

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

Your name and organisation

Name	Katrina Shanks
Organisation (if applicable)	Financial Advice NZ

Responses

Economic regulation	
1	<p>Do you agree with our assessment of what the benefits are from BNPL?</p> <p>Yes / No / Not sure</p> <p>Are there others? Please provide details.</p>
	<p>Fin Advice NZ agrees with the assessment of the benefits of BNPL to consumers, businesses and the wider economic benefit.</p> <p>In addition to the stated benefits in this document we believe additional benefits are:</p> <ul style="list-style-type: none"> • Developing good credit scores for those who cannot access other forms of credit products which is especially good for young people with no credit history. • Building good levels of credit scores through showing the ability to make repayments schedules on time which is good for those people with a poor credit history.
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	n/a
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>
	n/a
4	<p>Do you agree with our assessment of how BNPL will evolve in New Zealand? If not, please provide details.</p>
	<p>Centrix has stated there are 565,000 New Zealanders actively being BNPL users and this number has doubled since 2019 indicates this innovative product has a place in the market for consumers.</p> <p>We disagree with Paragraph 30 which states that <i>will increase the number of businesses that accept BNPL as payment and therefore increases the risk of financial hardship to consumers.</i> We do not believe consumer accessibility is the issue if the products design and controls are</p>

	<p>in place to identify financial hardship and solutions are readily applied.</p> <p>However, Centrix most recent figures state that in 2019 only 4% of BNPL consumers used multiple BNPL providers, in 2021 that number is now 15%. This is a significant increase, however, in the same report it states that the arrears for the last year has dropped. Therefore there is no clear link that multiple BNPL providers has led to greater arrears. Another consideration is the average BNPL credit limit is \$420 per plan.</p> <p>Nor do we believe the statement “<i>may dampen any competition between BNPL and Mastercard or Visa in terms of payment services to businesses</i>” to be true. The marketplace has proven to be innovative and competitive with main stream lenders entering the market through joint ventures or with new products which has increased choice and competition.</p>
5	<p>How do you think emerging BNPL business models e.g. partnerships with credit cards, banks etc. will impact consumers? Please provide details</p>
	<p>As per above.</p>
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>In general we agree with your summary of the hardship that can occur when obtaining credit. However, because you have accessed BNPL products does not mean you are in financial hardship or will be in financial hardship.</p> <p>In addition to this financial hardship may occur by not being able to access credit which is free if the repayments are paid on time.</p> <p>BNPL credit allows people to access funds which can also help them out of financial hardship. For example a family having to buy one off items such as school uniforms. BNPL allows for the purchase of a bigger value item (size is relative to income) to be spread over a period of time instead of the family going into a cashflow crisis and not being able to buy food that week or pay rent or even going to a loan shark to meet one off big expenses.</p>
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

	n/a
8	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?
	No
9	As a BNPL consumer (or consumer representative) (select one only) A) Do you value having a hard credit check being conducted OR B) Would you prefer a soft credit check that doesn't leave a 'footprint' on your credit score? C) Please explain the reasons for your answer
	n/a
10	What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL?
	<p>We understand for many BNPL providers the process of credit checks is already industry practice.</p> <p>The advantage of credit checks been performed is a 3rd party confirmation of the history of a persons credit which could be an alert as to the vulnerability of a person financial capability and also how many other BNPL providers have performed this check which would indicate a level of use of other BNPL providers.</p> <p>The credit check does add another layer of cost to the process which at this stage is not being passed onto the customer but being absorbed from the B2B relationship.</p> <p>In addition to this our understanding is all BNPL providers have signed up to Centrix's Indebtness Index which allows providers to see what BNPL consumers are in arrears.</p> <p>The development and implementation of a Code that specifies what BNPL providers should do when they have an application for a new customer when they are already in arrears on another product providers scheme would provide a check and balance to the appropriateness of another credit facility to be offered to the customer.</p> <p>It should be noted there will be a point where additional regulatory costs if imposed my change the concept of free consumer credit if too many costs are layered onto the product.</p>
11	What other/additional steps could BNPL providers take to assess affordability for consumers? What are the disadvantages (including costs) of these steps? What are the benefits of these steps?
	<p>Affordability is based on the understanding of a clients income and expenditure and needs and goals. To understand affordability is a complex process.</p> <p>A consideration is the need to have affordability criteria on all products especially those which are of low value and have no financial cost to the consumer unless repayments are breached. At this point consideration should be made of ways to ensure hardship is managed</p>

	<p>in a responsible manner by the provider.</p> <p>It is important to understand there needs to be a balance between allowing consumers to get access to credit especially low values, with no finance costs as opposed to pushing them to loan sharks or illegal methods of obtaining credit.</p> <p>However, other methods of confidence can be obtained. Such as financial hardship management. These could include:</p> <ul style="list-style-type: none"> • The use of credit checks • The use of the Indebtness Index <p>Outside of affordability other methods could be considered such as:</p> <ul style="list-style-type: none"> • Identification of vulnerable customer • Product suitability • Initial upfront payments based on value and other conditions <p>Included in this process could be a compulsory education component where to continue to have access to BNPL products there are certain requirements to be fulfilled.</p> <p>There will be a point where additional regulatory costs if imposed may change the concept of free consumer credit if too many costs are layered onto the product.</p>
12	How might affordability assessments be conducted when BNPL credit limits are increased?
	n/a
13	What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?
	n/a
14	Are there any other ways to ensure BNPL credit limits are increased responsibly?
	These could be obtained through dollar benchmarks and as the dollar increases so does the additional requirements to obtain that access to credit. The Australian Code of Practice for BNPL is a good example of how this could be implemented.
15	Are there any other issues with consumers having multiple BNPL accounts that we have not identified?
	As per above answers.
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>
	It is our understanding all BNPL providers have signed up to Centrix's Indebtness Index which allows providers to see which BNPL customers are in arrears. This is as effective as when an account is frozen.
17	How could information about consumers having multiple BNPL accounts be appropriately

	shared across the BNPL sector?
	<p>The advantage of credit checks been performed is the BNPL providers can check what other BNPL providers have checked the register. This in effect is the sharing of consumer information.</p> <p>This could be included in the Code of Practice.</p>
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>
	n/a
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>
	<p>Our understanding is the providers allow the consumer to select the timing of repayments at the initial time the account is set up – the timing of these repayment schedules can be adjusted.</p> <p>A formalised relationship between budgeting services and BNPL providers could be an effective mechanism to assist people in financial hardship.</p> <p>This could be a component of the Code of Practice.</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>
	n/a
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>
	<p>These are fairly simple transactions – there is a purchase price, a repayment schedule with agreed repayment dates and late payment fees – only 3 components to the process.</p> <p>A code could determine the clarity of these 3 components.</p> <p>The benefit of customers understanding the product and its terms and conditions builds public confidence and trust in the products through being fair, clear, transparent and providing suitable products.</p>
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>
	n/a
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>

	What are the benefits of these tools?
	n/a
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?
	<p>It is difficult to answer this question as for some consumers financial hardship has occurred before they enter a BNPL transaction so obtaining a facility of credit alleviates the immediate stress on the customer. For these customers the transactions aren't necessarily making the situation worse just transferring the problem to a legal provider. For these customers this is a good opportunity to be able to access budgeting services and obtain professional help.</p> <p>For consumers that have obtained multiple credit facilities, and this is used as another method to access to credit or extended credit there are mechanisms which could be triggered through the implementation of a code for financial hardship.</p> <p>This code could impose the need to perform credit checks or access to a database which identifies customers of all the BNPL products. It should also be considered many customers have many BNPL products and are not in financial hardship but have multiple providers due to the locations of where they shop not offering all the BNPL products. This is more relevant with internet shopping.</p> <p>The code could also implement at a certain dollar value greater criteria are required to obtain the next band of funding.</p>
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?
	<p>To determine that lack of affordability assessments is the KEY reason for consumers using BNPL face financial hardship would have to be based on a body of evidence. It appears this statement is based on insights by financial mentoring services which is not a body of evidence to base significant change to a sector.</p> <p>It appears from other evidence in this consultation document that this form of credit is at no higher risk of creating financial hardship than those products which have to apply with the CCCFA. In 2018 MBIE performed a review which also stated there was little evidence of harm created by BNPL products</p> <p>It should be noted that this sector is maturing and obtaining greater market share so a watchful eye should be kept on how it progresses and a workstream associated with obtaining evidence as to how it is performing.</p>
26	Do you have views on the overall objective of the BNPL sector?
	We agree with the overall objectives of the BNPL sector.
27	Do you have any views on how the interests of consumers could be protected?
	<p>We believe as the sector matures there needs to be a form of oversight to ensure that it is meeting the objectives stated in this paper.</p> <p>This oversight could be similar to that imposed in Australia with their Code of Practice which has been agreed by the industry and the government.</p> <p>We need to ensure innovative products are allowed to prosper in the market place but at the same time have the oversight and control to protect consumers. Obtaining the correct</p>

	balance is the challenge.
28	Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?
	We believe the three criteria for an effective BNPL sector are fair.
29	Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.
	We are not supportive of Option One. We believe BNPL is a growing market and needs to have a form of structure to ensure the public can continue to have trust and confidence in the sector and any harm associated in obtaining credit for those in hardship is managed in a consistent manner to reduce the harm.
30	What are the costs and benefits of Option One for any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL? Please provide evidence if available.
	n/a
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.
	<p>We are supportive of Option B. This is based on the evidence which has been provided in this paper and the approach of overseas jurisdictions who are responding to the BNPL emerging market.</p> <p>We believe an industry code which is binding to all participants and is agreed by the industry and the government is an effective mechanism.</p> <p>The financial services sector needs innovative products which can evolve and obtain good outcomes for consumers and is imperative to ensure consumers can access credit when required.</p> <p>An element of the BNPL initiative should be an element of financial literacy and responsibility to ensuring harm to the consumer is limited as much as possible. We believe these can be elements of the Code of Practice.</p>
32	What are the costs and benefits of Option Two to any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.
	<p>It is important to understand the innovation of this product is consumers do not incur finance costs if repayments are paid in full and the cost sits with the business at point of sale. Whatever regulatory requirements are placed on BNPL this model can only succeed if those costs are not prohibitive to deliver the product to the consumer.</p>
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.
	We do not support Option 3. At this point we believe CCCFA is not required where there is no evidence of harm occurring and Option 2 is a solution which if designed and implemented correctly could identify any harm and put processes in place to overcome this. If evidence of

	harm was to change then we would like this option to be reviewed.
34	What are the costs and benefits of Option Three and how it is designed to any relevant parties e.g. consumers, BNPL providers, businesses accepting BNPL as a payment option, competitors to BNPL providers? Please provide evidence if available.
	n/a
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
	<p>There are some key metrics which can be implemented:</p> <ul style="list-style-type: none"> • Default payments as a % of transactions • Comparison of default payment % to other credit products • Complaint's data • Consumer feedback • Number of requests for hardship assistance • Track average balances across all providers
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.
	As per above

Other comments

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