



Ministry of Business Innovation and Employment: Buy Now Pay Later Consultation (BNPL)

1. Summary

- a. The Salvation Army strongly urges the regulation of BNPL services under the Credit Contracts and Consumer Finance Act (CCCFA) 2003. Under the CCCFA BNPL products should have certain exemptions and flexibility to continue to be innovative but still provide protection for consumers.
- b. The Salvation Army acknowledges that clients who are consumers have highlighted the benefits BNPL products provide. BNPL products are affordable, accessible, and easy to use. However, our frontline services (Financial Mentors and Community Finance Caseworkers) have also highlighted many concerns and issues our clients have encountered using BNPL services – lack of understanding how BNPL services work, excessive advertisements and impulse purchases which lead to financial hardship.
- c. Overall, we acknowledge there are benefits of BNPL for consumers, including for those people and whanau using our services. The kind of debt and the hardship from that debt that people experience using BNPL loans is significantly less harmful than with other kinds of third tier credit. We believe that the trajectory, competition, and innovation of BNPL products without the appropriate accountability and transparency for consumers will perpetuate financial hardship for our vulnerable consumers.

2. Background

- a. The Salvation Army's mission is to care for people, transform lives and reform society by God's power. The Salvation Army employs almost 2,000 people in New Zealand, and the combined services support around 140,000 people annually. In 2020, these services included providing around 88,000 food parcels to more than 69,000 people, providing some 2,400 people with short-or long-term housing, over 4,000 families and individuals supported with social work or counselling, around 18,000 addictions counselling sessions, over 4,000 families and individuals helped with budgeting, other practical assistance to around 6,000 families and individuals, chaplains visited more than 2,300 prisoners, and 5,200 victims, defendants and families were supported at court.
- b. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's Aotearoa New Zealand Fiji Tonga and Samoa Territory.

3. General Comments

- a. The Salvation Army's financial mentors, in 2020 supported 4400 families across 33 locations with almost 16,000 financial mentoring and budgeting services. The Salvation Army also provides low/no interest ethical loans through Good Sheppard to families with limited income. Our community finance conducted almost 2000 loan interviews

and approved over 500 no-or-low interest loans. In addition, in partnership with BNZ The Salvation Army had The Good Shop which was a mobile shopping service providing interest-free loans for household items and access to groceries at store prices – this service has now ceased.

- b. Our responses to the discussion document below are informed by our frontline staff experiences supporting our clients using BNPL. Overall, our frontline services acknowledge that BNPL in its **current model** has many benefits for the individuals and families we support. However, our staff have also highlighted that the use of BNPL has perpetuated financial hardship for clients who were already in financial hardship. The average debt of our clients who access our financial mentoring services is approximately around \$50,000. The kind of debt and the hardship that people experience using BNPL products is significantly less harmful than with other kinds of debt and hardship caused by third tier credit.
- c. The underlying issue for many of our families using BNPL services can be attributed to gaps and inadequacies in Ministry of Social Development’s support for these families and individuals. The Salvation Army highlight the Welfare expert advisory group recommendations¹ to increase benefit levels and address income inadequacy.

4. Our Responses to BNPL Discussion Document

4.1 Advantage of BNPL

The benefits highlighted by our frontline services include:

- a. BNPL services are accessible, convenient, and instantaneous.
- b. BNPL services provided an affordable option to purchase goods that clients usually would not have the funds to purchase. Also, in light of the financial impacts of Covid clients were still able to make purchases despite a decline in their income.
- c. BNPL provided a more affordable and financially viable option to purchase goods compared to other services they would use. The two primary examples were Red Rat EZPay and Cash Converters – which would charge clients high interest rates. Overall, when BNPL services are used, and repayments are made on time this is a safer and affordable alternative for clients.
- d. BNPL was an accessible form of credit that for many of our client base mainstream credit would not be available to.
- e. BNPL services have allowed clients on limited income to make essential purchases such as school clothing, warm blankets, and homeware.
- f. BNPL services are limited to products only unlike personal loans whereas clients are able to spend personal loans at their own volition.
- g. There are safety mechanisms in BNPL services such as limits which can be regulated by BNPL services dependent on a customer’s repayment history
- h. Financial Mentors have noted that some clients have been able to get assistance from BNPL services in relation to financial hardship assistance. BNPL services have supported with rearranging repayments to assist clients.
- i. BNPL services provide several avenues to alert or notify clients of an upcoming payment – our clients have found these notifications helpful in helping them to keep up with their repayments.

¹ <http://www.weag.govt.nz/weag-report/whakamana-tangata/appendices/appendix-d-full-list-of-recommendations/>

4.2 Disadvantages of BNPL

- a. BNPL encourages consumers to spend more than they can afford. Financial mentors have noted many instances where clients would purchase items only factoring in the first instalment. The following payments would cause financial hardship for clients. Financial mentors have been able to support families and individuals with food parcels in these instances.

“A couple of my other clients are using Afterpay but forget that it gets taken out of their benefit the following week, which leaves them short on shopping for that week.”

- b. BNPL have negative impacts on those who make impulse purchases. One group our frontline services highlighted were for our clients who struggle with mental health issues.

“I have a client who would use buy now pay later so often his payments were exceeding his income and he had no money for food. He has talked to one company which has helped him manage his payments – this is a big achievement for someone who struggles with mental health issues”

It is also important to note that overall mental wellbeing for clients have declined due to the impacts of Covid-19 – retail therapy or impulse buying as a means to improve mental wellbeing has increased. Figures 1-3 shown below are from Dot loves data’s dashboard² monitoring online national consumption. These dashboards show the total change in value spent on online consumption compared to Feb 2020 average (pre-Covid). Across all retail types there has been a 60.8% increase as of 13th of December shown in Figure 1. Figure 2 and Figure 3 highlight apparel and department store retail types as these retailers are more likely to offer BNPL products. A closer look at these trends show that lockdown periods correlate with highest increase in total value spent on online consumption. Online consumption for apparel increased by 196.8% in late November 2021 whilst online consumption for department retail stores increased by 523.4% in late October 2021. These increases are both higher than increases seen in the first lockdown in March 2020.

Figure 1: National Online Consumption across all retail types

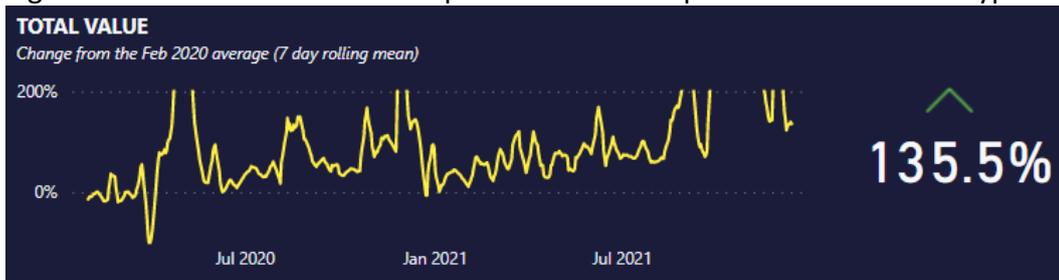


Figure 2: National Online Consumption across all apparel retail types

² Dotlovesdata.com – Bizmomento Monitor Dashboard: National Online Consumption



Figure 3: National Online Consumption across all Department Store retail types



Money and Mental Health Policy Institute in the United Kingdom in their report Convenience at a cost³ showed that people with mental health are at risk to financial harm in the evolving world of online retail. Convenience at a cost found that consumers who struggle with mental health were twice as likely to make impulse purchases and almost half of consumers who struggle with mental health purchased items they didn't need or use. BNPL is a seamless service which is a benefit for your average consumer but places vulnerable consumers at risk.

- c. BNPL services have digital platforms. Digital platforms are not accessible to all consumers. These digital platforms allow BNPL services to be accessible, effective, and efficient. The Salvation Army in our latest lockdown briefing paper⁴ highlighted a threefold poverty – food, power, and data. The digital exclusion we are seeing in our communities is continuing to create disparities in accessibility to services and support. Despite the disadvantages we have highlighted in relation to BNPL services we believe there are also many advantages to BNPL services. These advantages are not available to the growing number of New Zealanders that are digitally excluded.

4.3 Emerging Concerns/Issues

Technological advancements, innovation and competition will lead to the continual evolution of BNPL services in New Zealand – this is inevitable. The primary concern from The Salvation Army is -

- Will these evolving BNPL services create more financial hardship for our clients?
- Will these BNPL services provide protective mechanisms to ensure at-risk consumers are not falling into financial hardship?

We have outlined below emerging issues and concerns highlighted by our frontline services that are current issues for the families we support.

³ <https://www.moneyandmentalhealth.org/publications/online-shopping/>

⁴ <https://www.salvationarmy.org.nz/article/sppu-covid-19-lockdown-briefing-2>

4.31 Food

- a. There are a growing number of clients who use BNPL to access these food services because they are more convenient and more efficient than accessing a food bank or getting a food grant from work and income. In some cases, this may be the only avenue where clients are able to access specific food types such as meat. BNPL means that clients are able to benefit immediately which in turn creates further hardship for them over the coming weeks. Mad butcher was consistently mentioned by frontline staff as a retailer our clients would use that would then cause financial hardship over the following weeks.

“I have had one client who told me she could go to the Mad Butchers and get her meat and pay later. Which was good for her right then, but she had to pay the following week, which caused her stress. She could not buy meat for the following week.”

- b. In New Zealand the availability of BNPL in food and alcohol retailers is predominantly with small to medium sized enterprises who often offer specialised products. However, models of international BNPL services have noted that rapid increases in their profits can be attributed to the uptake of these payment methods with fast-moving consumer goods (FMCG) particularly groceries and in fast-food services⁵. We are concerned that BNPL products offered in food retailers creates and prolongs financial hardship for vulnerable consumers.
- c. Dot loves data using purchasing data allocated to product categories found that there was a correlation between socio-economic deprivation and purchasing activity on product categories. Dot’s results aligned with Maslow’s hierarchy of needs whereas purchasing activity associated with higher order of needs such as self-actualisation and esteem (e.g. art supplies) would decrease deprivation scores. Whereas purchasing activity for fundamental needs such as physiological needs (e.g. food and water) would increase deprivation scores⁶. We are concerned that food/alcohol retailers that utilise BNPL products disproportionately impacts New Zealanders who are already living in poverty.

4.32 Alcohol

- a. In addition to The Salvation Army’s financial support services, we also run Bridge services for alcohol and other drug addictions –on a daily basis our services see the harms of alcohol abuse on individuals, families, and communities. One of the key prevention factors for alcohol harm is accessibility and affordability. BNPL services provide an affordable and accessible method for vulnerable consumers to increase their accessibility to alcohol products. Across all BNPL services in New Zealand there is only one BNPL (Laybuy) that has an alcohol policy. Whilst there are limited bottle stores that have BNPL we anticipate that as the BNPL sector evolves this may change.
- b. As mentioned prior the impact of Covid-19 lockdown has impacted online consumption levels. Figure 4 below shows the change in total value spent at beer,

⁵ <https://www.pymnts.com/buy-now-pay-later/2021/one-click-payment-experience-drives-bnpl-adoption-european-consumers/>

⁶ <https://www.tandfonline.com/doi/full/10.1080/1177083X.2019.1578807>

wine and liquor retailers online compared to pre-Covid. The highest change is seen on the 26th of August 2021 – total value spent increased by 504.4%. As of the 13th of December 2021, the increase on online consumption was 263.9%. In addition, our lockdown briefing paper highlighted that there was an increase in requests for our addiction services during lockdown⁷.

Figure 4: Total value for Beer, Wine and Liquor Retailers – Online Consumption⁸



- c. Alcohol Healthwatch carried out an exploratory audit of alcohol prices at off-licences across Auckland that showed that the cheapest standard drink available was 77c⁹. BNPL availability at alcohol retailers will perpetuate the affordability of alcohol for vulnerable consumers and problem drinkers.

4.33 Advertising

- a. Many of our clients have had initial exposure to BNPL services through advertisements on social media. Many of the purchases' clients made following exposure to these advertisements were for non-essential items. Many clients have shared that they only used BNPL services because they saw these advertisements. The most common retailer mentioned by our clients was Mad Butcher.
- b. We compared Mad Butcher's social media advertisements to similar retailer Meat Box shown in the screenshots below. Meat Box does not include in their advertisement the availability of BNPL in comparison to Mad Butcher who not only highlight BNPL in their post but also in their advertising image.

⁷ <https://www.salvationarmy.org.nz/article/sppu-covid-19-lockdown-briefing-1>

⁸ Dotlovesdata.com – Bizmomento Monitor Dashboard: National Online Consumption

⁹ https://www.ahw.org.nz/Portals/5/Resources/Documents-other/2021/Cheap%20Drinks%20Price_Audit_2021.pdf

The Meat Box · View shop
26 November at 10:04 · 🌐

LAST CHANCE to grab the BLACK FRIDAY BOX

All our best and most popular cuts you choose each and every week, in one Box with one BIG discount!

Do not miss this opportunity to take over 25% OFF! Normally \$98, this bad boy can be on your doorstep for only \$73!... See more



Mad Butcher Mt Roskill (Mt Roskill)
12 December at 19:00 · 🌐

Hello! 🎉 Summer is well & truly here 🍷 to celebrate we've got loads of fresh, tasty, meaty deals in our stores, including Christmas Hams 🍖

🛒 WE ACCEPT AFTERPAY & ZIP online and in-store

🕒 Available from Monday 13th - Sunday 19th December. While stocks last!

📦 Order online for Click & Collect or delivery. Shop now www.madbutcher.co.nz

❤️ LIVE.SHOP.LOVE.LOCAL

👉 % ... See more



4.34 Elderly

Our frontline services have noted a concerning trend with the uptake of BNPL services amongst elderly clients.

- a. Frontline services have seen a growing trend with elderly exploited by their family members using the BNPL services. A client would be signed up to a BNPL service by a family member often without their consent and then family members would use BNPL services to purchase items for themselves. Some clients are often unaware that these payments are being made out of their accounts
- b. A significant proportion of elderly clients The Salvation Army serve have their grandchildren in their care. In many instances these grandparents are not getting assistance or support from Work and Income for a variety of reasons. Therefore, are supporting themselves and their grandchildren using only their limited pension. For many of these elderly clients BNPL services would often be a means to be able to get clothing or meat to look after their grandchildren. As we have alluded to prior, addressing the immediate needs using BNPL services often leave these elderly clients in hardship for the following weeks to months.
- c. Frontline services have also noted that some elderly clients would use BNPL services to purchase grocery or food items for extended family and/or neighbours. Despite guidance and support from financial mentors to highlight the hardship this causes for elderly clients – clients often viewed these purchases as cultural obligations. Cultural obligations outweighed the financial hardships caused by the use of BNPL services.

4.35 Access to Credit

- a. We have highlighted in the previous section that BNPL services provide a financial means for our clients to purchase items that otherwise would not have had the finances for. Many of our clients are locked out of mainstream credit products and BNPL services are often more affordable or a safer option. Whilst we encourage greater visibility and assessing affordability to prevent financial hardship, we also acknowledge that these processes in mainstream credit products are often what locks our clients out of first and second tier lending. As a result, clients use third tier lenders who charge higher interest rates and create prolonged financial hardship. The kind of debt and the hardship from that debt that people experience using BNPL loans is significantly less harmful than with other kinds of third tier credit.

4.36 BNPL Services

- a. There is a growing concern from our frontline services in relation to the growing number of BNPL services in New Zealand. Whilst signing up to one or two BNPL services for our clients may be manageable, one community finance caseworker had 90% of clients were signed up to 3+ BNPL services.
- b. The primary reason that clients were signed up to many BNPL services was due to purchasing products across different retailers which used different BNPL services E.g., the Warehouse uses Zip only and Kmart uses Afterpay only etc.

5 Recommendations

a. The Salvation Army supports option three to apply the CCCFA to regulate BNPL products.

- i. We agree that BNPL products be exempt from certain provisions of the CCCFA. There is less risk presented by the current models of BNPL products relative to other forms of credit. These exemptions for BNPL should be reflective of the risk they pose for creating financial hardship for consumers.
- ii. In addition to 102b of the discussion document we recommend that BNPL products allow consumers to minimize their credit limits. This not only encourages consumers to exercise financial responsibility but will help financial mentors and budgeters support consumers who experience financial hardship from BNPL.
- iii. Regulation of BNPL products should not adversely impact the competition and innovation of this sector. We reemphasise the benefits of BNPL products relative other forms of credit.
- iv. Regulation of BNPL under the CCCFA will provide support and protection for consumers

b. BNPL Retailers – Food and Alcohol

- i. The Salvation Army has highlighted concerns in regard to BNPL used for food and alcohol. We recommend that BNPL products restricted for retailers who provide alcohol particularly off-licence bottle stores.
- ii. Whilst BNPL products are not yet available at larger supermarket chains we recommend restrictions in place for BNPL products used for FMCG particularly groceries. As we have alluded to prior BNPL for food and beverage retailers (excluding specialized food and beverage) will disproportionately impact consumers who are already in high levels of deprivation.

c. Vulnerable Consumers

- i. International reviews¹⁰ into BNPL have shown that seamless service of BNPL products places vulnerable consumers at risk. The Salvation Army recommends the use of mechanisms to create friction when consumers are checking out – these can include set delays in orders processed, prompts to be sent to a cell phone to approve purchase etc. Additional friction to the BNPL products can protect vulnerable consumers such as the elderly we mentioned prior or consumers struggling with mental health.

d. Advertisements

¹⁰ <https://www.moneyandmentalhealth.org/publications/online-shopping/>
<https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

- i. The Salvation Army recommend the introduction of guidelines on advertising for BNPL products. We note that BNPL is covered by the Financial Advertising Code that comes into effect in March 2022 however we believe that wide reach of BNPL through it's merchants and it's digital platforms that a specific guideline be implemented for BNPL services as seen in the UK¹¹.

e. MBIE and Community Financial Services

- i. The Salvation Army recommends that MBIE strengthens the link between BNPL consumers who are facing financial hardship with community financial mentors and budgeters. Regulating BNPL products under the CCCFA is not a full proof solution to preventing financial hardship for vulnerable consumers. Investment into building the capacity and capability of financial mentors and budgeters in the community is essential to address current and future financial hardships which result from BNPL products.

6 Other Comments

In the Salvation Army's view, one of the reasons we see the growth and uptake of BNPL products amongst our clients can be attributed to inadequacies in our welfare system, income, and inability to access mainstream lending and credit. We would like to see greater support for ethical lending such as those provided by Ngā Tāngāta microfinance and Good Shepherd. We would also like to see greater support for community finance support services such as Christians against poverty and Fincap. The Salvation Army also support the submission of these organisations including Citizens Advice Bureau, Consumer NZ and Alcohol Healthwatch.

Contact:

- If you have questions, please contact:

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¹¹ <https://www.asa.org.uk/resource/guidance-on-advertising-delayed-payment-services.html>