



Buy-Now, Pay-Later Project Team  
Ministry of Business, Innovation and Employment  
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15 December 2021

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

Dear Sir/Madam

Envestnet | Yodlee welcomes the opportunity to make a submission on the *MBIE Discussion Document, Buy-Now, Pay-Later: Understanding the triggers of financial hardship and possible options to address them*.

Please find attached our submission.

This submission is from:

Envestnet | Yodlee Australia and New Zealand

We can be contacted at:



## Investnet | Yodlee submission on Discussion Document: Buy-Now, Pay-Later: Understanding the triggers of financial hardship and possible options to address them

### Executive Summary

The growth of Buy-Now, Pay-Later (BNPL) firms is a sign of a global financial ecosystem experiencing an unprecedented period of innovation and disruption. Fuelled by venture capital, technological advances, and the accelerating adoption of mobile and online shopping, the impact of BNPL on New Zealand must not be downplayed.

As outlined in your discussion document, BNPL offers benefits retailers, consumers, and the economy through increased competition. We would suggest that the growth of local BNPL firms is an example of further economic benefit. These firms create jobs and wealth as they expand both locally and internationally.

However, BNPL's opportunities do not come free of risk. The rapid adoption of BNPL has added millions to the private debt that New Zealand consumers carry. Managed responsibly, this isn't an issue. But with widespread proliferation comes the increased possibility of unintended, negative consequences.

Investnet | Yodlee believes that effectively addressing these risks means having access to accurate, real-time financial data. Traditional credit checks, be they 'hard' or 'soft', provide a level of insight to lenders. However, they're expensive, often cumbersome, and only ever a look at what *has* happened in an applicant's financial past.

Traditional credit checks typically don't shed light on what is happening *right now*, and as such their predictive ability is limited. Every borrower who ends up in financial difficulty was once a great applicant.

Today, technology like that provided by Investnet | Yodlee can quickly and cost-efficiently provide a complete, accurate, and real-time financial picture of the borrower. This means that BNPL firms can use technology like ours today to "easily request, and swiftly receive consumer financial data" to enable improved lending decisions. They need not wait for CDR to be legislated and implemented.

Our technology leverages flexible, consumer-permissioned, and secure data acquisition that enables financial service providers to generate a comprehensive report which includes income and expense summaries. It also helps to identify key credit risk and lifestyle factors, such as whether applicants have children, regularly eat out, pay their bills on time, pay large amounts of interest on their credit card, or whether they have other BNPL facilities.

We are not the only company that provides this kind of service in New Zealand and Australia. It goes without saying that we think we're the best. But the data aggregation and intelligence industry is a mature and exciting one, equipped to provide lenders with the intelligence for better decision making.

The key for New Zealand's approach to Buy-Now, Pay-Later is to understand that much of the promise offered by a fully implemented consumer data right, or functioning open banking system, is already achievable.

Globally, we work with nearly 108,000 advisors and more than 6,000 companies including: 17 of the 20 largest U.S. banks, 46 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs and hundreds of FinTech companies, leverage Investnet | Yodlee technology and services that help drive better outcomes for enterprises, advisors, and their clients.

We welcome the opportunity to contribute to the development of a vibrant, responsible BNPL industry in New Zealand.

## INTRODUCTION

Envestnet | Yodlee welcomes the opportunity to make a submission on the MBIE Discussion Document, Buy-Now, Pay-Later: Understanding the triggers of financial hardship and possible options to address them.

In our submission we will address:

- The benefits and risks of Buy-Now, Pay-Later (BNPL)
- The potential evolution of BNPL
- The opportunities available to address them
  - Traditional options
  - Real-time options
- The promise of consumer data right and open banking
- An overview of Envestnet | Yodlee

## THE BENEFITS AND RISKS OF BUY-NOW, PAY-LATER

### Benefits

1. We agree with your assessment of the benefits of BNPL as outlined in your discussion document. It is clear from the consumer satisfaction scores that New Zealanders value what BNPL firms offer. Compared to credit cards, traditional in-store financing, personal loans, or other ways to finance purchases, BNPL is easy to understand, structured around individual purchases, and comes without interest and, in most cases, account fees.
2. Businesses accepting BNPL clearly value the competitive advantage that offering their consumers this purchase option provides. Put simply: if this weren't the case, businesses wouldn't offer BNPL.
3. The extra competition is clearly a benefit for the economy. It should lead to more innovation and lower costs of financing for consumers and businesses alike, as you've outlined. In addition to increased competition, the New Zealand economy stands to benefit from the job and wealth creation as local BNPL firms grow in New Zealand and internationally.
4. New Zealand's financial technology (fintech) sector plays an important role in our economic performance. This is a highly productive, low carbon emission sector. Successful firms add to our reputation as a country that fosters innovation. It's vital that we continue to foster this and don't stifle the innovation that BNPL represents.

### Risks

5. We agree with your summary of the types of hardship that could occur from BNPL. This includes those triggered by a missed instalment fee, and hardship that occurs without a missed instalment.
6. Your assessment of the risks associated with consumers having multiple BNPL accounts does not recognise the psychological risk factor that comes from accounts potentially being out of sight.
7. In our experience, consumers with multiple debt facilities from different providers are more likely to experience hardship. Our experience suggests that this arises from consumers not accurately assessing their current obligations when they don't have a consolidated view of their financial situation. For example, consumers who only have single BNPL facility are more likely to have a conscious understanding of their upcoming payments, than a consumer who has several BNPL facilities active.
8. This effect is likely to be exacerbated when combined with the influence BNPL has on consumer purchasing behaviour, particularly in relation to consumers focusing on initial instalments rather than total cost.

9. Investnet | Yodlee powers many personal financial management (PFM) applications, providing the ability to connect multiple financial relationships within a single view. A good example is AMP Wealth in New Zealand where one of the key benefits of this application is not only providing AMP Wealth consumers with the ability to view all their financial information in one place, but also helping customers make better financial decisions.

## **THE POTENTIAL EVOLUTION OF BUY-NOW, PAY-LATER**

10. Investnet | Yodlee agrees with the majority of MBIE's assessment of how BNPL will evolve in New Zealand. We see credit card providers offering BNPL services accelerating the rate at which BNPL becomes a payment method expected by consumers, rather than a point of difference.
11. As this happens, we would expect to see either a consolidation of BNPL firms through mergers, acquisitions, or exits. Alternatively, BNPL firms may adapt their models to specialise in certain verticals (travel, or health, for example), or to provide other forms of lending such as loans or longer-term point of sale financing, comparable to traditional 'hire purchase'.
12. We agree with your observation of the opportunity presented by consumer data right. Enabling individuals to share their financial data with BNPL firms would improve decision making. While the consumer data right (CDR) will support this, BNPL firms can today easily request and swiftly receive secured consumer financial data – they need not wait for a CDR framework to be legislated and implemented.
13. BNPL being offered by, or in partnership with, banks risks creating a competitive disadvantage for the BNPL firms that remain independent. Banks have access to more data about their customers financial situation. This information advantage could allow them to offer better pricing to retailers or additional benefits to consumers. BNPL firms without access to this data would struggle to compete. Such concentration would ultimately make the BNPL market less competitive, disadvantaging consumers and businesses.
14. A vibrant, competitive financial ecosystem relies on consumers having the right to access and use their financial data as they see fit. Data portability through aggregation or an eventual consumer data right framework could reduce the advantages that some incumbents hold, to the benefit of consumers, businesses, and the wider economy.

## **THE OPPORTUNITIES AVAILABLE TO ADDRESS THESE RISKS**

### **Credit checking**

15. Hard credit checks can be costly and impact the viability of BNPL models. They could also feasibility limit consumer access to BNPL offerings without the likelihood of hardship being high.
16. Soft credit checks could identify those at risk of financial hardship through low scores but will not provide a signal to other BNPL providers that these checks have been carried out.
17. In both instances credit checks only look at what has happened in an applicant's financial past. These credit checks don't generally shed light on what is happening *right now*, and as such their predictive ability is limited. Every borrower who ends up in financial difficulty was once a great applicant.
18. Consumers with low or no credit history, those with low risk past defaults, etc. could potentially maintain an appropriate BNPL facility. In these cases, BNPL facilities may represent a low-risk, accessible way for a consumer to rehabilitate their credit score. Relying purely on credit checking may deny consumers this option.

### **Affordability/real-time assessments**

19. Affordability assessments based on real-time consumer financial data are likely to be a far more effective tool in the responsible provision of BNPL facilities.
20. These affordability assessments can be cumbersome if conducted without the ability to easily request, and swiftly receive, real-time consumer financial data. In this situation the cost in terms of time, technology, and a reduction in applications would have a significant impact on the BNPL provider.
21. Real-time data assessments importantly provide an easy way for BNPL firms to periodically re-assess a consumer's limit, to ensure that their circumstances haven't changed in such a way as to make the limit inappropriate. This could happen when credit limits are being increased, but also when the consumer's behaviour signals a review is appropriate. For example, a consumer frequently using BNPL for essentials over a 14-day period could trigger a review of their affordability position.

### **Further possibilities provided by real-time assessments**

22. Data aggregation and intelligence solutions can identify whether a consumer utilises multiple BNPL services. There is no need to share private financial information across the sector, as each BNPL provider can assess a consumer's entire financial position individually, with that consumer's permission. This means consumers retain control of their data, rather than it being distributed without their permission.
23. These solutions can be used to check balances before a payment is requested/processed. For example, Investnet | Yodlee's Balance Verification product could foreseeably allow a BNPL provider to check a customer's balance the day before processing a payment. If that revealed a lack of funds, the BNPL provider now has options to intervene, allowing the consumer to transfer funds from another account, or discussing other interventions that could alleviate the impact of any eventual financial hardship.
24. As data aggregation solutions would reveal insights about a consumer's income timing, it is therefore possible that BNPL providers could automatically determine the ideal time to charge each instalment to reduce the likelihood of financial hardship due to missed payments.

### **Summary of real-time assessments**

25. The assessments that can be achieved through consumer-permissioned, secure data aggregation and intelligence solutions, such as those offered by Investnet | Yodlee, offer an easy and quick way for BNPL providers to learn more about their current or potential customers. While you may not use them for every application, they can be highly effective to tell you more about customers as certain thresholds are met. Importantly, Investnet | Yodlee achieves this safely, with the consumer's permission, every time.
26. As addressed above (point 12), BNPL firms could today easily request and swiftly receive consumer financial data – they need not wait for a CDR framework to be legislated and implemented. The solutions provided by Investnet | Yodlee and others make this possible in New Zealand today.

## **THE PROMISE OF CONSUMER DATA RIGHT AND OPEN BANKING**

27. Your discussion document covers what a functioning consumer data right or open banking system would mean for lending decision making, based on access to consumer financial data. It is encouraging to see the benefits of a consumer data right being referenced in this document.
28. Investnet | Yodlee operates globally, including being an Authorised Active Data Recipient and Intermediary under Australia's Consumer Data Right.
29. We firmly believe that a fully developed Consumer Data Right will lead to a more vibrant, competitive New Zealand economy, with positive outcomes for consumers and businesses. Reaching this point is likely to

take a period of years. We do not have visibility of any timelines but based on international experience this is not a quick or simple journey to go on.

30. For almost 20-years, Envestnet | Yodlee has pioneered data aggregation and intelligence around the world. We strongly encourage BNPL providers and regulators in New Zealand to consider what data-sharing solutions exist today, that can realise some of the benefits alluded to in this discussion document.

## **CONCLUSION**

This discussion document has done a good job of covering the New Zealand Buy-Now, Pay-Later sector. We note the forward-thinking approach of looking at how the sector may evolve, and how consumer data right could influence the space.

We believe that it is in the best interests of all stakeholders in the BNPL sector to ensure that these facilities are offered responsibly. With that in mind, we support Option Two with the Government establishing appropriate incentives for BNPL providers to have an industry code which addresses the triggers of financial hardship.

No one, least of all BNPL providers, wants to see New Zealand consumers experiencing financial hardship. Option Two does the best job of recognising this and balancing the benefits of continued innovation in the financial sector, with the duty of care that BNPL firms have to their customers. The costs of adhering to such a code are unlikely to impede business models or result in reduced competition.

## **OFFER OF ONGOING SUPPORT**

Envestnet | Yodlee is keen to support work in this space, and in the evolution of responsible lending practises in New Zealand. We look forward to engaging with the MBIE team on the next steps.

## **ABOUT ENVESTNET | YODLEE**

Envestnet | Yodlee refers to the family of operating subsidiaries of the public holding company, Envestnet, Inc. Envestnet | Yodlee is transforming the way financial advice and wellness are delivered. Our mission is to empower advisors and financial service providers with innovative technology, solutions, and intelligence to make financial wellness a reality for everyone. Nearly 108,000 advisors and more than 6,000 companies including: 17 of the 20 largest U.S. banks, 46 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs and hundreds of FinTech companies, leverage Envestnet technology and services that help drive better outcomes for enterprises, advisors, and their clients.

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