



# Safety net for sale: The role of Buy Now Pay Later in exploiting financial vulnerability

November 2022

# Contents

Summary	1
Recommendations	4
The growth of Buy Now Pay Later	6
Who's affected by Buy Now Pay Later?	8
The impact of Buy Now Pay Later	10
Policy recommendations	14
References	20

# Summary

Good Shepherd works at the coalface of women's economic insecurity. Our financial programs – including Financial Counselling, Financial Capability and No Interest Loans (NILs) services – play a significant role in supporting the financial wellbeing of women and families. For some time now our practitioners have been concerned about the growth and harms of BNPL. This report explores the use of BNPL among Good Shepherd clients, the impacts we are seeing from its use, and the role of BNPL in exploiting financial insecurity.



## Increasing BNPL debts

BNPL debts are pervasive and growing rapidly among Good Shepherd clients.<sup>1,2</sup> The proportion of financial counselling clients with BNPL-related debt increased eight-fold between 2017 and 2021.<sup>1</sup> Sixty per cent of our Financial Counselling and Capability practitioners estimate that around half, most, or all of their clients now have BNPL debts.<sup>3</sup> The groups with highest BNPL use are women, younger people, single parents, and people living on lower incomes.<sup>1,2</sup> BNPL is a highly gendered phenomenon tied to women's economic insecurity.<sup>4</sup>

## BNPL for essentials

Contrary to the characterisation of BNPL as a discretionary spending tool, people on lower incomes are using BNPL for essentials. At Good Shepherd, 75% of practitioners report BNPL use for children's needs such as clothing and baby products, followed closely by furniture and household appliances (68%), and food/groceries (66%). Other common items purchased with BNPL include utilities (44%) and transport and petrol (34%).<sup>3</sup> Concerningly, some of our practitioners report that women are accumulating unmanageable BNPL debts after fleeing family violence and needing money for basics.

## Avenue for financial abuse

BNPL itself has become an avenue for financial abuse, with one in four Financial Counselling and Capability practitioners seeing coercive debt in at least half of their clients using BNPL, and 69% seeing it in at least one client using BNPL.<sup>3</sup> Rates of coercive BNPL debts appear to be increasing: 53% of practitioners report that they are seeing it more than a year ago.<sup>3</sup>

## Plugging income gaps

Financial precarity, especially among women, is fuelling the growth of BNPL. BNPL is used by 25% of our financial counselling clients who rely on social security as their main income source, compared to 21% of clients who rely on wages.<sup>1</sup>

BNPL is taking the place of adequate social security payments, which represents a commercialisation of the social safety net. The debt cycle triggered by BNPL – including multiple BNPL accounts and use of credit cards to pay for BNPL – has been transformed into a profitable industry by lenders, with high effective interest rates disguised as late payment and account-keeping fees. Tackling harmful BNPL use is as much about providing liveable incomes as it is about closing regulatory loopholes.

BNPL debts are pervasive and growing rapidly among Good Shepherd clients

8x

BNPL-related debt increased eight-fold between 2017 and 2021

25%

BNPL is used by 25% of our financial counselling clients who rely on social security as their main income source

## Strong links with financial stress and hardship

Good Shepherd frequently sees financial stress and hardship among clients using BNPL. More than three in four Financial Counselling and Capability practitioners report that clients with BNPL debt struggle to make payments on time.<sup>3</sup> Approximately 73% of practitioners say that clients have missed essential payments, or cut back on or gone without essentials, in order to service BNPL debt.<sup>3</sup>

Multiple accounts and debt cycles are common: 84% of practitioners report that clients with BNPL debt have tried to manage the debt by opening additional BNPL accounts.<sup>3</sup> This accumulation of debt can then shut people out of affordable, No Interest Loans (NILs), provided by our national network of loan providers. Good Shepherd NILs managers see clients with numerous BNPL accounts who have been led to believe it is something other than credit/debt (e.g. layby), and who do not realise BNPL debts may affect their ability to get an affordable loan.

## Data sources

This report uses three sources of Good Shepherd client and practitioner data on BNPL use:

- financial counselling client data, 2017-2021<sup>1</sup>
- No Interest Loans (NILs) client data, 2017-2021<sup>2</sup>
- an internal survey of 33 Good Shepherd Financial Counselling and Capability practitioners<sup>3</sup>

The report also refers to external data sources showing wider and comparable trends in BNPL use where applicable.

# 73%

Approximately 73% of practitioners say that clients have missed essential payments, or cut back on or gone without essentials, in order to service BNPL debt

# 25%

25% of practitioners see coercive/abusive debt in at least half of their clients using BNPL

# 84%

84% of practitioners report that clients with BNPL debt have tried to manage the debt by opening additional BNPL accounts

# 75%

75% of practitioners report BNPL use for children's needs such as clothing and baby products

# Recommendations

## Address the drivers of Buy Now Pay Later use by people on low and insecure incomes

1

### Recommendation 1:

Establish a minimum income floor by increasing income support base rates to at least the Age Pension level, indexed annually to cost of living increases, and providing appropriate supplements to at-risk groups

2

### Recommendation 2:

End the use of payment reduction or withdrawal as a social security compliance tool, and end compulsory savings depletion (the 'Liquid Assets Waiting Period') for JobSeeker and Youth Allowance applicants

3

### Recommendation 3:

Ensure wage-earners have liveable incomes by restricting the use of casual employment arrangements and improving wages and job security in the care economy

## Strengthen debt-free financial support for family violence victim-survivors

4

### Recommendation 4:

Increase the amount and accessibility of the Federal Escaping Violence Payment



## Maximise alternatives to Buy Now Pay Later

5

### Recommendation 5:

Support the promotion and delivery of No Interest Loans

6

### Recommendation 6:

Build payment splitting and payment plan entitlements into essential services at Federal, State/Territory and local government levels

## Close regulatory loopholes to ensure consistent consumer protection

7

### Recommendation 7:

Develop a regulatory regime that prevents unaffordable BNPL debts, unmanageable multiple accounts, and misleading marketing of BNPL

8

### Recommendation 8:

Prioritise financial abuse prevention in the BNPL regulatory regime

## Provide consistent and accessible payment difficulty support over the lifecycle of BNPL services

9

### Recommendation 9:

Include mandatory and enforceable payment difficulty protections in the BNPL regulatory regime

# The growth of Buy Now Pay Later

BNPL is a ubiquitous, readily available financial product. Good Shepherd has seen rapid growth in BNPL use amongst financial counselling clients, from 2.5% of clients in 2017 to 20% in 2021 (Figure 1).<sup>1</sup>

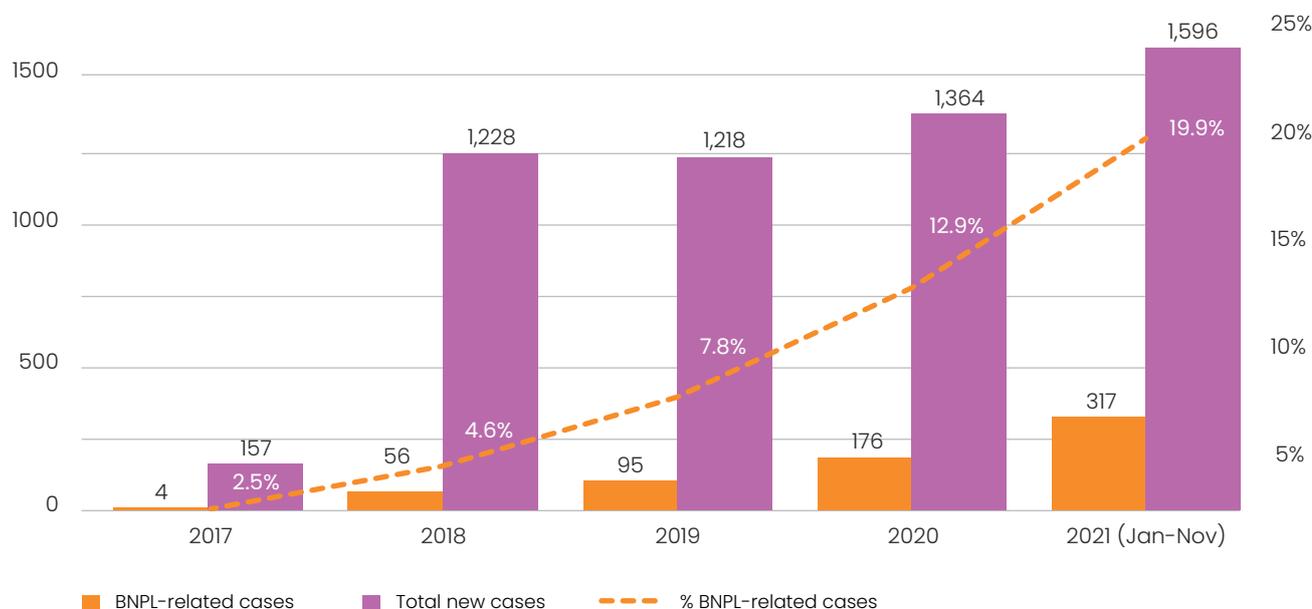
The 2022 practitioner survey indicates continuing growth in BNPL use, with 60% of Good Shepherd Financial Counselling and Capability practitioners estimating that around half, most, or all of their clients have BNPL debts.<sup>3</sup>

Good Shepherd's No Interest Loans (NILs) program has seen similarly rapid growth in BNPL use. NILs client data shows 26.7% of NILs applicants had BNPL debts in 2021, up from 6.1% in 2017.<sup>2</sup>

Our client experiences reflect BNPL's broader expansion Australia-wide. At least 5.9 million BNPL accounts were open between July and September 2021, with people spending over \$11.9 billion in the 2021 financial year.<sup>5</sup> The proportion of Australian adults who have used BNPL increased from 32% in March 2021 to 38% in 2022.<sup>5</sup> BNPL users hold on average 1.8 accounts, with 1 in 20 having four or more accounts.<sup>6</sup> Forty-four per cent of BNPL account-holders use it on a monthly basis.<sup>5</sup> Account limits vary widely across providers, from around \$1000 to as much as \$50,000. There is no cumulative limit currently in place for BNPL users, so total debt is often much greater than a single account limit suggests.

**Figure 1: BNPL-related cases as a proportion of total new financial counselling cases, 2017–2021**

Source: Good Shepherd Financial Counselling Client Data, 2017–2021<sup>1</sup>



Note: BNPL-related cases include any case with case notes referring to BNPL products and services

According to the 2022 practitioner survey, the items that Good Shepherd clients most commonly purchase with BNPL are clothes and shoes, and children’s needs such as clothing and baby products (75% of practitioners report BNPL use for these items).<sup>3</sup> This was followed closely by furniture (68%), household appliances (68%), and food/groceries (66%).<sup>3</sup> Other common items purchased with BNPL include pet expenses (44%), utilities (44%), transport and petrol (34%), medical/health goods and services (31%), and educational expenses (25%).<sup>3</sup> This is consistent with [other research](#) showing that clothing and essentials make up the bulk of BNPL purchases, followed by [electronics and appliances](#).<sup>5,7</sup>

**We asked practitioners to tell us which products/services clients pay for using BNPL**



# Who's affected by Buy Now Pay Later?

Good Shepherd's financial counselling<sup>1</sup> and NILs client data<sup>2</sup> shows that the groups with highest BNPL use are:

## Women



1 in 3 women NILs applicants have BNPL debts compared with 1 in 5 male applicants

## Younger people



Just under 40% of financial counselling clients aged under 25 years have BNPL debts

## People with children and other dependents



One third of NILs applicants who are sole parents have BNPL debts

## People living on lower incomes



BNPL is used by 25% of financial counselling clients who rely on social security as their main income source, vs 21% of clients who rely on wages

## Women

Women applying for Good Shepherd NILs are more likely to be BNPL users than men (31.2% of women applicants compared to 20.4% of male applicants),<sup>2</sup> as are women who are financial counselling clients (22.7% of women clients compared to 19.3% of male clients).<sup>1</sup> This is consistent with international trends around the gendered nature of BNPL use.<sup>8</sup>

The high use of BNPL by women is linked with women's economic insecurity.<sup>4</sup> Women are more likely to earn a low income,<sup>9</sup> be a sole parent,<sup>10</sup> rely on social security payments<sup>10</sup> as a primary source of income, and undertake casual or part time work,<sup>11</sup> which places

women at risk of consistently low and/or uneven incomes. BNPL can be used to pay for essentials when there is inadequate income to make ends meet. This accounts for the increasing use of BNPL for essential products and services.

BNPL also creates an opportunity to 'smooth' earning and spending over time, to help women cope with inconsistent and unpredictable incomes, and to portion large, important expenses into smaller payments over a number of months.

## Younger people

Good Shepherd financial counselling clients aged under 25 years are more likely to use BNPL than other age groups (37.5% of clients aged under 25 years), with rates of use doubling between 2020 and 2021. Clients aged 25–34 years also show high BNPL use (24.3% of this age group).<sup>1</sup> This is consistent with international trends showing more than half of consumers using BNPL are under 36,<sup>8</sup> and that over half of people aged 18–34 years use BNPL.<sup>5</sup>

Globally, regulatory systems are having to catch up with the fact that younger people are moving away from credit cards and towards BNPL.<sup>8</sup> In part this has been driven by the acceleration of online shopping during COVID-19, from groceries to clothing, and the strong presence of BNPL on these online platforms. BNPL offers ease, an app-driven service, and a product with low or no stigma attached to it. Marketing has resulted in many people not identifying BNPL as credit, but more of a lay-by product.

*“BNPL has a clear end goal provided no late payments, it is also short term, which makes it clearer to repay compared to long term loans and credit cards. However, the problem with that is that is viewed less seriously as a debt when compared to cards and loans. I see clients talking casually about BNPL but wary of credit cards, when they are the same things. BNPL has done a great job to remove the stigma of ‘bad credit’ when that is exactly what BNPL is.”*

Good Shepherd Financial Counselling  
and Capability practitioner<sup>3</sup>

There is also growing BNPL use among Good Shepherd financial counselling clients aged 55–64 years, at 26.4% of this age group, up from 5.9% in 2020.<sup>1</sup> For women in particular, strong BNPL use in this age bracket may show the cumulative effects of employment discrimination, poverty following separation, low superannuation levels, and reliance on the very low JobSeeker payment before qualifying for the higher paying Age Pension.

## People with children and other dependents

People with children and other dependents are major BNPL users: NILs client data shows that 33.7% of sole parents, 40.2% of couples with dependents, and 47.6% of people living in shared accommodation with dependents had BNPL debt in 2021.<sup>2</sup> BNPL use has also increased among sole parents accessing Good Shepherd financial counselling services, from 18.2% of this group in 2020 to 30.4% in 2021.<sup>1</sup>

It is likely that women make up the majority of people with dependents who use BNPL, as women head most sole-parent households.<sup>12</sup> Rising living costs,

low, stagnant wages, and inadequate social security payments, have resulted in a commercialisation of the social safety net: people are turning to credit to pay for essentials. In the 2022 practitioner survey, our Financial Counselling and Capability practitioners reported that families are using BNPL to pay for Christmas presents, school uniforms, and other irregular but large costs.<sup>3</sup>

In addition to growing BNPL use in single parent families, Good Shepherd is seeing strong growth among financial counselling clients who live in shared accommodation (8.8% of these clients had BNPL debts in 2020, increasing to 36.8% in 2021), which likely reflects the fact that most shared accommodation residents are in the 15–34 years age bracket.<sup>1</sup> BNPL use is also growing among financial counselling clients in couple households (12.9% of these clients had BNPL debts in 2020, increasing to 31% in 2021).<sup>1</sup>

## People living on lower incomes

Low and inadequate incomes appear to be driving BNPL use. Between 2020 and 2021 Good Shepherd saw larger increases in BNPL use among people relying on social security (from 14.7% to 25.2% of financial counselling clients with social security as main income source) compared to those in paid employment (15.2% to 20.9%).<sup>1</sup> However, the increase in BNPL use among clients relying on paid work is still substantial and possibly an indication of the ‘new vulnerable’ cohort: people who work, but whose wages hardly cover the cost of living and do not allow them to cope with unexpected expenses.

Over the past two years, NILs applicants relying on the Single Parenting Payment (39.6% of applicants receiving this payment) and Youth Allowance (38.8% of applicants receiving this payment) showed the highest rates of BNPL use across all income sources relied on by NILs applicants.<sup>2</sup> This reflects strong BNPL use by single parents and young people, and the role of BNPL in supplementing low social security payments to these groups. Single parents and young people are among the most common users of NILs and have a strong need for affordable, safe credit.

People with low incomes can find it difficult to access traditional, more affordable forms of credit, due to inadequate incomes, limited alternative products such as NILs, and predatory marketing of high-cost credit products that set people up to fail and impair credit records, further pushing people towards unaffordable debt.<sup>13</sup> People on low incomes may therefore use BNPL for income smoothing, essentials, and to pay for goods and services that have a high price but do not offer payment instalment options and entitlements, including dental, council rates and car repair services.<sup>7</sup>

# The impact of Buy Now Pay Later

Good Shepherd sees numerous, often detrimental impacts of BNPL, including missed payments and debt cycles, unmanageable multiple accounts, and links with family violence. Practitioners also report some positive impacts in relation to personal budgeting, suggesting BNPL can be a useful tool when payments are manageable. Impacts most commonly observed by Good Shepherd practitioners are outlined below.

## Missed payments and debt cycles

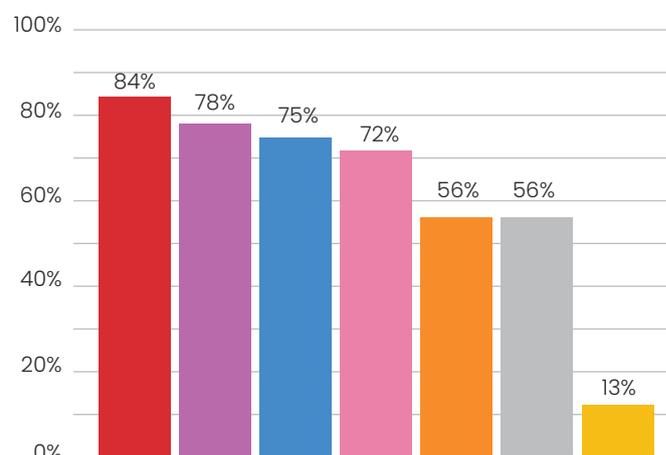
Good Shepherd financial counselling client data shows that the proportion of financial counselling clients with BNPL-related debt increased eight-fold between 2017 and 2021 (Figure 1).<sup>1</sup>

In the 2022 practitioner survey, two thirds of Financial Counselling and Capability practitioners reported that BNPL has made financial management worse for some or most of their clients.<sup>3</sup>

Practitioners see clear indicators of financial stress, unmanageable debt and hardship among clients with BNPL debt. Missed payments are common: more than 3 in 4 practitioners (78%) report that clients with BNPL debt struggle to make payments on time (Figure 2).<sup>3</sup> Approximately 73% of practitioners say that clients have missed essential payments, or cut back on or gone without essentials, in order to service BNPL debt.<sup>3</sup> BNPL use can also spark a debt cycle. Over half of practitioners see clients with BNPL debt who have to use credit cards/loans to make repayments, or require loans from family or friends.<sup>3</sup>

**Figure 2: BNPL debt management strategies reported by Good Shepherd Financial Counselling & Capability practitioners, 2022**

Source: Survey of Good Shepherd Financial Counselling and Capability practitioners, July 2022<sup>3</sup>



- Opened additional BNPL accounts
- Made late BNPL payments and incurred fees
- Cut back on or went without essentials (e.g. food, medication, energy, data/telco, rent/mortgage, school fees, utilities)
- Missed other essential payments to make BNPL payments
- Used credit cards/loans to make BNPL payments
- Used loans from family or friends to make BNPL payments
- Other

These problems are becoming more widespread in the general community. Nationally, ASIC data shows that 21% of BNPL users missed a payment in the last 12 months, and 9–15% of users miss a payment in any given month.<sup>14</sup> Of those who missed a payment in the last 12 months, 47% were between 18 and 29 years, 39% also held a small or medium formal credit product, and 55% had used at least two different BNPL merchants in the past 6 months.<sup>14</sup>

The debt cycle triggered by BNPL – including use of credit cards to pay for BNPL – has been transformed into a high profit industry by lenders. BNPL providers profit from high effective interest rates disguised as late payment and account-keeping fees.<sup>15</sup> The BNPL market has ingrained power imbalances that are exacerbated for people living with the stress of poverty, who rely on a complex credit market to fund the basics.<sup>16</sup> The struggle to survive is mentally distressing and works against long-term financial security.<sup>17</sup> Once in the BNPL market, people on low incomes pay a poverty premium via regressive effective interest rates (see: Regressive and opaque interest rates) and can find it difficult to exit the debt cycle.

### Multiple accounts

The use of multiple BNPL accounts with different providers can escalate debt. Existing BNPL debt is a significant driver of opening multiple accounts: in the 2022 practitioner survey, 84% of Financial Counselling and Capability practitioners reported they have clients with BNPL debt who have tried to manage the debt by opening additional accounts (Figure 2).<sup>3</sup> The use of additional accounts to service existing BNPL debt is highly concerning. Compounding debt hastens the decline into deep financial hardship for clients who are already existing in a financially precarious state.

*“Most clients can’t afford one payment, so they get another to pay the first, then another to pay the second and so on. I have clients with up to 10 BNPL products.”*

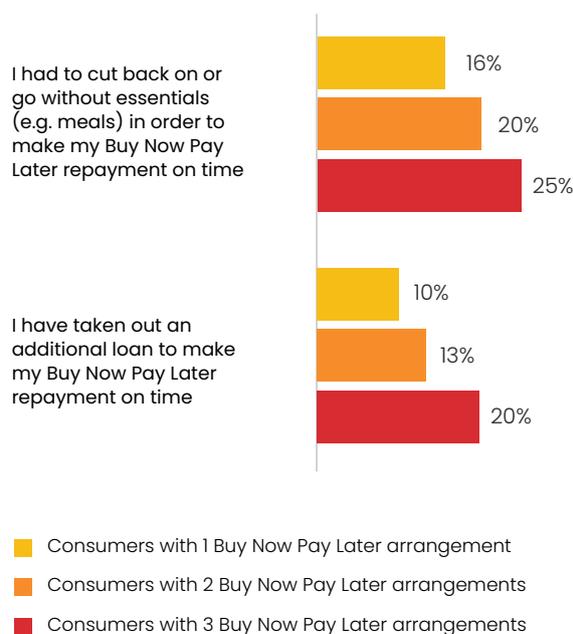
Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

The compounding debts caused by multiple BNPL accounts can also be seen in the wider community. Nationally, ASIC data (Figure 3) confirms that people are cutting back on or going without essentials to service BNPL debt (ranging from 16% of BNPL users with one account to 25% of users with three BNPL accounts), and taking out additional loans (ranging from 10% of users with one BNPL account to 20% of users with three BNPL accounts).<sup>14</sup> Of those who cut back on/went without essentials or took out additional loans, half were under 30 years.<sup>14</sup>

ASIC data also shows that, at a national level, of the one in five users who missed other bills in order to service BNPL debts, 44% missed household bills, 32% missed credit card payments, and 22% missed mortgage payments. Half of these users were under 30 years, and 52% had multiple BNPL accounts.<sup>14</sup>

**Figure 3: Debt management strategies of BNPL users, by number of accounts**

Source: Australian Securities and Investments Commission, Buy Now Pay Later: An industry update, 2020<sup>14</sup>



*“You normally see 3–4 accounts, and people keep rolling them over. It keeps them in poverty... there’s always a point where people can’t manage more. They find out when they reach it. Each person is different but there’s always a point where it becomes a problem.”*

Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

## Links with family violence

Good Shepherd is beginning to see concerning links between BNPL and family violence. Family violence can drive BNPL use. In the 2022 practitioner survey, our Financial Counselling and Capability practitioners observed that in the absence of suitable alternatives, some women are having to use BNPL when leaving abusive relationships and establishing new homes.<sup>3</sup>

*“Most of my clients have used BNPL to assist with fleeing or planning to flee domestic violence, setting up a new home and purchasing essential household goods. In most cases the amounts are below \$500. All my clients are not in a financial position to repay them.”*

Good Shepherd Financial Counselling  
and Capability practitioner<sup>3</sup>

While unaffordable debts are problematic for the general community, the consequences can be worse for family violence victim-survivors. Economic insecurity is associated with an increased risk of intimate partner violence,<sup>18</sup> and unmanageable BNPL debt could further erode women’s safety and stymie recovery. Safer alternatives include debt-free financial supports such as the national Escaping Violence Payment, Victoria’s Flexible Support Packages, and NILs loans where appropriate.

BNPL can also be a means of abuse in itself. The 2022 practitioner survey found that one in four Financial Counselling and Capability practitioners are seeing coercive debt in at least half of their clients with BNPL debts, and 69% are seeing it in at least one client using BNPL.<sup>3</sup> This abuse can include creating multiple BNPL accounts in a partner’s name, to accumulate debt.<sup>19</sup> Rates of coercive BNPL debts appear to be increasing, with 53% of practitioners reporting that they are seeing it more than a year ago.<sup>3</sup>

BNPL products are liable to financial abuse because accounts can be easily opened and operated online from a victim-survivor’s phone using basic personal information. Across all BNPL users, identity theft complaints are increasing.<sup>20</sup> BNPL is also open to financial abuse because it is not subject to the same mandated checks as other credit products, which can reveal financial abuse (e.g. fraudulent loan applications in another person’s name, and loans for which the applicant receives no benefit).

In the context of poorly performing BNPL hardship teams (see: Limited and inconsistent hardship support), abusive BNPL debts are concerning, as it is easy for signs of financial abuse to be mislabelled as financial stress or irresponsibility, rather than appropriately managed as an abusive debt through waivers, or the removal of adverse information from credit reports.

## Regressive and opaque interest rates

BNPL is marketed as a ‘no interest’ alternative to credit cards. This results in misconceptions about the nature and potential costs of BNPL. According to Good Shepherd practitioners, NILs and Financial Counselling & Capability clients commonly see BNPL as something other than credit/debt (e.g. lay-by),<sup>3</sup> and are in the dark about the effective interest rates attached to BNPL.

BNPL providers use a regressive interest structure via late fees and account-keeping fees, charging higher effective interest rates for smaller purchases, and lower interest for larger purchases. Research by Curtin University and Financial Counselling Australia found that for a \$30 purchase, the effective annual interest rate varies from 22.05% to 276.12% for BNPL providers, whereas for purchases of \$1000, BNPL providers charge between 2.02% and 8.99% interest.<sup>15</sup>

These costs only multiply when BNPL is linked to credit cards. While credit card interest rates may appear higher on the surface, BNPL accounts with credit cards are more likely to be used in a way that incurs interest than traditional credit cards (average difference 26%), and are more likely to use over 90% of their credit limits (23% difference).<sup>14</sup>

*“These products are extremely flexible and easily available. They end up costing more than what the consumer intended however due to late fees. This is something that is not clear from a long-term cost point of view which is why some people end up in a cycle. The products themselves are probably designed in this way which is what makes them such lucrative products.”*

Good Shepherd Financial Counselling  
and Capability practitioner<sup>3</sup>

## Credit ratings and future ability to borrow

Misunderstandings about the nature of BNPL affect people's ability to borrow and access safe and affordable credit. Good Shepherd NILs managers report that many clients who use BNPL do not realise that it may impact their capacity to take out a loan.<sup>3</sup> Internal Good Shepherd research shows that only 60% of BNPL consumers are aware of credit implications,<sup>19</sup> and many see it as lay-by rather than credit.

In 2020-21, the Australian Financial Complaints Authority (AFCA) received 767 BNPL complaints – common complaints related to BNPL's impact on credit checks.<sup>5</sup> Practitioners report that many Good Shepherd clients with BNPL debt did not understand the BNPL contracts they had signed, and did not know that missing repayments may impact their credit record.<sup>3</sup>

## Budget smoothing

BNPL use is not always problematic. In the 2022 practitioner survey, one in five Financial Counselling and Capability practitioners said that BNPL has helped some clients manage their finances.<sup>3</sup> The use of BNPL for this purpose can be seen in spending trends: there is an increase in BNPL transactions leading up to Christmas every year.<sup>14</sup>

*“It helped some parents purchase laptops for their children for school.”*

Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

## Increased consumption or prices

On the flipside, BNPL can work against good budgeting and financial wellbeing. Good Shepherd clients report using BNPL to buy items they couldn't afford in one payment because BNPL made it seem less expensive (81%), impulse buy products (53%), and spend more than they used to (55%).<sup>19</sup>

BNPL uses behavioural insights to drive purchasing behaviour: there is larger basket size, and increased checkout conversion with BNPL compared to other payment options, including credit cards.<sup>5</sup> This could be due to pre-filled customer details, no need to pay upfront, or the placement of BNPL above or in a more prominent location than other options. There is also a risk that consumers may be paying inflated prices for some goods and services when using BNPL.

*“The ‘design’ of BNPL phone interfaces and the ease of use makes tracking spent/committed money difficult and reduces the barriers to spending money that people don't have. Rather than helping people budget a large purchase over a period, it allows people to spend and commit money that is far in excess of their future income. So they borrow from another, to be able to pay for the first BNPL.”*

Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

## Limited and inconsistent hardship support

Even where clients are showing clear signs of hardship, BNPL providers are not obliged to provide hardship support. While some providers are voluntarily offering hardship programs (including signatories to the industry code), BNPL hardship assistance is inadequate. In the 2022 practitioner survey, our Financial Counselling and Capability practitioners reported large variation in response times, cooperation, and willingness to negotiate affordable repayment plans from hardship teams.<sup>3</sup> Because of their targeted online presence, many BNPL providers do not have readily available options for face-to-face or telephone contact, which can make negotiating hardship provisions more difficult.

*“BNPL have fewer financial hardship options. [One provider] has a comprehensive FV [family violence] policy and framework, however others do not. Most will give short term hardship moratoriums fairly easily, however will usually only consider long term payment or other longer term plans when family violence is involved and many will not even consider long term solutions such as debt waiver, long term payment plans, suspension of interest or fees and charges or waiver of fees and charges. These longer term solutions are commonly negotiated with credit cards/unsecured personal loans routinely with majority of lenders.”*

Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

*“[It's] sometimes impossible to get through to relevant financial assistance team (some of the BNPL companies don't even have call centres), response times [are] much longer.”*

Good Shepherd Financial Counselling and Capability practitioner<sup>3</sup>

# Policy recommendations

It is vital to tackle both the causes and harms of BNPL use. BNPL providers are exploiting government policy gaps as much as regulatory loopholes. A comprehensive government response to BNPL should therefore do five things:

**Address the drivers of BNPL use by people on low and insecure incomes**

**Strengthen debt-free financial support for family violence victim-survivors**

**Maximise alternatives to BNPL**

**Close regulatory loopholes to ensure consistent consumer protection**

**Provide consistent and accessible payment difficulty support over the lifecycle of BNPL services**

## Address the drivers of Buy Now Pay Later use by people on low and insecure incomes

1

### Recommendation 1:

**Establish a minimum income floor by increasing income support base rates to at least the Age Pension level, indexed annually to cost of living increases, and providing appropriate supplements to at-risk groups**

2

### Recommendation 2:

**End the use of payment reduction or withdrawal as a social security compliance tool, and end compulsory savings depletion (the 'Liquid Assets Waiting Period') for JobSeeker and Youth Allowance applicants**

As the findings above show, BNPL is more commonly used by Good Shepherd clients relying on social security payments than wages, and is often required for essentials such as groceries, utilities and children's needs. This points to failings in the social security system, and a commercialisation of the safety net: in lieu of adequate and accessible incomes, people are turning to BNPL. Women and young people are affected, as major users/targets of BNPL and due to the gendered nature of social security use.<sup>21</sup> BNPL is a highly accessible form of credit for social security users: many people assigned to compulsory income management have Cashless Debit Cards linked to BNPL accounts.<sup>22</sup>

Government can curtail the commercialisation of the social safety net by establishing a minimum income floor, that would increase social security payment base rates to at least the Age Pension level, and index it to increases in cost of living. Appropriate supplements must be provided to single parents, young people, and older women, to recognise particular hardship in these groups.

The role of social welfare in offsetting the need for credit products was noted by the Woolard Review of BNPL in the UK, which pointed to the twin roles of low welfare payment levels and payment restrictions in driving credit use, a situation with parallels to Australia.<sup>8</sup> In this respect, the need for BNPL could be further obviated by:

- ending the use of payment reduction or withdrawal as a social security compliance tool, which disproportionately affects women (e.g. via the ParentsNext program),<sup>23</sup> leaving people without sufficient incomes and more reliant on unaffordable credit
- ending compulsory savings depletion (the 'Liquid Assets Waiting Period'), which requires people to wait longer for their first JobSeeker or Youth Allowance payment if they have built up some limited savings.<sup>24</sup> This forces people to run down savings and leaves them more reliant on debt once receiving payments.

3

### Recommendation 3:

**Ensure wage-earners have liveable incomes by restricting the use of casual employment arrangements and improving wages and job security in the care economy**

While BNPL use is greatest among Good Shepherd clients relying on social security, our financial counselling services have seen a substantial uptick in clients who have BNPL debts and rely on wages as their main source of income.

This suggests problems with wage adequacy and security. For those with low and unpredictable wages, BNPL offers a way of smoothing income gaps and funding essentials. Similar to the hollowing out of social security, BNPL is a commercialised response to wage precarity that may come at a financial cost. Employees should not have to turn to the financial services market to make up the deficit created by inadequate incomes. A holistic BNPL response should therefore tie-in with proposed Federal government reforms to restrict use of casual employment arrangements, and improve wages and job security in female-dominated industries such as the care economy.

## Strengthen debt-free financial support for family violence victim-survivors

4

### Recommendation 4:

#### Increase the amount and accessibility of the Federal Escaping Violence Payment

It is unjust for victim-survivors to have to incur debt because of someone else's violence towards them. Additional debt may also retraumatise women who are already dealing with abusive, crushing debts, and compounds any existing financial insecurity.

Government can lessen the need for harmful BNPL debt by increasing the Escaping Violence Payment to a maximum of \$10,000 to align with the Victorian Flexible Support Packages. Victim-survivors often require additional financial support to leave abusive relationships and establish safe lives, even if their incomes are relatively reasonable and secure. The costs of leaving are extensive and have a long tail, encompassing moving costs, rental bonds and upfront rent payments, home security measures, clothing and furniture, psychological support, health needs (including for women with disabilities acquired through violence), legal costs, and children's wellbeing needs.

The Escaping Violence Payment should also provide a true alternative to BNPL by being accessible to victim-survivors at times of crisis and recovery, providing timely payments, and giving victim-survivors discretion over how funds are spent.



## Maximise alternatives to Buy Now Pay Later

5

### Recommendation 5:

#### Support the promotion and delivery of No Interest Loans

BNPL not only exploits income gaps but a common need for credit, regardless of income level. Internal Good Shepherd data shows people turn to No Interest Loans (NILs) and our Financial Independence Hub program for similar reasons to BNPL. Of the reasons given by people for seeking financial support from Good Shepherd, those most frequently cited are vehicle expenses, household costs, accommodation and relocation costs, bills, and fleeing or starting over after experiencing domestic abuse.

Good Shepherd's long-running NILs program is a true interest-free alternative to commercial debt. No Interest Loans are issued across Australia via online and telephone services, Good Shepherd's 'Good Money' stores in Victoria, South Australia and Queensland, and an extensive network of community loan providers.

Loans of up to \$2000 are available for household items such as whitegoods; car repairs and registration; medical and dental costs; technology; housing costs; and education costs, e.g. schoolbooks and electronic devices. Separate vehicle loans of up to \$5000 are also on offer. Loans are available to single households with a gross income of \$70,000 or less, couples with a gross income of \$100,000 or less, and family violence victim-survivors. Responsible lending practices are followed when issuing all loans.

Government could allow more people to learn about and access No Interest Loans by providing additional funding for the promotion and delivery of NILs, to ensure people are aware of this service, can connect with NILs providers in their local area, and receive a timely and seamless service that is preferable to other credit providers.

6

### Recommendation 6:

#### Build payment splitting and payment plan entitlements into essential services at Federal, State/Territory and local government levels

BNPL is not innovative; it merely captures a common need to split payments into more manageable amounts. Wherever possible, people should be entitled to such arrangements by right when using essential services such as housing, energy, telecommunications, education and health; areas in which BNPL providers are currently exploiting a lack of payment entitlements.

Federal, State/Territory and local governments should build these entitlements into sectors under their regulation, drawing on examples such as the Victorian [energy sector payment entitlements](#).<sup>30</sup>

Government and essential services providers can de-stigmatise the use of instalment payments by promoting and making them available, without penalty, to all customers (not just those on lower incomes), and ensuring they are easily accessible, e.g. through self-selection of instalment options on online customer portals and apps.

## Close regulatory loopholes to ensure consistent consumer protection

7

### Recommendation 7:

#### Develop a regulatory regime that prevents unaffordable BNPL debts, unmanageable multiple accounts, and misleading marketing of BNPL

BNPL can be a useful option when it is safe, affordable and suits people's needs. Some Good Shepherd clients have good outcomes using BNPL. However, Australia lacks a proper regulatory framework that promotes good outcomes among all BNPL users, ensures consistent consumer protection among credit products, and provides a pathway to justice for BNPL users who have been harmed.

The existing regulatory approach is very light-touch, largely relying on a voluntary, industry-led code overseen by an industry-appointed compliance committee. Code commitments are contractually enforceable by individuals through AFCA, but Code members do not face the same threat of legal action and penalties as other credit providers, including for systemic breaches of consumer protections that put many people at risk.

As the [Woolard Review](#) noted, an effective regulatory regime will look at how consumers substitute between different credit products and ensure they receive consistent outcomes, regardless of which credit product they are using.<sup>8</sup>

Federal regulatory responses to BNPL should address the following issues identified in Good Shepherd's services:

- **unaffordable BNPL debts:** at present, unaffordable debt can be lawfully issued by BNPL providers, with serious consequences. Unmanageable debts negatively affect physical and mental health, relationships, and ability to look for work and finish education.<sup>25</sup> The onus should not be on individuals to determine whether a BNPL service is affordable, in the context of already high household debt,<sup>26</sup> intense BNPL marketing, increasing integration of BNPL into merchant systems and shopping apps, and rapid consumer decision-making in online environments. Other jurisdictions, such as the UK, are now introducing affordability checks for BNPL<sup>27</sup>
- **unmanageable multiple accounts:** linked with affordability problems, there are currently no constraints on the number of BNPL accounts a person can be issued, nor the total debt load across these accounts
- **misleading marketing of BNPL:** potential BNPL users should be provided with clear information about the nature and ramifications of BNPL use, including its status as credit/debt, effective interest rates, and the potential impact of BNPL on credit records and future ability to borrow.

8

### Recommendation 8:

#### Prioritise financial abuse prevention in the BNPL regulatory regime

Addressing the links between BNPL and family violence should be a priority within the new regulatory regime. With 69% of Good Shepherd Financial Counselling and Capability practitioners already seeing coercive BNPL debts among clients using BNPL, this problem will only increase in an unregulated lending environment.

Under the responsible lending obligations governing other credit products, loan suitability and verification checks are important tools for preventing financial abuse, allowing lenders to identify red flags and reject fraudulent or inappropriate loans.<sup>28</sup> Women should be able to easily alert BNPL providers about fraudulent BNPL debts and have identity theft promptly investigated and addressed by providers, without the need for evidence such as police reports.

Where abusive debts are not picked up at the lending stage, victim-survivors at least have the option of redress where credit is not appropriately issued under responsible lending obligations.

## Provide consistent and accessible payment difficulty support over the lifecycle of BNPL services

9

### Recommendation 9:

#### Include mandatory and enforceable payment difficulty protections in the BNPL regulatory regime

Good Shepherd practitioners report multiple indicators of hardship among BNPL users, yet limited and inconsistent hardship/payment difficulty support from BNPL providers.

The Federal regulatory response to BNPL should include mandatory and enforceable payment difficulty protections for BNPL users. As the [Woolard Review](#) recommended, BNPL and other credit regulation should pursue an outcomes-based approach that entails not just initial affordability checks but good provider conduct across the entire lifecycle of the BNPL service.<sup>9</sup> Relevant outcomes include the financial recovery of BNPL users who experience payment difficulty, and people's ability to access credit over time (e.g. by preventing damaged credit records).

Lifecycle support is vital when so many circumstances of vulnerability arise *after* a BNPL or other financial product is issued, including the onset or aggravation of health problems and disabilities, job and income loss, relationship breakdown, and mass vulnerability events such as recessions, pandemics and disasters.

BNPL users would be well-supported by payment difficulty protections that provide:<sup>29</sup>

- proactive identification of and early intervention in payment difficulty
- accessible support that does not require people to jump through hoops and provide evidence of their personal circumstances
- inclusive and customer-centred support that respects individual assessments of payment affordability
- industry partnerships with specialist service providers, like financial counsellors and mental health and family violence services.

# References

1. Good Shepherd Australia New Zealand. *Buy Now Pay Later – Financial Counselling Data: July–September & year on year comparison*. (2021).
2. Good Shepherd Australia New Zealand. *Buy Now Pay Later – NILs Data: July–September & year on year comparison*. (2021).
3. Good Shepherd Australia New Zealand. *Financial Counselling and Capability Practitioner Experiences of Buy Now Pay Later (internal survey)*. (2022).
4. Bormann, A., Sethuraman, A., Nguyen, A., Suckling, E. & Brown, W. *Buy Now Pay Later: Applying a Gendered Lens*. Melbourne Microfinance Institute (2020) (unpublished).
5. Australian Finance Industry Association, RFI Global & BIS Oxford Economics. *The Economic Impact of Buy Now Pay Later in Australia*. (2022).
6. Pearson, D. & de lure, R. *NAB consumer insight report: Buy Now Pay Later*. (2021).
7. Gupta, Y. Buy Now, Pay Later is taking off but regulatory scrutiny may be a barrier. *Dynamic Business* <https://dynamicbusiness.com/topics/news/buy-now-pay-later-is-taking-off-but-regulatory-scrutiny-may-be-a-barrier.html> (2022).
8. Financial Conduct Authority. *The Woolard Review: A review of change and innovation in the unsecured credit market*. (2021).
9. Workplace Gender Equality Agency. Australia's Gender Pay Gap Statistics. *Australian Government* <https://www.wgea.gov.au/publications/australias-gender-pay-gap-statistics> (2022).
10. Department of Social Services. *DSS Demographics – March 2022*. <https://data.gov.au/dataset/ds-dga-cff2ae8a-55e4-47db-a66d-e177fe0ac6a0/distribution/dist-dga-b67aa3d6-063a-4e55-8941-6ca291754523/details?q=> (2022).
11. Australian Bureau of Statistics. Gender Indicators, Australia. *Australian Government* <https://www.abs.gov.au/statistics/people/people-and-communities/gender-indicators-australia/latest-release#economic-security> (2020).
12. Department of Social Services. *DSS Demographics – March 2022*. <https://data.gov.au/dataset/ds-dga-cff2ae8a-55e4-47db-a66d-e177fe0ac6a0/distribution/dist-dga-b67aa3d6-063a-4e55-8941-6ca291754523/details?q=> (2022).
13. Economics References Committee. *Credit and hardship: Report of the Senate inquiry into credit and financial products targeted at Australians at risk of financial hardship*. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Creditfinancialservices/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Creditfinancialservices/Report) (2019).
14. Australian Securities and Investments Commission. *Buy now pay later: An industry update*. (2020).
15. Duong, L., Taylor, G., & Eulaiwi, B. *Comparative analysis of credit card interest rates vs BNPL fees in the consumer credit market*. (2022).
16. Sheehy-Skeffington, J. & Rea, J. *How poverty affects people's decision-making processes*. [www.jrf.org.uk](http://www.jrf.org.uk) (2017).
17. Klein, E., Cook, K., Maury, S. & Bowey, K. *Social security and time use during COVID-19*. (2021) doi:10.25916/yetx-9m76.
18. Morgan, A. & Boxall, H. *Economic insecurity and intimate partner violence in Australia during the COVID-19 pandemic*. [www.anrows.org.au](http://www.anrows.org.au) (2022).
19. Bormann, A., Sethuraman, A., Nguyen, A., Suckling, E. & Brown, W. *Buy Now Pay Later: Applying a Gendered Lens*. Melbourne Microfinance Institute (2020) (unpublished).
20. Kaye, B. Exclusive: Australia's BNPL boom pushes identity theft to record, data shows. *Reuters* <https://www.reuters.com/article/us-australia-bnpl-fraud-exclusive-idUSKBN2A906Q> (2021).
21. Gardener, L., Maury, S. & Davies, F. The gendered nature of JobSeeker. *Power to Persuade* [www.powertopersuade.org.au/blog/the-gendered-nature-of-jobseeker/14/9/2021](http://www.powertopersuade.org.au/blog/the-gendered-nature-of-jobseeker/14/9/2021) (2021).
22. Borys, S. Cashless debit cards linked to buy now, pay later services raise concerns ahead of end of scheme. *ABC* <https://www.abc.net.au/news/2022-08-03/cashless-debit-card-legislation-debated-/101294154> (2022).
23. Commonwealth of Australia. *ParentsNext: examination of Social Security (Parenting payment participation requirements – class of persons) Instrument 2021*. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Human\\_Rights/ParentsNext/Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Human_Rights/ParentsNext/Report) (2021).
24. Services Australia. Liquid assets waiting period. *Australian Government* <https://www.servicesaustralia.gov.au/liquid-assets-waiting-period?context=51411> (2022).
25. Bourova, E., Ramsay, I. & Ali, P. What 1,100 Australians told us about living with debt they can't repay. *The Conversation* <https://theconversation.com/what-1-100-australians-told-us-about-living-with-debt-they-cant-repay-105296> (2019).
26. Reserve Bank of Australia. *Household sector*. <https://www.rba.gov.au/chart-pack/household-sector.html> (2022).
27. HM Treasury. Regulation of Buy-Now-Pay-Later set to protect millions of people. *Her Majesty's Government, UK* <https://www.gov.uk/government/news/regulation-of-buy-now-pay-later-set-to-protect-millions-of-people> (2022).
28. Gardener, L. & Ulbrick, M. Women's financial security will be further eroded by weakening consumer credit protections. *Power to Persuade* <http://www.powertopersuade.org.au/blog/womens-financial-security-will-be-further-eroded-by-weakening-consumer-credit-protections/24/2/2021> (2021).
29. O'Neill, E. *Exploring regulatory approaches to consumer vulnerability: A report for the Australian Energy Regulator*. [www.aer.gov.au](http://www.aer.gov.au). (2020).
30. Victorian State Government. *Having trouble paying your energy bills?* [www.esc.vic.gov.au/its-your-energy](http://www.esc.vic.gov.au/its-your-energy).



**Good Shepherd's  
vision is that all  
women, girls and  
families are safe,  
well, strong and  
connected.**

