



16 December 2021

TO: The Ministry of Business, Innovation and Employment
By email buynowpaylater@mbie.govt.nz

FROM: Ngā Tāngata Microfinance
Email ntm.org.nz

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

Ngā Tāngata Microfinance thanks the Ministry of Business, Innovation and Employment for the opportunity to submit on the Buy-Now, Pay-Later Discussion Paper which seeks input on how financial hardship can be triggered by BNPL use and feedback on the options that have been proposed for achieving an effective BNPL sector.

Background: Ngā Tāngata Microfinance was established in 2010 for the purpose of alleviating poverty by building a more just and equitable society with economic and social inclusion of all those living in Aotearoa New Zealand. To achieve this vision, we provide safe, fair and affordable finance options that enable financial inclusion and capability. We address and promote awareness of structural and economic forms of financial exclusion and progress towards achieving a more equitable financial environment, advocating for Tangata Whenua and Tauīwi living on low incomes. We work in close collaboration with Kiwibank our loan capital funder, and alongside other community agencies in the building financial capability sector. The face-to-face work with our clients is carried out in partnership with the FinCap network of budget services and financial mentors throughout Aotearoa. We have seen a steep increase in the use of Buy-Now, Pay-Later services across our clients over the past two years and are seeing the impact of this on their financial well-being. A recent survey revealed 36% of our current clients use one or more Buy-Now, Pay-Later services.

Contact person: Natalie Vincent [REDACTED]
Chief Executive Officer, Ngā Tāngata Microfinance

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

Your name and organisation

Name	Natalie Vincent
Organisation (if applicable)	Ngā Tāngata Microfinance

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>
	Yes
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	<p>From the consumer perspective we mostly agree with the assessment of potential benefits. There are benefits but these can only be realised as a 'benefit' if there are safety measures in place, otherwise, they can become detrimental.</p> <ul style="list-style-type: none"> • Interest free. Fee free – only if all instalment payments are made on time • Spreading costs – this is beneficial if it is affordable when balanced against other household expenses and regular outgoings • Fast to subscribe with digital access is very convenient – this has potential to encourage impulse buying and subscription to multiple providers if affordability assessment and credit sharing information is not in place
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>
	Yes
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>It will make the BNPL services and their hybrids more accessible and potentially offer new ways to access credit quickly. It will also mean more retailers and service operators will offer time payment options even for small purchases. This kind of environment raises the risk of consumers money management behaviour being to use credit for purchasing rather than encouraging saving and positive financial management skills. There is also potential for overspending and impulse buying. This has been seen in the past with the use of credit cards. Given a large number of consumers already use their credit cards to pay for BNPL instalments there is risk of people finding things unmanageable unless controls are in place to prevent harm or risky spending behaviour.</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>Yes, mostly agree. Hardship can also occur not only with the timing of instalment payments but the quantity of payments. Consumers can purchase many items at once up to their BNPL limit even from only 1 provider. Keeping track of the payments and quantifying them into a total due can easily become unmanageable and consumers are at risk of missing payments and being charged default fees. It would be useful to have a limit on how many purchases you could have at one time with a BNPL account.</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
	<p>Yes. All of the above circumstances (Clients of NTM)</p>
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>
	<p>Yes. (Clients of NTM) The majority of NTM clients who use BNPL have multiple personal accounts with some having 4+</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>Yes. NTM values a hard credit check being conducted. Alongside affordability assessments</p>
10	<p>What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL?</p>
	<p>NTM believes this is essential in understanding the consumers exposure to credit, their debt profile and how they manage debt repayments. Alongside affordability assessments this provides appropriate rigour to determining suitability for credit.</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>
12	<p>How might affordability assessments be conducted when BNPL credit limits are increased?</p>
	<p>Through a thorough application process which assesses the consumers ability to not only afford a credit extension in the current situation but are prepared and able to manage the debt if their situation changes. A good payment history is not a sign of a persons affordability. Consumers and particularly those in financial hardship can choose to prioritise repayments to certain providers whilst forgoing other bills that may be due.</p> <p>NTM Client comment:</p> <p>"I used BNPL regularly and my limit was increased. I got behind in repayments because other emergency needs came up, I learnt a great lesson about BNPL and that in future will only use it for necessary items that I can't afford upfront to a limit of \$200 which I have calculated with the help of my Financial Mentor is manageable and will not cause stress to my budget"</p>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
	<p>Consumer protection from accessing credit facilities that are unaffordable and can become unmanageable.</p>
14	<p>Are there any other ways to ensure BNPL credit limits are increased responsibly?</p>
	<p>Credit limits should only be increased on application from the consumer, not offered as 'rewards' or incentivised in any way. After assessing affordability and purpose of credit only then should a limit be raised. It can not be the decision of the BNPL provider to increase access to credit – it must only be at request of the consumer.</p>

15	Are there any other issues with consumers having multiple BNPL accounts that we have not identified?
	The issue with consumers having multiple accounts is exposure to debt and the risk of the debt becoming unmanageable. This then impacts their credit profile negatively if they get behind. A poor credit history can have serious effects on consumers then accessing essential services such as telco and electricity.
16	How effective and practical would it be to share information with other BNPL providers of consumer accounts which have been frozen? Not effective / Somewhat effective / Very effective Not practical / Somewhat practical / Very practical Please provide details.
	Very effective and practical methods could be developed as previously mentioned
17	How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?
	Through comprehensive credit reporting and in the application process. BNPL spending and repayment information should be updated in a consumers credit profile and when a consumer is applying for a BNPL facility they should be asked to evidence any other BNPL and credit facilities they have.
18	What are the costs (including disadvantages) of the approaches you describe in Question 17? What are the benefits of the approaches you describe in Question 17?
	When any new credit is applied for, including BNPL it will then be evident in the consumers credit file and the provider will have a full picture of the consumers exposure to credit and repayment history. Balanced against an affordability assessment this then should mitigate risk of further credit being available and that could lead to unmanageable debt and hardship.
19	What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?
	When a consumer makes a purchase on the app and the direct debit is set-up there is a step in place where they can choose the repayment date, not automated to the purchase date.
20	What are the costs (including disadvantages) of such tools and processes? What are the benefits of such tools and processes?
	If they have the option to align with income dates there is less chance, they will miss repayments and incur default fees. NTM Client comment: "I was unable to afford things so used BNPL not realising that doing a few of those in the same week still means it comes out of one pay cycle, albeit different days of that pay cycle. I got out of depth and had too many to pay off at one time and was unable to keep up with them. If I kept trying to pay them all it would leave me in deficit"

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>At anytime that the consumer is accessing their account in the BNPL app the 'debt' should always be referred to in its total, not in the instalment value. There should be a total debt owing balance clearly stated – not simply, 'your next instalment due is \$\$'. Any marketing instore should not be advertising BNPL instalment amounts as the 'cost', it must be clear what the total cost of the product being purchased is. This will avoid consumers being misled and seeing their purchases only as incremental amounts not the total cost. Only seeing instalment values is manipulative and misleading and can cause consumers to overspend i.e. "I can afford the instalment of \$20. But can I afford the total cost of \$100"</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>
	<p>NTM does not have any positive feedback on the hardship support from any BNPL provider we have engaged with. Two cases below which outline the steps we had to take to advocate and assist our client with repaying a debt to two BNPL providers. We did finally get a resolution but the time taken was unacceptable and brought stress and frustration to our client. Navigating the hardship processes of the companies is fraught with issues as they do not have NZ based offices and/or customer service representatives that seems to be able to deal with complex situations. As advocates for our clients and attempting to settle their debts, we have spent weeks trying to get support as you will see from timelines presented below.</p> <p><u>Case 1.</u></p> <p>This NTM client applied for a loan to cover \$858 in BNPL debt when her limit was extended and the debts became unmanageable. The NTM loan was approved and it took two weeks before we could settle the debt. The client and financial mentor both attempted to correspond with the BNPL provider and find a method to repay the debt via an NTM loan. The client has English as a second language and found the process extremely upsetting as she could not get a resolution. There was no office in New Zealand to communicate with and the offshore helpline continued to say there was nothing they could do to help. After many hours spent on this, the NTM team stepped in and made calls to the 0800 helpline becoming very stern with our requests for help. Only after this were we connected with a person in New Zealand who assisted us in finding a way to repay the debt.</p> <p><u>Case 2.</u></p> <p>Client came to NTM after working with a financial mentor to address her debts. A loan was approved by us to clear her high-cost debt and included in that was \$548 in BNPL debt. Whilst this was not interest bearing, it added to her overall debt and was causing stress and anxiety. The client's financial mentor, and the NTM team, along with assistance from the client, spent over 4 weeks trying to make contact with the BNPL provider to settle this debt. This is a completely unacceptable timeframe and our concern is that for consumers that do not have advocates supporting them, and are under financial stress, it would be impossible to navigate their way through this process.</p> <ul style="list-style-type: none"> • 11/11/21 Application received for debt relief of \$548 from BNPL debt • 24/11/21 Application approved – request for debt balance and account/reference details to make payment.

	<ul style="list-style-type: none"> • 25/11/21 FM email after attempting to get BNPL settlement information “We had issues with them never ringing back and not being able to get statements or have any communication from them so we were only able to send screen shots from her app account.” • 29/11/21 FM email to say that the client is waiting on a reply from BNPL for their details. We offered our assistance at this point. • 30/11/21 FM email with screenshots of the BNPL account from the client, but no bank account details are available and no messages are returned from the BNPL provider • 30/11/21 FM response email “They are really hard to get hold of, there is no phone number. [client] has submitted requests to get in touch with her but they have not got back her yet. I found an email address so have send them an email. • 30/11/21 FM saying email to BNPL’s helpdesk. “They are really hard to get hold of, there is no phone number. [client] has submitted requests to get in touch with her but they have not got back her yet. I found an email address so have send them an email.” • 30/11/21 Locate registered office of the BNPL provider and a phone number to try. • 1/12/21 Email from FM “I have left a message as it rings and then goes to answer machine. I have tried a couple of times.” • 2/12/21 NTM has a meeting with other colleagues where a BNPL representative was present. We request contact details to handle a hardship case. Are told this will be sent to us • 6/12/21 Email from FM – still no contact received from them and no luck with the phone number • 7/12/21 We receive a new email address with contact details and hardship policy link from the BNPL rep • 7/12/21 Email sent to new address asking for BNPL bank account details and reference details to make a payment. Privacy waiver was included in the email. • 8/12/21 Automatic email received saying "We're currently experiencing longer wait times on customer enquiries due to a rapid growth in our customer and merchant base. Our team will work as quickly as possible to answer your query". • 10/12/21 Automatic email received saying " We apologise for the delay" but no answer to our requests. • 14/12/21 An email received with details of how to make a payment via a debit card. No other options provided.
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>
	<p>It would be helpful to have a red flag system in place that identified those consumers that were regularly using their BNPL account for purchasing essential items and services. A process in place to then connect and understand their needs and situation and if necessary, have referral pathways in place with support services to assist clients in hardship outside of the BNPL service.</p> <p>NTM Client comment:</p> <p>“I have been struggling financially since losing my paid job last year during covid lockdowns. I have been forced to purchase food using BNPL and in reality, there is no way I can repay these debts”</p>
24	<p>Do you have any comments on the diagrams above summarising the triggers of financial</p>

	hardship, how they occur, and the features which could mitigate financial hardship?
	N/A
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?
	We believe the objective of BNPL is to provide an innovative, easily accessible credit option to consumers, which can have benefits if used safely. Our concern is protection of consumers particularly those who are financially vulnerable and that there are protections and processes in place to mitigate risks to consumers.
27	Do you have any views on how the interests of consumers could be protected?
	Regulating BNPL under the CCCFA along with requiring the sector to be subscribed to a dispute resolution scheme.
28	Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?
29	Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.
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.
	From the consumers position Option One will not provide protection or support for consumers who in hardship.
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.
	We understand there has been an industry code drafted but have not seen the details. It is our view that a code would not go far enough to protect consumers from financial hardship, nor address the inadequate hardship processes and support for those <u>in</u> hardship. If the code is modelled on the Australian BNPL code and is voluntary then it is likely we will see the same results in New Zealand. The Australian code has not been successful in addressing potential harm from BNPL, default fees and unaffordable lending. We also have concerns around self-monitoring and self-enforcement by the industry, this methodology has not proved to be successful in any industry.
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.

	There is more benefit to the consumer with Option Two than Option One, but we believe Option Two does not go far enough to protect consumer interests and would mostly serve the interests of the BNPL provider.
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.
	NTM would like to see Option Three, with MBIE using section 137A of the CCCFA to regulate the BNPL sector. This will provide long term benefit to consumers by protecting them from the risk of financial harm and hardship, particularly those who are financially vulnerable. The BNPL sector needs to be recognised as a credit product and must be required to uphold responsible lending practices.
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.
	Benefits would be consumer protection and alignment with other credit products available
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

Other comments

	<p>NTM Client case study:</p> <p>Gloria's* story</p> <p><i>Gloria has been working with a financial mentor to address her unmanageable debts. In December 2021 with the help of her mentor she applied for a debt-relief loan to NTM. Gloria's only source of income is a benefit and family tax credit, total income \$811.00 per week, she has \$7,411.00 of debt. Despite having bank and finance company debt to the value of more than \$5,000.00 Gloria was able to subscribe to 4 different Buy-Now Pay-Later providers and incur an additional \$1,936.00 of debt. For the period of December and January Gloria will be required to make 23 payments each week to a total amount of \$505.98.</i></p> <p>With all of her other expenses Gloria's budget is in deficit every week by \$293.00. This is not sustainable and the result will be Gloria defaulting on repayments and incurring fees, or forgoing essential living needs to meet her debt commitments, thereby jeopardising her well-being. This is not an unusual case; we are seeing these on a more regular basis as BNPL becomes more prevalent as a form of accessible credit.</p> <p>Gloria's situation is an example of unaffordable lending by the BNPL industry. Lending that has been made available without appropriate affordability assessment or hard credit checks. Gloria has a low credit score due to previous defaults and also has a high debt-income ratio so it is unlikely she would have been approved for further credit facilities if checks had been done. With BNPL regulated under the CCCFA this kind of situation would be avoided. Protections would be in place to remove the risk of Gloria taking on debt that she could not manage.</p> <p>*Real name changed for privacy</p>
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