

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

Your name and organisation

Name	Andrew Henderson
Organisation (if applicable)	Dunedin Budget Advisory Service Inc.

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>No. Appears to benefit the economy by increasing spending but this is misleading because consumers will have to spend less while they pay off the credit, as we regularly witness.</i></p>
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	<p><i>Makes payments more manageable by spreading them out. Gives consumers the impression that they are not missing out. Gives an alternative to interest bearing contracts and 2nd and 3rd tier lenders.</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>NA</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. Definitely disruptive</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>
	<p><i>BNPL will negatively impact low income consumers because it increases their spending capacity by borrowing from their future</i></p>
6	<p>Do you agree or disagree with our summary of the types of financial hardship that could</p>

	occur from BNPL? Please provide details
	<i>Yes. Also impacting consumers in the future when applying for credit, their credit rating could be negatively impacted by the previous BNPL missed payments</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 <i>We see many consumers with multiple BNPLs who cannot afford their essential costs because of this.</i> <i>Consumers are trapped in the debt cycle with BNPLs which impacts their future and their mental health</i> Your credit limits were increased beyond what you could afford <i>Always as there is no affordability assessment</i> Because of the timing of your BNPL instalments and other expenses <i>Many consumers who have multiple BNPLs don't know when their repayments are due and this causes a lot of stress</i> Because as a household, you were unable to afford the BNPL instalments <i>Always, we have never worked with a consumer who could afford their BNPLs</i> You focused on the first payment rather than the total cost of the product or service <i>Always</i> You responded to BNPL marketing and as a result purchased more than you could afford <i>Sometimes</i> You missed an instalment and faced missed fees (default fees) <i>sometimes</i> Your circumstances changed (e.g. change in employment) and you were no longer able to afford the instalments <i>The consumers we see were not able to afford the repayments to begin with</i> Other
8	<p>Do you live in a household with multiple BNPL accounts? Yes / No / Prefer not to answer (If Yes), has your household experienced financial hardship because as a household you could not afford the full cost of the good or service? Yes / No / Not sure</p>
	NA
9	As a BNPL consumer (or consumer representative) (select one only)

	<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>A. <i>Multiple credit checks may indicate the consumer is already in hardship. A hard credit check should reveal other financial obligations</i></p>
10	<p>What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL?</p>
	<p><i>Credit checking is a small advantage as it may give some indication about affordability but doesn't complete the financial situation. A disadvantage would be the cost ultimately passed onto the consumer for the credit checking process</i></p>
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>
	<p><i>The same responsible lending checks the lender has to make under the CCCFA. The benefits to this are that the lender has confidence in the borrowers ability to repay without being in hardship. If this was the case the lender would also be acting in a socially responsible way and would also know the product or service met the borrowers needs. The biggest advantage to this would be the consumer knowing they could afford it as well as their other commitments</i></p>
12	<p>How might affordability assessments be conducted when BNPL credit limits are increased?</p>
	<p><i>If BNPLs were included in the CCCFA then the lender would need to complete a new affordability assessment each time the credit limit was increased</i></p>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
	<p><i>It will cost due to the time involved and so ultimately the consumer will pay, but once again the benefits mentioned are in question 11.</i></p>
14	<p>Are there any other ways to ensure BNPL credit limits are increased responsibly?</p>
	<p><i>Not without BNPLs being included in the CCCFA. Stop BNPLs from being paid with credit</i></p>
15	<p>Are there any other issues with consumers having multiple BNPL accounts that we have not identified?</p>
	<p><i>Mental health issues. The stress related to having to keep up with BNPLs to prevent the fees, not keeping track of when the payments are being deducted, the mental strain on parents with children who ask the parent to put an item on BNPL. Consumers who use multiple BNPLs may be delaying in seeking financial support as they feel they are doing ok by just getting by. These consumers are not aware of any other tools, resources available to them to get ahead in life. They may not be aware of how to save for what they need. These consumers seem to have no financial capability and multiple BNPL accounts are keeping these</i></p>

	<i>consumers oppressed.</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</p> <p>Not practical /Somewhat practical / Very practical</p> <p>Please provide details.</p>
	<i>This would only be effective if the BNPL industry took that information into account when considering a consumers application. This would be practical if the BNPL was included in the CCCFA as all frozen accounts would be visible in the consumers' credit file. This would also assist other CCCFA lenders to make an informed decision.</i>
17	<p>How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?</p>
	<i>Including BNPL under the CCCFA, having a shared database, requiring hard credit checks</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- consumers would ultimately pay for this</i></p> <p><i>Benefits – it would reduce consumers multiple BNPLs accounts concurrently and it reduce the chances of this type of lending causing hardship</i></p>
19	<p>What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?</p>
	<i>Repayments should coincide with income. The consumer should have the right to set up automatic payments</i>
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>The cost to the consumer would only be the default fees should a payment be missed.</i></p> <p><i>We don't see any cost to the lender for these tools and processes.</i></p> <p><i>The benefit to the consumer is the confidence they have money in their account when the repayment is due and if it's an AP, not a direct debit, this will give them a feeling of being in control.</i></p>
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>
	<i>Once the BNPL is under the CCCFA, lenders will have to provide disclosure which will provide the borrower the total cost of borrowing which should see the borrower be able to make a more informed decision</i>

22	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?
	<i>We have not received any referrals from a BNPL and this is very disturbing.</i>
23	How could BNPL providers be more responsive to consumers relying on BNPL to pay for essential goods and services? What are the costs of these tools? What are the benefits of these tools?
	<i>When a consumer applies for a BNPL for essential goods and service, they should be referred to a local financial mentoring service as these services often have resources and knowledge to share with the consumer as many consumers who applying regularly for essentials are already in hardship. If a consumer misses a payment this should trigger a referral to a local financial mentoring service for assistance. The cost for this would be negligible.</i>
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>We particularly like the desirable features</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?
	<i>Absolutely</i>
26	Do you have views on the overall objective of the BNPL sector?
	<i>We think the objective to have consumers spend more money, and this is fine but only if the consumer can easily afford to do so. It is obvious to us the BNPL sector has replaced the easy credit previously supplied by mobile traders and pay day loan providers. Through regulation these industries have been required to protect the borrower which has seen the market for mobile traders and pay day lenders all but disappeared</i>
27	Do you have any views on how the interests of consumers could be protected?
	<i>By having BNPLs under the CCCFA</i>
28	Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?
	<i>By having BNPLs under the CCCFA</i>
29	Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.
	<i>The status quo works well for the lenders as they can make money but the consumer has no rights or safety nets.</i>
30	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.

	<i>We act on behalf of the many consumers we see in financial difficulty due to BNPLs and we see no benefit to not having this sector included in the CCCFA</i>
31	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.
	<i>The intention of a BNPL is to be disruptive and a voluntary industry code would not work due to the nature of some unethical businesses and or practices. Consumers would lack confidence.</i>
32	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.
	<i>Minimal costs and benefits</i>
33	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.
	<i>Commerce Commission to facilitate webinars for BNPLs in order to educate these providers on the CCCFA. Nationwide advertising including other options for consumers. The timing of these need to be implemented as soon as possible to protect consumers from further harm.</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.
	<i>This is maximum protection for consumers and therefore Aotearoa</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
	<i>The industry could measure the amount of missed payments and defaults. If these are low then it would show BNPL is working well for consumers. This option would need to ensure that all BNPL providers actively participate in credit reporting.</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>As above</i>

Other comments

We often work with clients who are declined a bank loan due to their multiple BNPLs. This is impacting on their credit worthiness, establishing a positive credit history. We also see many clients who are prioritising their BNPLs over their essential costs like regular power payments and they then receive bill shocks.

Consumers are now often stuck in the debt spiral that is BNPL, due to not being able to save the small amount each week for the next purchase.

We are very excited, grateful and relieved that the Government is looking into this sector as it has just seemed to have materialised from nowhere with no constraints or thought for the consumers it is targeting.