

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

Your name and organisation

Name	Sarah Matafeo-Ross
Organisation (if applicable)	Te Aroha Family Budgeting Services Inc

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>
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p> <p><i>Not having to pay interest or fees if the repayments are made.</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>N/A</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, new ideas are always emerging when it comes to making money from consumers so this could be limitless unless laws are put into place to prevent this.</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>Absolutely adversely. Many people who currently use BNPL are younger and have never had a credit card. This could be a "gateway" into getting into more debt.</i></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><i>Unequivocally agree. I had one client in particular who used different BNPL companies to purchase items. This totalled 13 different payments of \$278.32 each week. It was impossible for them to keep up these repayments and so for each payment missed, was charged a \$10</i></p>

	<p><i>fee. This debt then also started to mount up. This is the problem when companies do not do credit checks, or ensure that the customer can afford to use the BNPL service, as they may already have multiple purchases putting them into hardship, as my client did above.</i></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><i>Clients have had;</i></p> <ul style="list-style-type: none"> • <i>Multiple BNPL accounts – with different companies, but also multiple purchases with the same company.</i> • <i>Timing of BNPL instalments – something unexpected comes up or they don't realise that the payment due date will clash with say, their monthly power bill / car registration etc.</i> • <i>Unable to afford the BNPL instalments – due to overcommitting themselves</i> • <i>Marketing is extremely powerful and when the cost is broken down into 4, 6 or 10 week payments, looks small. However, when this is used multiple times for many purchases, with no one checking this, it is not so affordable.</i> • <i>Clients have missed payments of say \$5 or so and have been charged \$10 missed payment fees. Sometimes, resulting the fees charged being more than the original purchase price.</i> • <i>With people in our service their circumstances can change very quickly. This puts them into hardship or not able to afford food, power etc at the expense of a retail item bought on BNPL</i>
8	<p>Do you live in a household with multiple BNPL accounts? Yes / No / Prefer not to answer</p> <p>(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><i>Several clients have multiple BNPL accounts and end up in Hardship</i></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><i>A) - Education is is the key here. There is no point in putting a consumer at risk of more debt by not looking at their history.</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>Some people may be declined from using BNPL for the very reason that they wanted to use it in the first place (bad credit rating). However, if manageable this is a good way for some consumers to get a good credit score.</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>
	<ul style="list-style-type: none"> - <i>Communication between themselves to establish a person's affordability</i> - <i>If unsure, refer consumer to a Financial Mentor service</i> - <i>Supplying some sort of app that links all their BNPL accounts so the the consumer can easily see total costs of multiple purchases before they buy</i> - <i>The only disadvantage here would be a cost set up to the providers but as they want the consumers money so badly it would be a responsible step to take</i> - <i>Benefits - It would help reduce the financial harm and hardship that BNPL can cause some people</i>
12	<p>How might affordability assessments be conducted when BNPL credit limits are increased?</p>
	<p><i>Most banks request a Budget Worksheet and details of Debt before lending (whether this is a loan or a credit card). This can bring clients into Financial Mentoring services to help produce a Budget worksheet which clearly demonstrates financial capability. The same steps could be taken before increasing BNPL limits</i></p>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
	<ul style="list-style-type: none"> - <i>Reduction in possibility of Hardship to the consumer</i> - <i>Costs for the BNPL would the time delay in getting the consumers money and the cost of dedicated team to carry these out</i> - <i>Reduction in missed payments, late fees and possible redirection to debt collection which would mean a decrease in revenue for the BNPL companies</i>
14	<p>Are there any other ways to ensure BNPL credit limits are increased responsibly?</p>

	<i>Having a cap on the limit until regular repayments are established, possibly increasing on a sliding scale but this also needs to be reviewed on a regular basis.</i>
15	Are there any other issues with consumers having multiple BNPL accounts that we have not identified?
	N/A
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.
	<i>This would be extremely effective as this would then stop the consumer getting into more debt.</i> <i>BNPL companies may not see this as being practical, but in the long run would benefit them also from having to chase payments and pay debt collection fees.</i>
17	How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?
	<i>The same way that banks share their information – possibly something that consumers “agree to” when they open an account with BNPL</i>
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?
	<i>Privacy issues so would need to be developed and policed well with complete transparency between BNPL companies and their clients. Benefits are that there would be no excuse to put someone further into hardship.</i>
19	What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?
	<i>Asking consumer what day their pay day or benefit day is so that the payment comes out at the same time as probably most of their other expenses.</i>
20	What are the costs (including disadvantages) of such tools and processes? What are the benefits of such tools and processes?
	<i>Unsure what the costs would be? Simply asking the client?</i> <i>Benefits are that clients would have money to pay their instalments.</i>
21	When making BNPL transactions, how could consumers be made more aware of the total costs of their purchases? What are the costs of these tools? What are the benefits of these tools?
	<i>Consumers need to have a running total of their total purchases cost and their weekly</i>

	<p><i>instalments total</i></p> <p><i>No idea what the cost is but sure an app could be developed, or added to the current BNPL apps</i></p> <p><i>Benefits are that consumers can do a self-check if needed to</i></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><i>Personally, most BNPL that I have dealt with have been extremely understanding and very good about waiving fees that are clearly going to put a client into hardship. Also very understanding around waiting to get paid instllments when client clearly has no spare money and have over committed themselves or had a change in circumstances.</i></p>
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><i>Referring them to a Financial Mentoring (budgeting) services to get help as this is a clear sign that they are not coping financially.</i></p> <p><i>No cost to refer – they could work together with Money Talks to ensure this happens.</i></p> <p><i>Consumers would become more Financially capable and could be prospective consumers of BNPL in the future, once they understand about money more.</i></p>
24	<p>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>
	<p><i>It looks fairly close to reality to me, based on my experience with clients, however most of our clients don't have credit cards, hence the use of BNPL</i></p>
25	<p>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>
	<p><i>100% Multiple accounts allow consumers to get a credit limit far beyond their means</i></p>
26	<p>Do you have views on the overall objective of the BNPL sector?</p>
	<p><i>Essentially, it is a good tool to buy items without paying the interest of credit cards – particularly good if people are not disciplined enough to repay credit cards in full each month. However, as with anything if it is abused, or used without any prior education around what could happen then it becomes yet another issue that the consumer / financial mentoring services have to deal with.</i></p>
27	<p>Do you have any views on how the interests of consumers could be protected?</p>
	<p><i>Consistency across all BNPL providers. An efficient and comprehensive affordability assessment is the only way to protect the interest of consumers (such as that found with other lenders / credit companies).</i></p>
28	<p>Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?</p>

	<i>Quarterly reports from the BNPL sector on bad debts / missed payments would provide good insight. Regular assessment of their policies and affordability assessments to ensure that they are achieving the goal of affordability. This could be completed in partnership with the Commerce Commission.</i>
29	Do you have any comments on the discussion of Option One: status quo? Please provide evidence if available.
	<i>Without holding BNPL providers accountable, there seems little point in changing they way that they operate.</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>Consumers would still be at risk of over-committing themselves. BNPL providers would have no incentive to improve the way they operate. I don't see how this could benefit business accepting BNPL as a payment option, as they are paying a fee to the BNPL company but receive the money regardless of the outcome.</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 fact that this option would cost less and be easier to implement than if the Government created it which would be more appealing the BNPL companies. Incentives are always a good thing and would see BNPL companies buying in to the voluntary code. (Providing there are good self-reporting procedures introduced and someone monitors it.)</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>Any cost that would ultimately be passed on to businesses / consumers that can be reduced should be considered.</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>Essentially, a good design is outlined in the discussion document. Including aspects of the CCCFA – initially subjecting the sector to a disclosure requirement, which allows for effective monitoring and exploring of whether other aspects of the CCCFA is required. This should be an evolving process, using feedback from both the BNPL sector, the consumer and Financial Mentoring services.</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>The concern that some of the BNPL providers could leave the market due to the compliance burden is not something that should even be considered. Businesses adapt constantly to comply with Government and industry codes or standards, and this is no different. We need to keep our eye on the prize which is ultimately protecting the consumer. E.g. I believe that</i>

	<i>Hummm from the same group of companies that owns Q card – the money they make would surely be absorbed by the larger group making a lot of money on interest.</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>In association with the Commerce Commission (regarding complaints and enquiries) and ongoing consultation with Financial Mentoring Services.</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>If the number of people with bad debt / bad credit who use BNPL decreases, then it would be fairly easy to see that this is of benefit to consumers. This would be easy to monitor from overall figures collated from Debt Collection companies.</i>

Other comments

	<p>As with anything, the difference between the success of an idea such as BNPL, is ultimately whether it makes a difference on whether it prevents people from getting stuck in the debt trap (such as using pay day loans). However, if consumers are allowed to increase their credit with no affordability assessment then this will turn into yet another debt problem. Having a service such as this with no code, or guidelines is a recipe for disaster as you are relying on the consumer to self-police and many people (as I have demonstrated in this document) are not capable of doing this as they do not have the tools to do so. What seems attractive initially – no interest, small weekly or fortnightly payments - ends up being, in reality, another commitment that they cannot afford and essential costs are unable to be met. Having some sort of accountability for the companies is the ONLY way to stop this from happening – whatever form that takes.</p>
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