

Economic Policy Centre

Pensions and Intergenerational Equity

Buy now, pay more for it later

PIE Commentary 2023-09¹

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The fairly recent introduction of Buy Now Pay Later (BNPL) into New Zealand has been a convenient and low-cost form of credit for many people, but has inadequate protections for consumers who may struggle to make repayments. Consumers using BNPL can access goods or services now and pay for them later in a series of interest-free instalments. While BNPL provides an alternative form of credit to consumers, funded by a charge on participating businesses, there are serious concerns.

BNPL products are subject to the Fair Trading Act 1986, but because they don't charge interest, credit fees or take a security interest over goods, BNPL providers were not required to comply with the rules under the Credit Contracts and Consumer Finance Act (CCCFA) until October 2022, when Cabinet agreed to bring BNPL within the Act.

This was to provide more protection to consumers. Key consumer protections from the CCCFA proposed in 2022 included general lender responsibilities, such as treating borrowers reasonably and ethically; protecting borrowers from unreasonable default fees; and borrowers facing unforeseen hardship could apply to the lender to have their repayment contract varied.

In addition, BNPL lenders would need to be part of an external dispute resolution scheme and provide details of the scheme if borrowers make a complaint or a hardship

¹ PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

² See <https://www.newsroom.co.nz/pro/buy-now-pay-more-for-it-later>

application. Lenders would also be required to provide information to borrowers who missed payments about financial mentoring services.

But on 8 August 2023 [Commerce and Consumer Affairs Minister Dr Duncan Webb](#) announced that BNPL lenders will be required to complete comprehensive credit reporting although “Cabinet has accepted the need to exempt BNPL loans from affordability and suitability assessments – which would be too onerous for these short term, low value, interest-free loans”.

This is not good news for consumers. A credit check requirement is not an adequate assessment of affordability. Every dollar that is lent to a consumer without an affordability assessment is putting that consumer at risk of unmanageable debt and may cause harm to the financially vulnerable.

And now the National Party is campaigning on reducing what limited consumer credit protection there is, with National’s Commerce and Consumer Affairs spokesperson Andrew Bayly arguing that the CCCFA has “stifled access to credit and resulted in borrowers being subjected to highly intrusive questioning from their bank, with every purchase, membership, or subscription up for scrutiny”.

Bayly also said “National will maintain tight restrictions on predatory lenders, but significantly reduce the scope of Labour’s other changes to the CCCFA.” National would also repeal the Conduct of Financial Institutions Act (CFA), which will introduce a regulatory regime in March 2025, aimed at ensuring financial institutions treat their customers fairly.

I’m the founder of Ngā Tāngata Microfinance (NTM), which was established in 2010 and works nationally through community financial mentors to make available interest- and fees-free loans, now up to \$5,000, repayable over a two -year maximum term. Kiwibank provides the loan capital to make this service to the community possible. This service was desperately needed because New Zealand was in an outlaw situation, with predatory lenders in every low-income neighbourhood.

When the Financial Markets Authority and Reserve Bank carried out conduct and culture reviews of New Zealand’s banking and life insurance sectors in 2018 and 2019, they found that misconduct here was indeed rife. That discovery finally led to changes to the CCCFA, increasing consumer protections.

Then BNPL added new risks for consumers, with no checks on how many BNPL accounts a consumer can collect, or whether a consumer can afford to pay off each account on time.

Consumers can buy now and pay later, but every late payment incurs a charge, and we're seeing increasing numbers of loan applicants at NTM in financial strife caused by their inability to meet due dates for payments on numerous BNPL accounts, so late-payment fees compound.

The vital importance of the CCCFA and the CFA is revealed in [recent research](#) from Te Ara Ahunga Ora Retirement Commission that shows that 55 percent of New Zealanders are struggling with their financial situation – up from 38 percent in 2021. And of those surveyed, 51 percent say they are 'starting to sink, or treading water' and another almost 4 percent of those surveyed are already 'sinking badly'.

This research also confirms that women, Māori and Pacific Peoples are being hit the hardest. That report also found that of those in the 18-34 age group, 51 percent are in an uncomfortable financial position, and 47 percent are worrying about their finances from pay-to-pay.

Hardship is widespread and consumer protections are vitally necessary. When people are sinking you don't drill a hole in the lifeboat.