

Ministry of Business Innovation and Employment

15 Stout Street, Wellington Central

Wellington 6011

To the Ministry of Business, Innovation and Employment,

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

1. Retail NZ welcomes the opportunity to submit on MBIE's Buy Now, Pay Later ("BNPL") Consultation Document.
2. Retail NZ is a membership organization that represents the views and interests of Aotearoa New Zealand's Retail Sector. We are the leading body representing retailers in Aotearoa New Zealand, with our membership accounting for two-thirds of total domestic retail spending. We have sought input from our members in preparing this submission.
3. In 2020 the retail sector accounted for **around 8 per cent of New Zealand's GDP, generating** a turnover of around \$100bn.
4. Recently BNPL systems have exploded in significance, with the number of active users registered to a BNPL provider in Aotearoa New Zealand doubling over the last two years¹. Currently BNPL providers in Aotearoa New Zealand do not need to comply with the Credit Contracts and Consumer Finance Act 2003, but instead are allowed to charge unreasonable **fees to merchants, are exempt from providing adequate disclosure, and don't have** to meet compliance with responsible lending obligations.
5. Retail NZ acknowledges this may create a situation where consumers end up in a poor financial position, and the lack of regulation in the sector poses a threat to business.
6. Retail NZ believes MBIE should increase the scope of its consultation to consider the adverse impacts of a rapidly growing BNPL sector on retailers. At a time where margins are tight and costs are increasing for retailers, the government should be conscious about taking logical steps to reduce the cost of doing business.

Benefits of BNPL systems

7. Retail NZ understands that BNPL systems provide some benefits for merchants, consumers, and the wider economy. We accept BNPL has the potential to generate additional sales and offers businesses low-risk alternative compared to other forms of credit e.g., businesses **don't have to chase up missed payments**.

Financial impact of COVID-19

8. On-going lockdowns and uncertainty associated with COVID-19 have triggered a large downturn in retail spending across Aotearoa New Zealand.
9. **Figures from Stats NZ's most recent Retail Trade Survey (for the September 2021 quarter)** echo this, with the total volume of retail sales tumbling by 8% on the previous quarter, or a loss of \$2.7bn². 12 out of 16 regions included in the survey recorded lower sales values, with Auckland being the biggest loser to the tune of \$1.5bn.
10. With the cost of freight and commercial leases increasing, paired with a significant downturn in retail spending has tightened margins across the sector. Considering such circumstances, the government must do what it can to reduce the cost of doing business.

¹ <https://www.mbie.govt.nz/dmsdocument/17817-discussion-document-buy-now-pay-later-understanding-the-triggers-of-financial-hardship-and-possible-options-to-address-them>

² <https://www.stats.govt.nz/information-releases/retail-trade-survey-september-2021-quarter>

Cost of businesses adopting BNPL

11. As outlined in the consultation document, between 2020-21' up to **82% of all revenue** generated by BNPL providers was by fees charged to businesses.
12. Retail NZ is aware BNPL comes at a much higher cost to the merchant than other payment methods. The fees charged to merchants by BNPL providers can fluctuate anywhere between 4-6% of the transaction, often three times the cost of a standard credit transaction. BNPL providers also ban retailers from surcharging, ensuring the cost of accepting the service remains on the business.
13. A logical first step in addressing the BNPL sector would be to remove the surcharge ban placed on retailers, and to regulate BNPL charges³.

Preferred regulation option

14. As aforementioned in this submission, Retail NZ believes MBIE should broaden the scope of its consultation on the BNPL sector to assess its impact on retailers. While we understand that this potentially covered generally under the Commerce Commission's future regulatory powers under the Retail Payment System Bill, we would suggest this needs explicit action.
15. Retail NZ's recent commentary on the BNPL sector⁴ recommended that surcharge bans are to be dropped, and the idea of fee regulation is explored.

Yours sincerely,

Greg Harford

Chief Executive

Retail NZ

³ The Reserve Bank of Australia (RBA) is currently reviewing the surcharge ban retailers face as part of their review of Retail Payments Regulation.

⁴ As part of our submission on the Retail Payment System Bill.