

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

## Your name and organisation

<b>Name</b>	Tracey Cross
<b>Organisation (if applicable)</b>	Women in Super

## Responses

Economic regulation	
1	<p>Do you agree with our assessment of what the benefits are from BNPL? (Pg 9)</p> <p>Yes / No / Not sure</p> <p>Are there others? Please provide details.</p>
	<ul style="list-style-type: none"> <li>We note the first benefit suggests it could spread the costs of purchases at peak purchase times. However research also suggests people tend to spend more when using BNPL. Also given payments would all be due at the same time it's likely this would incur fees so this may not be a benefit.</li> <li>Balancing this, for those who can manage BNPL well, with the resurgence of inflation that we haven't seen for years, it may be a good thing to be able to bring purchases forward at today's price and pay off via instalment</li> </ul>
2	<p>As a consumer (or consumer representative), please outline what are the benefits of BNPL?</p>
	<ul style="list-style-type: none"> <li>It is useful for people/women who understand what they are getting into, know how to manage their finances and for those who do not want to have credit cards. Used correctly, it means there is no need to pay interest/fees.</li> <li>Since it is the retailer who pays to have BNPL available, it does not cost the consumer more to use BNPL unless they buy more than they would otherwise. The exception is penalties applied for late payment. We understand with at least one provider (Afterpay) that once you default on a payment, your Afterpay limit is withdrawn and you can't spend any more through it until your outstanding balance is repaid. This would be a benefit for this particular BNPL service.</li> </ul>
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>

4	Do you agree with our assessment of how BNPL will evolve in New Zealand? If not, please provide details. (pgs 10 -11)
	<ul style="list-style-type: none"> <li>• We agree BNPL has potential to disrupt the credit card market. It is being sold as an alternative to credit cards with high fees. This makes it popular with the young and those that don't trust credit card companies. Many young may also not qualify for credit cards.</li> <li>• We have concerns about the sorts of sector developments outlined in the box on page 11. Increased prevalence of BNPL increases the risk of financial hardship of consumers.</li> <li>• Balancing this, we understand through one of our members, that in the case of Afterpay, around 10% of Afterpay's revenue comes from default fees, with the 90% balance from retailers and service providers who offer Afterpay to their consumers. The consumer share has dropped significantly since the early days 5 years ago, suggesting that most consumers understand and use the service as it is intended.</li> </ul>
5	<p>How do you think emerging BNPL business models eg partnerships with credit cards, banks etc. will impact consumers? Please provide details</p> <ul style="list-style-type: none"> <li>• While we note the point that partnerships with credit providers may make it easier to more accurately assess affordability, we are concerned the ability to pay your BNPL with a credit card leaves you exposed to both credit card interest and late payment fees. We note para 48 suggesting 20% of BNPL consumers use credit cards to pay BNPL instalments, and that credit card debt increases risk of additional interest accrual and para 49 which talks about the correlation between BNPL and credit card arrears.</li> </ul>
6	Do you agree or disagree with our summary of the types of financial hardship that could occur from BNPL? Please provide details (pgs 14-15)
	<p>Yes. We note with concern para 40's point that there is a higher percentage of BNPL customers in arrears in comparison to personal loan and credit cards.</p> <p>Importantly we also note women are likely to be disproportionately affected:</p> <ul style="list-style-type: none"> <li>• Women are higher users of BNPL</li> <li>• BNPL provider recognise that women are shoppers (for themselves for their households) and appear to be disproportionately targeting women. Advertising is extensive (multiple channels (particularly social which is more used by women) as well as in stores) and plays on familiar 'female' notions such as 'treat yourself'.</li> <li>• As the consultation notes, BNPL providers use 'framing' to focus on instalments not the total cost. Given women's lower financial knowledge (which may mean they don't recognise the total cost) they are again more likely to spend beyond what they can afford. Seemingly small dollar amounts can trick people into spending more than they should – this can be very manipulative.</li> <li>• Women tend to be worse-off financially than men in the first place (gender pay-gap, long-term investment gap, more likely to take time off to care for children or elderly).</li> <li>• With less financial awareness, lower incomes, and less financial choices, women are often financially challenged and are trying to juggle tight family budgets. So they are</li> </ul>

	<p>at risk of being financially disadvantaged by BNPL schemes.</p> <ul style="list-style-type: none"> <li>In influencing the young, and particularly women, we are concerned at the potential to set up bad life-long patterns – not saving, but buy now, pay later. This is contrary to decades of research showing the positive impact of reducing debt and building savings on improving financial wellbeing.</li> </ul>
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"> <li>You had multiple BNPL accounts</li> <li>Your credit limits were increased beyond what you could afford</li> <li>Because of the timing of your BNPL instalments and other expenses</li> <li>Because as a household, you were unable to afford the BNPL instalments</li> <li>You focused on the first payment rather than the total cost of the product or service</li> <li>You responded to BNPL marketing and as a result purchased more than you could afford</li> <li>You missed an instalment and faced missed fees (default fees)</li> <li>Your circumstances changed (e.g. change in employment) and you were no longer able to afford the instalments</li> <li>Other</li> </ul>
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>
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 <b>OR</b></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>
10	<p>What are the advantages and disadvantages (including costs) from credit checks being used to determine approval for BNPL? (pg 17)</p>
	<p>We believe there should be a measure to assess ability to repay the loan but do not</p>

	<p>have views on whether a hard or soft credit check is better.</p> <p>We do not have access to data on whether women tend to have higher or lower credit scores, although we understand there is some evidence women tend to have slightly higher credit scores (refer Rob Stock article: <a href="https://www.stuff.co.nz/business/117345400/how-buy-now-pay-later-became-sexist">https://www.stuff.co.nz/business/117345400/how-buy-now-pay-later-became-sexist</a>)</p> <p>Requiring credit checks might be a useful counter-balance to the tendency for BNPL users to over-spend – it might stop the ‘fast/automatic thinking’ that very quick approvals could lead to.</p> <p>We think it might be helpful for MBIE to request further information on any gender differences in credit scores when considering future regulatory settings.</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> <ul style="list-style-type: none"> <li>Providers should not be able to automatically increase spending limits without Consumer request/consent and without affordability checks.</li> </ul>
13	<p>What are the costs and benefits of conducting affordability assessments when BNPL credit limits are increased?</p>
14	<p>Are there any other ways to ensure BNPL credit limits are increased responsibly?</p> <ul style="list-style-type: none"> <li>We already have concerns about banks’ ability to do automatic increases in credit cards. We likewise have significant concerns that BNPL providers can automatically increase consumers spending limits. We would prefer this not be allowed, or be controlled in some way.</li> </ul>
15	<p>Are there any other issues with consumers having multiple BNPL accounts that we have not identified?</p> <ul style="list-style-type: none"> <li>A consumer might not be eligible for a credit card limit of \$2,000, but can have 4 BNPL accounts each of \$500 – which allows them ‘credit’ of \$2,000.</li> <li>The ability to set up multiple accounts creates an issue in people setting up accounts very easily, with little thought, then losing track of what accounts they have and the payments required. Maybe there should be a limit on the number of accounts or a better way of an individual tracking their spending.</li> </ul>
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>
17	How could information about consumers having multiple BNPL accounts be appropriately shared across the BNPL sector?
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>
19	What tools and processes could be introduced for the timing of BNPL instalments to be better aligned to income and other expenses?
	<p>We agree with the consultation document suggestion that there would be benefits in all BNPL providers working flexibly with consumers to allow them to amend the timing of instalment payouts. This could be of particular benefit to women who run household finances and who are already used to juggling money.</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>
	As above.
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>
	<ul style="list-style-type: none"> <li>We strongly believe there should be some onus on BNPL providers to provide financial education or tools to help consumers understand how to manage BNPL effectively. We believe there is an element of providers creating a product then leaving the negative consequences as an issue for others to deal with.</li> </ul>
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?
23	<p>How could BNPL providers be more responsive to consumers relying on BNPL to pay for essential goods and services? (pg 23)</p> <p>What are the costs of these tools?</p> <p>What are the benefits of these tools?</p>

	<p>We agree with the idea in the consultation document of alerting consumers who regularly use BNPL for essential services to provide these consumers with access to financial mentoring services. We note a similar prompt was requested (and many providers implemented this voluntarily) when KiwiSaver hardship withdrawal requests rose steeply during the first lockdown.</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? (pgs 23,24)</p>
	<p>We agree with the triggers and features to help mitigate. Requirements for making the customer reasonably aware of the full cost, and responsible advertising could particularly benefit women for the reasons set out in our answer to Q6.</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>
	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
26	<p>Do you have views on the overall objective of the BNPL sector? (pg 25)</p>
	<ul style="list-style-type: none"> <li>• We note the objective addresses confident and informed participation, but fails to recognise the known issues of poor financial literacy and financial wellbeing.</li> <li>• Government’s own research shows reducing debt and increasing savings can be key drivers of improving wellbeing.</li> </ul>
27	<p>Do you have any views on how the interests of consumers could be protected?</p>
	<p>We suggest most consumers are probably not aware of specific protections, but would assume that since BNPL is a financial product that it would be subject to the same protections as any other financial product.</p> <p>We note a goal of having a transparent sector. We are not aware of any independent tools to help consumers compare and contrast BNPL providers. Transparency of the risk factors and potentially of relative amounts of late payment fees being charged would give consumers some insight into how manageable (or otherwise) BNPL is.</p> <ul style="list-style-type: none"> <li>• We note the government has put in significant effort with CCCFA controls around affordability, but risks growing the same issues in BNPL unless such schemes are held to the same principles.</li> <li>• We note we haven’t dealt with current financial literacy issues in NZ. Allowing this space to continue unregulated is likely to create more issues.</li> </ul>
28	<p>Do you have any views on the criteria used to assess how to achieve an effective BNPL sector?</p>
29	<p>Do you have any comments on the discussion of Option One: status quo? Please provide</p>

	evidence if available. (pg 27)
	<ul style="list-style-type: none"> <li>We do not agree with the status quo.</li> </ul>
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.
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. (Pg 28)
	<ul style="list-style-type: none"> <li>We believe Option Two is a good first step.</li> </ul>
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.
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. (Pg 29)
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.
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
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.

## Other comments

--	--