



## Submission on Buy-Now, Pay-Later discussion document

To: Ministry of Business, Innovation and Employment (MBIE)

**This submission is from:**

Caitlin Neuwelt-Kearns ([caitlin@cpag.org.nz](mailto:caitlin@cpag.org.nz)) and Dr M. Claire Dale ([m.dale@auckland.ac.nz](mailto:m.dale@auckland.ac.nz))  
Child Poverty Action Group  
PO Box 5611  
Wellesley St  
Auckland 1141

**Child Poverty Action Group (CPAG)** is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

We are grateful for the opportunity to submit on MBIE's discussion document regarding the Buy-Now, Pay-Later sector.

**We strongly support the adoption of Option Three: Apply CCCFA to regulate BNPL products. To CPAG, this is the only acceptable option of MBIE's three proposed options that would ensure the needs of children and young people in low-income households are prioritised.**

As an organisation that advocates for the rights and interests of children in low-income families, we urge MBIE to ensure that any response to the burgeoning buy-now, pay-later (BNPL) sector prioritises the wellbeing of low-income families and whānau. Unmanageable debt has severe, negative impacts on children. Previous CPAG research has highlighted how debt servicing and repayments can compromise household income for necessities such as

food and power, impacting child and family wellbeing.<sup>1</sup> There is great risk that if BNPL products remain inadequately regulated, they will (continue to) compound debt burdens for families, increasing financial hardship and distress.

We are concerned that BNPL services may be exacerbating financial hardship for consumers, particularly in light of Covid-19-related increases in online purchasing. As the discussion document states, the success of the BNPL industry is related to “its ability to take advantage of consumer psychology – by giving consumers instant access to goods and services at a perceived lower price” (19). This consumer psychology is “even stronger for online purchases, due to the speed at which the consumer is able to make transactions”, which is of concern given increased rates of online purchasing as a result of Covid-19 restrictions.<sup>2</sup> Given the surge in family financial hardship through the pandemic period – evident in, for instance, exponential increases in food bank use<sup>3</sup> <sup>4</sup> and growing numbers of children living in benefit-receiving households<sup>5</sup> – we are troubled that the ‘perfect storm’ of increasing debt burdens for families and whānau may be brewing, requiring urgent attention in the form of regulatory action.

We acknowledge that there are some benefits of BNPL products for low-income families, such as those listed in point 21. For example, we agree that BNPL products may “provide an effective way for consumers to spread the costs of their purchases at peak purchase times (for example, holidays or the start of the school year)”, and “allow consumers to purchase goods and services in bulk, or in one payment to the business, allowing consumers to take advantage of any discounts” (21a, 21c). If repaid promptly, these products may offer a useful alternative to high-interest borrowing.

However, the benefits of using these products are contingent on families being able to meet their repayment obligations. For those living on tight weekly budgets, there is significant risk of going into arrears. As is highlighted in point 40, the proportion of customers in arrears is higher among BNPL customers (8.3 percent) than among those accessing personal loans (7.9 percent) or credit cards (4.2 percent), suggesting that there may be an increased risk of parents and caregivers spending beyond their ability to repay with BNPL products compared to other credit options.

---

<sup>1</sup> Dale, M. C. (2014). *New Zealand's Debt Society and Child Poverty*. Auckland: Child Poverty Action Group. Retrieved from <https://www.cpag.org.nz/assets/Backgrounders/140225%20CPAG%20Debt%20Backgrounder%20Feb2014%20FINAL.pdf>

<sup>2</sup> Foxcroft, D. (2021). Online shopping ballooned by \$1.2 billion last year, most with domestic retailers. *Stuff*. Retrieved from <https://www.stuff.co.nz/business/124209635/online-shopping-ballooned-by-12-billion-last-year-most-with-domestic-retailers>

<sup>3</sup> Gee, S. (2021). As food prices rise, Auckland City Mission sees higher demand for services. *RNZ*. Retrieved from <https://www.rnz.co.nz/news/national/455595/as-food-prices-rise-auckland-city-mission-sees-higher-demand-for-services>

<sup>4</sup> Child Poverty Action Group (2021). Auckland City Mission Food Parcel Demand (2021). Retrieved from <https://www.cpag.org.nz/the-latest/current-statistics/food-parcels/>

<sup>5</sup> MSD (2021). Benefit Fact Sheets. Retrieved from <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html>

Given the significant risk to children’s wellbeing posed by unaffordable household debt, CPAG is very concerned about the fact that currently, BNPL products “are not required to comply with the Credit Contracts and Consumer Finance Act 2003 (CCCFA) obligations for consumer credit contracts” (33). In particular, we are concerned that BNPL providers “are not required to assess a consumer’s financial position, or make an assessment as to whether the consumer is likely to be able to repay the credit without substantial hardship, as required under the CCCFA” (33). Current regulatory settings place all responsibility on the consumer to assess the affordability of their purchase, which is problematic given that BNPL products take advantage of consumer psychology “by giving consumers instant access to goods and services at a perceived lower price” (19). The perception of a lower price, combined with the allure of instant access to goods and services, may encourage overspending and impulse buying. Providers should have obligations to conduct an affordability assessment, as a shared responsibility between the BNPL provider and the consumer.

Many New Zealanders are currently surviving on incomes that are inadequate relative to outgoing costs, making them particularly vulnerable to taking on debt they cannot manage. Pre-pandemic, between 14 and 18 percent of children in Aotearoa were living in income poverty, depending on which of the two primary income measures are used.<sup>6</sup> For parents and caregivers raising children on these incomes, assessing the affordability of their purchase using a BNPL product may not be top of mind, particularly when using BNPL products to purchase essentials, such as groceries, or sentimental purchases such as Christmas or birthday presents for their kids or whānau. Moreover, relying entirely on the consumer to assess affordability necessitates a certain level of financial literacy, which some consumers may not have. Requiring BNPL providers to undertake comprehensive affordability assessments would ensure that consumers are protected from accessing credit that is unaffordable for them and therefore likely to negatively impact on the wellbeing of their children.

Given the lack of consistency of credit checks across BNPL providers, there is risk that consumers may take on multiple BNPL debt obligations simultaneously, and as the discussion document shows, the number of users with multiple accounts is increasing over time, up 3% to 15% of all BNPL users this year compared to 12% in August 2020 (67). A limit on the number of purchases per BNPL account could help to limit risky spending. Consistency in requirements of BNPL providers could also help to ensure that consumer debt across multiple products is managed. For this reason, we strongly recommend against the adoption of Option One: status quo, as a voluntary sector code is unlikely to result in consistency across the sector.

Aligning the regulation of BNPL products with that of other consumer credit products may also help consumers to correctly understand BNPL for what it is – debt. The Woolard Review in the United Kingdom highlighted the risk that consumers may not be applying the same level of scrutiny to their decision-making with regards to BNPL compared to other credit

---

<sup>6</sup> Stats NZ (2021). Child poverty statistics: Year ended June 2020 – corrected. Retrieved from <https://www.stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2020>

products.<sup>7</sup> There is a risk that by allowing BNPL to remain beyond the scope of CCCFA obligations, as in Options One and Two, this encourages an understanding of BNPL products as substantively different to other debt products.

In summary, we urge MBIE to prioritise the wellbeing of low-income families and whānau in exploring the options available to ensure an effective BNPL sector. From CPAG's perspective, Option Three is the only option proposed that provides a robust enough regulatory framework that will ensure that children and young people are protected from undue financial harm at the hands of an under-regulated BNPL sector.

---

<sup>7</sup> Vaughan, G. (2021). British government acting on advice buy now pay later credit sector needs to be regulated 'as a matter of urgency' to protect consumers. *Interest.co.nz*. Retrieved from <https://www.interest.co.nz/personal-finance/108889/buy-now-pay-later>