base criteria, <b>Must also</b> obtain information on income/ expenses OR credit check or equivalent check on debts and liabilities</p>	<p>Must meet base criteria AND Must also obtain information on income/expenses <b>AND</b> a credit check or equivalent check on debts and liabilities</p>	<p>Regardless of meeting base criteria, <b>Must also</b> obtain information on income/ expenses OR credit check or equivalent check on debts and liabilities</p>	<p>Must meet Base criteria AND Must also obtain BOTH information on income &amp; expenses AND a credit check or equivalent check on debts and liabilities</p>