

23<sup>rd</sup> December 2023

Consumer Credit Unit  
Financial System Division  
Treasury

**Submission to Treasury options paper: *Regulating Buy Now, Pay Later in Australia.***

Submitted via email: [CreditReforms@treasury.gov.au](mailto:CreditReforms@treasury.gov.au)

Thank you for the opportunity to provide comment on the Options Paper *Regulating Buy Now, Pay Later in Australia.*

The Consumer Policy Research Centre supports the Joint Consumer Submission to the consultation and strongly recommends Treasury adopt Option 3 as outlined in the *Options paper* – to regulate Buy Now, Pay Later under the *National Consumer Credit Protection Act (2009)*.

As part of our submission, we have included analysis of consumer experiences with BNPL loans in our Victorian Consumer Survey (see our insights report *Buy now... pain later?* attached). Key findings from our research include:

1. **Multiple loans multiply the risk to consumers:** Three quarters of BNPL users had more than one BNPL loan *concurrently* in the last 6 months, 7% reported they took out more than 10 BNPL loans *concurrently* in the last 6 months.
2. **BNPL now rivals established and regulated forms of credit as a driver of payment difficulty:** Though it is still a relatively new form of (unregulated) credit, our survey found a similar rate of payment difficulty compared with regulated forms of credit (personal loans and credit cards) among the broader population.
3. **Regulated consumer safeguards are needed:** Among those who took out a BNPL loan in the last 6 months, approximately one in five sought payment assistance (20%) or had to miss a repayment (18%).
4. **BNPL usage is high among those with no savings buffers:** 62% of those taking out a BNPL loan couldn't raise more than \$2000 in an emergency (vs 39% of the total sample). 30% reported they couldn't raise \$500 (vs 14% of the total sample).
5. **BNPL users are experiencing financial vulnerability and stress:** in the last 6 months, one in five BNPL users in Victoria (22%) went without a meal to due costs (vs 9% of total sample) and one in three (35%) BNPL users delayed a medical appointment (vs 15% of total sample).

Our research demonstrates a clear need to regulate BNPL providers like other forms of regulated credit.

Yours Sincerely,



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Erin Turner  
CEO, Consumer Policy Research Centre



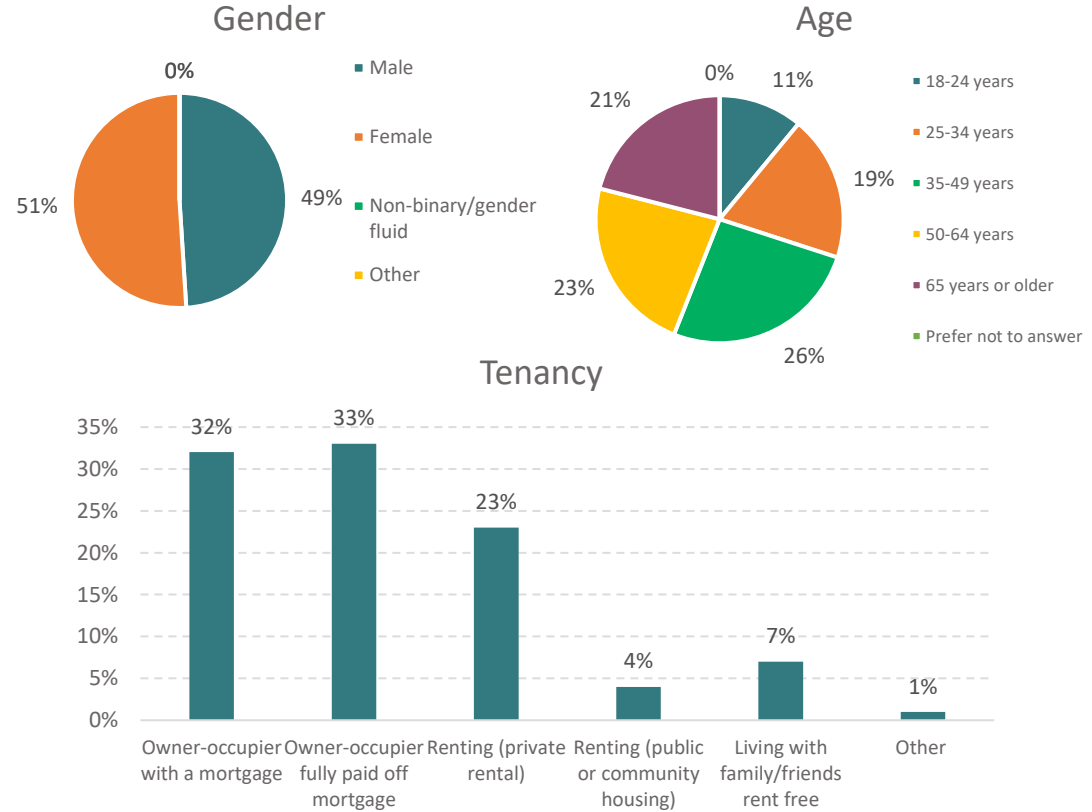
**The experience of Victorian consumers  
with Buy now, pay later loans**

# Key findings

- Our findings highlight the precarious financial situation and poor financial wellbeing of many Victorians using BNPL products.
- Three quarters of BNPL users had more than one BNPL loan concurrently in the last 6 months, which increases the possibility of financial difficulty.
- Though it is still a relatively new form of credit, a similar proportion of consumers reported payment difficulty for BNPL loans as they did personal loan/credit cards.
- Approximately one in five Victorians who took out a BNPL loan in the last 6 months sought payment assistance (20%) or had to miss a repayment (18%). Payment difficulty was more widespread among younger consumers and families.
- Our data demonstrates consumers taking out BNPL loans in the last 6 months are at real risk of, or already experiencing, significant financial stress. In particular:
  - 62% couldn't raise more than \$2000 in an emergency (compared with 39% of the total sample).
  - 40% borrowed money from friends or family (compared with 13% of total sample)
  - 22% went without a meal to due costs (compared with 9% of total sample)
  - 35% delayed a medical appointment (compared with 15% of total sample)

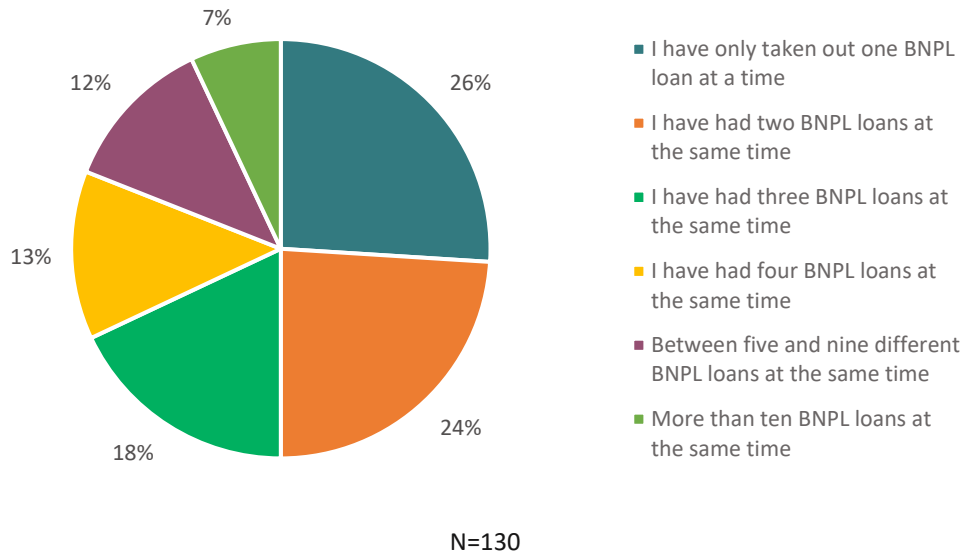
# Methodology

- This snapshot constitutes a short insight reports from CPRC's Victorian Consumer Survey.
- Data collection was conducted by CPRC, using Ipsos' Digital Platform with a survey of 1,500 Victorian consumers between November 21<sup>st</sup> and 24<sup>th</sup> 2022.<sup>1</sup>
- The data has been weighted to ensure it is representative of the Victorian population using age and gender figures from the 2021 ABS census data.
- In key questions relating to financial behaviours, our survey found 8% of our total sample of Victorian consumers took out a BNPL loan in the last 6 months. This is the primary respondent cohort for our analysis in this report. However, we also found 19% of our sample took out a BNPL loan in the last 12 months in questions exploring to ACL issues. We have not used this figure for further analysis to allow for comparability with other questions.
- For more information or to request a briefing on this research, please contact Senior Policy and Research Manager, Ben Martin Hobbs at [ben.martinhobbs@cprc.org.au](mailto:ben.martinhobbs@cprc.org.au).



# Prevalence of buy-now-pay-later loans

## Number of BNPL loans taken out concurrently - last 6 months



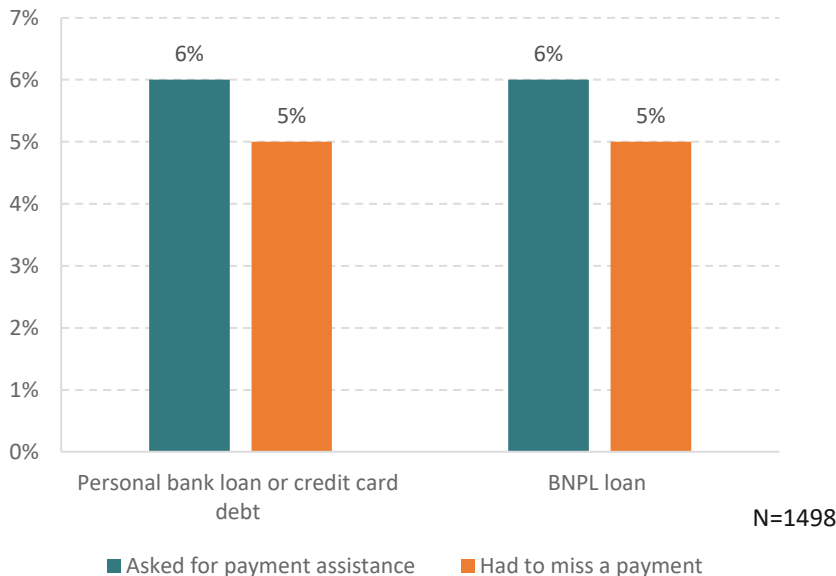
BNPL providers aren't required to conduct credit checks of outstanding debt, enabling consumers to take out concurrent BNPL loans. Among those taking out a BNPL loan in the last 6 months, our research found only a quarter (26%) of consumers took out a single BNPL loan. Our research found:

- almost a quarter (24%) took out two BNPL loans at the same time
- 18% took out three BNPL loans at the same time
- 13% took out four BNPL loans at the same time
- 12% took out between five and nine BNPL loans at the same time
- 7% took out more than ten BNPL loans at the same time

A lack of BNPL regulation – particularly around responsible lending obligations - enables consumers to take on more debt than they can afford through multiple loans with different BNPL providers. Absent a credit check, these multiple loans multiplies the risk to individuals - creating high potential for financial hardship.

# Payment difficulty in the last 6 months

Payment difficulty in the last 6 months –  
personal or credit compared with BNPL loans (all  
respondents)



Our research found the proportion of consumers reporting a payment difficulty with a BNPL loan is comparable rates to credit cards or person loans.

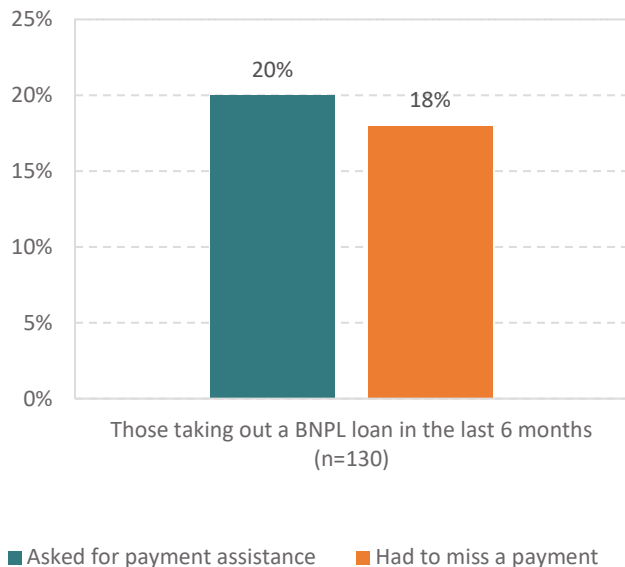
In the last 6 months, 6% of Victorians sought payment assistance from their BNPL provider and 5% had to miss a payment. Our survey found the same proportion seeking assistance for personal loans and credit card debts (6%) and missing credit repayments (5%).

Some BNPL providers voluntarily adhere to self-regulation through an industry developed code of conduct, with limited oversight from the financial regulator. However, other BNPL providers are not even signatories to this “light touch” industry regulation.

While it is difficult to directly compare size of markets, this finding highlights how widespread payment difficulty relating to BNPL loans is among consumers. BNPL now rivals established and regulated forms of credit as a driver of payment difficulty. Far from being a fringe payment method, it is core credit and needs to be treated as such.

# Payment difficulty in the last 6 months

Payment difficulty of consumers taking out BNPL loan in the past 6 months



Further analysis of those taking out a BNPL loan in the last 6 months highlights how widespread payment difficulty for this kind of informal credit.

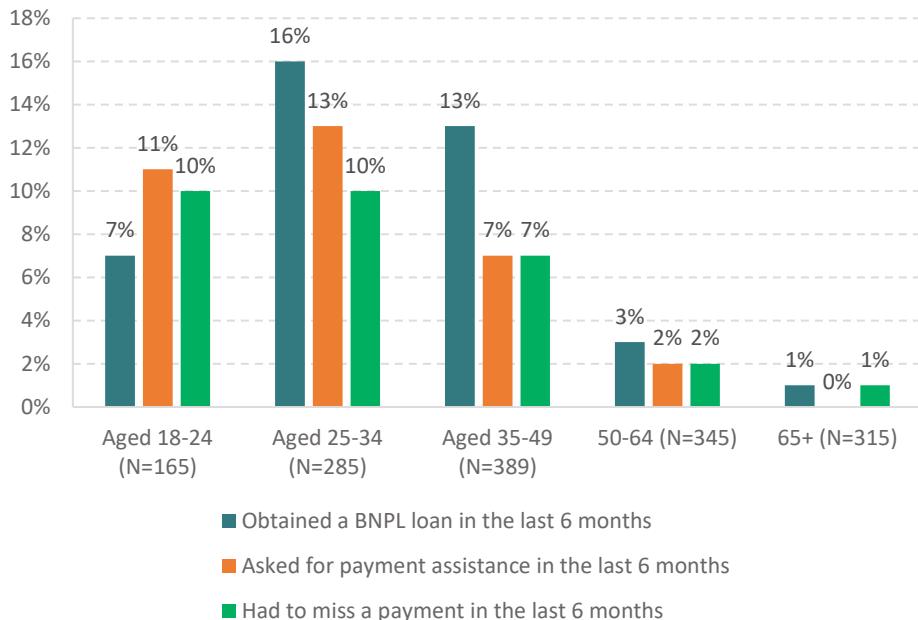
Our survey found one in five Victorians (20%) who took out a BNPL in the last 6 months asked for payment assistance and nearly one in five (18%) had to miss a payment – and therefore would incur a fee.

The rate of payment difficulty among those taking out BNPL loans points to significant affordability issues among BNPL consumers.

The incidence of payment difficulty with the group taking out a BNPL loan demonstrates the need for a consumer protection framework and supports that are at least commensurate with other forms of regulated credit.

# Higher prevalence of BNPL loans and payment difficulty among younger consumers

BNPL use and payment difficulty - by age



\*Note our data indicates 17% of those aged 18-24' took out a BNPL loan in the last 12 months.  
Payment difficulty may reflect loans from the previous 6 months

Our research found a higher proportion of consumers in younger age bands took out BNPL loans compared with consumers in older age bands, notably 16% of those aged 25-34 and 13% of those aged 35-49.

This may reflect easier access to this unregulated form of credit compared forms of credit that require credit checks.

Our research also found a higher proportion of consumers in younger age bands reporting payment difficulty with BNPL loans compared with older cohorts. In the last 6 months:

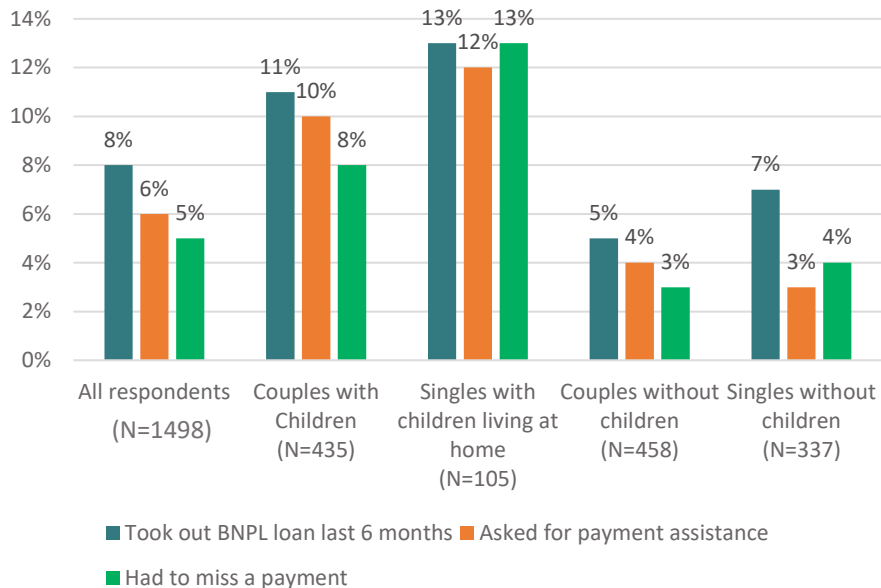
- 11% of those aged 18-24 sought payment assistance and 10% missed a payment.\*
- 13% of those aged 25-34 years sought payment assistance and 10% missed a payment.
- 7% of those aged 35-49 sought payment assistance and 7% missed a payment.

The high rate of payment difficulty among younger consumers indicates consumers without capacity to pay being enabled to access debt they cannot afford to repay by BNPL providers. Again, this highlights the need for thorough affordability assessment through responsible lending regulation.



# High prevalence of families using BNPL loans

BNPL loans and payment difficulty - by household composition



Analysis by household composition indicates a higher proportion of families – single parents or couples with children living at home – reported taking out a BNPL loan in the last 6 months compared with other kinds of household composition (see chart left). In the last 6 months, BNPL loans were taken out by:

- 13% of single parents with children living at home
- 11% of couples with children living at home
- 7% of singles without children
- 5% of couples without children

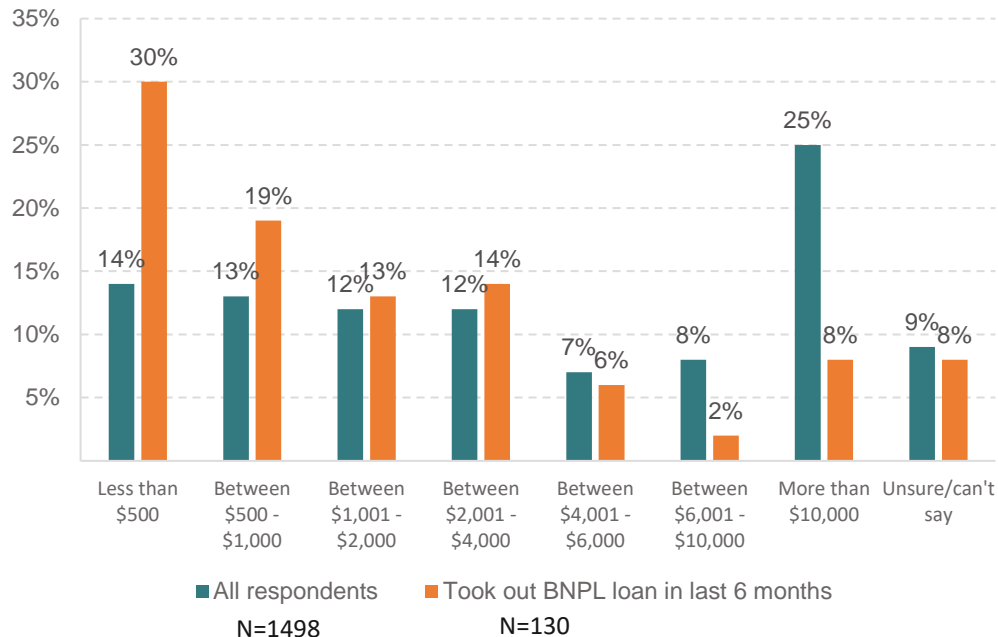
Our data also demonstrates key differences between household compositions reporting payment difficulty. In particular

- 12% of single parents with children living at home reported asking for assistance and 13% reported they had to miss a payment
- 10% of couples with children living at home reported asking for assistance and 8% reported they had to miss a payment
- By comparison, 3% of single people without children asked for payment assistance and 4% had to miss a payment. Among couples without children, 4% asked for payment assistance while 3% had to miss a payment

These findings raises questions about the assumption that BNPL is used for non-essential spending. It suggests BNPL is being used by young families as a core form of credit or cashflow management this again suggests a clear need for regulatory oversight and for providers to adhere to responsible lending obligations.

# Financial wellbeing of BNPL customers

## Ability to raise finance for unexpected expense



Being able to raise \$2000 in an emergency has been identified as an indicator of financial vulnerability.<sup>1</sup> Our research shows Victorians taking out BNPL loans in the last 6 months have significantly less ability to raise funds in an emergency compared with the broader population:

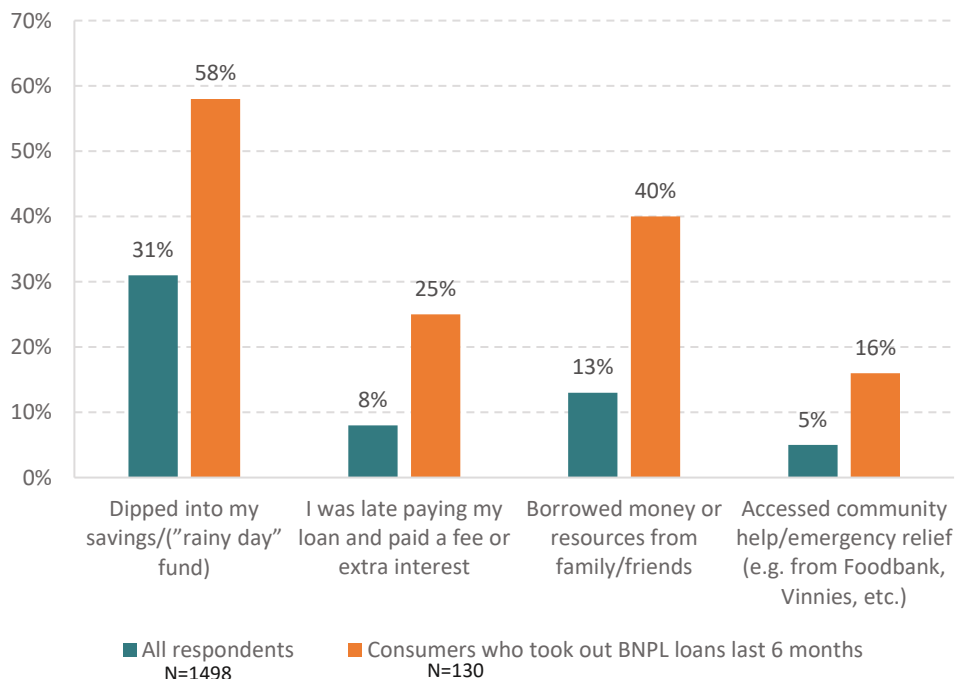
- 30% of people who took out a BNPL loan in the last 6 months reported they couldn't raise \$500 in an emergency, compared with 14% of the broader population.
- A further 19% reported they would only be able to raise between \$500-1000 if faced with a large unexpected expense compared with 13% of all respondents.

Our data shows the majority of Victorians who are taking out BNPL loans have significantly less ability to raise emergency funds than the broader population – which is strongly indicative of lower capacity to repay debts. This finding suggests the target market of BNPL providers is vulnerable consumers.

<sup>1</sup> Australian Bureau of Statistics, *Household Financial Resources*, June 2020 available - <https://www.abs.gov.au/statistics/economy/finance/household-financial-resources/jun-2020#financial-stress-and-behaviours>

# Financial wellbeing of BNPL customers

“Financial difficulty” wellbeing indicators



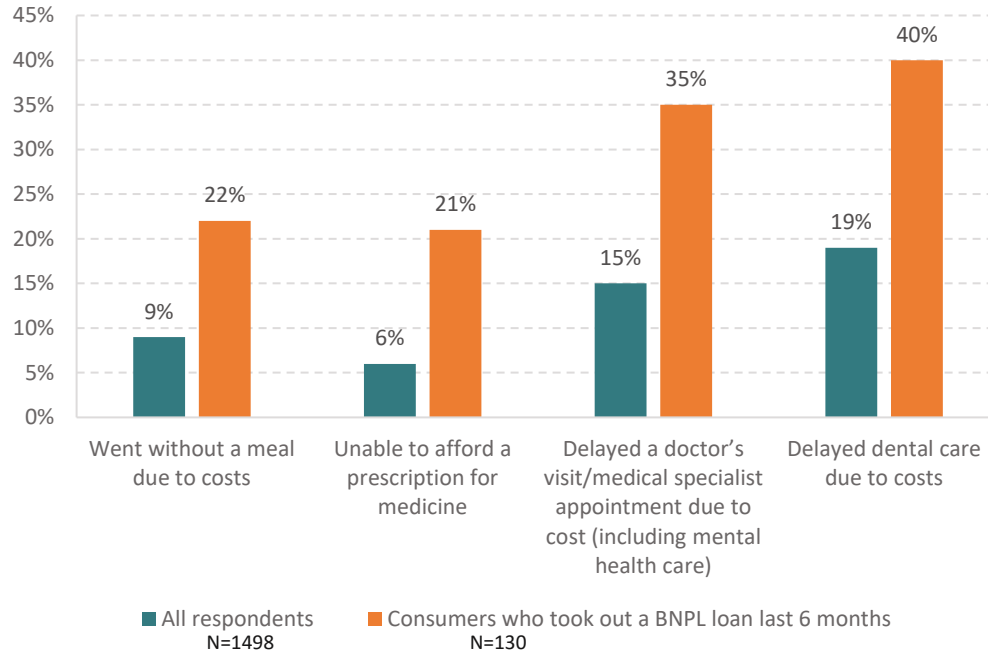
A larger proportion of people who took out a BNPL loan in the last 6 months took a range of actions – considered indicators of poor financial wellbeing - to manage their finances compared with the broader population:

- 58% of BNPL consumers dipped into their “rainy day fund” compared with the 31% of the broader population
- 40% of BNPL consumers borrowed money from family/friends, three times the rate of the broader population (13%)
- 25% of BNPL consumers were late paying back a loan and paid a fee or extra interest, at three times the rate of the broader population (8%)
- 16% of BNPL consumers accessed community help/emergency relief, at three times the rate of the broader population (5%).

These findings highlight poor financial wellbeing among consumers taking out BNPL loans, taking actions at twice or even three times the rate of the broader population.

# Financial wellbeing of BNPL customers

## "Acute financial stress" wellbeing indicators



A larger proportion of those who took out a BNPL loan in the last 6 months took a range of actions – considered indicators of poor financial wellbeing - to manage their finances compared with the broader population:

- 22% of BNPL consumers went without a meal due to costs, twice the rate of the broader population (9%)
- 21% of BNPL consumers reported they were unable to afford a prescription for medicine, compared with 6% of the broader population.
- More than a third (35%) of BNPL users delayed a doctor or medical specialist appointment due to cost, compared with 15% of the broader population.
- And 40% of BNPL users delayed dental care due to costs compared with the total respondent sample (19%).

These findings demonstrate a significant proportion of BNPL users are at real risk of, or already experiencing, significant vulnerability and financial difficulty – going without meals, medicines or medical care to make ends meet.

# Discussion and recommendations



BNPL is a form of credit and should be regulated in the same way as other credit products. BNPL providers should be subject to the relevant provisions of the *National Consumer Credit Protection Act 2009*.



## **Multiple loans multiplies the risk to consumers**

Our research shows the majority of BNPL consumers in Victoria take out multiple loans at the same time. Where providers aren't required to conduct credit checks, consumers can find themselves paying fees on multiple loans, potentially resulting in consumers being financially overcommitted or in a debt spiral.



## **High proportion of BNPL customers are already experiencing financial vulnerability**

Our data indicates the majority of BNPL users have very little capacity to raise emergency finance at short notice. This raises real questions around the affordability of BNPL loans offered to consumers.

Our data also demonstrates that consumers with BNPL loans are experiencing higher rates of financial vulnerability. Twice as many BNPL consumers went without meals, medicine and medical care to manage household expenses compared with Victorians overall.

## Discussion and recommendations cont...



### **A stronger, regulated consumer safeguards regime with minimum standards for payment difficulty supports is required**

Our research found one in five of those who took out a BNPL sought payment assistance from their provider or had to miss a payment. Stronger, regulated consumer safeguards are required, to ensure there are adequate support measures for consumers in payment difficulty.



### **BNPL now rivals established and regulated forms of credit as a driver of payment difficulty**

While the size of the BNPL market may not yet be comparable with credit cards and personal loans, a similar proportion of consumers report payment difficulty with their BNPL loan as compared with personal loans and credit cards. This suggests a clear need not only for stronger consumer safeguards, but also clearer oversight from the regulator.

The current self-regulatory regime is clearly inappropriate given the widespread consumer payment difficulty. Regulatory oversight, rather than self-regulation, with capacity to investigate and take legal action for non-compliance is required to ensure the consumer protection framework delivers positive outcomes for consumers. In the absence of effective regulatory oversight, BNPL providers may avoid necessary scrutiny and accountability for non-compliance and failures to provide consumer protections and supports.