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If it looks like debt, let’s treat it like debt – ‘buy now, pay later’ schemes need firmer regulation in NZ

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There are few stores without an Afterpay logo displayed on the door, or that don’t offer Laybuy at their online checkout. And these schemes are particularly popular with younger consumers.

But what price might these buyers be paying for the conveniences of buy now, pay later? Our new research investigated how young New Zealand adults use debt. What we found suggests greater regulation of delayed payment schemes is needed.

The rapid growth of “buy now, pay later” in New Zealand over the past decade has been meteoric. These delayed payment options are expected to make up an estimated NZ$1.2 billion of retail purchases in 2023.

Relatively new, these delayed payment schemes allow a consumer to purchase a product then pay it off in equal instalments over a short period of time, typically six to eight weeks. If repayments are made on time, there is no cost to the consumer.

Importantly, these delayed payment options are not currently subject to the same credit checks or affordability criteria as other consumer debt.

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And herein lies the problem. While people are essentially borrowing to pay for items, the delayed payment option is viewed differently from other debts by both users and under the law.

Through the course of our research, we surveyed 705 New Zealanders aged 18 to 34 and found one in five do not identify buy now, pay later as debt, with a further one in five not sure. And one in four were constantly repaying debt from delayed payment purchases.

Delayed payment is a problem for 1 in 5 young adults

Since its inception, buy now, pay later has been particularly popular with the 18-34-year-old age group. Young adults tend to have low or unstable incomes, putting them at higher risk of over-indebtedness – not being able to meet their essential living expenses and debt repayments.

More than 70% of our sample had tried delayed payment options. While nearly half our sample (43%) were using it wisely (rarely missing repayments and incurring fees or delaying use of their own cash), 20% were using it poorly.

Specifically, these users were:

- incurring late fees frequently, making delayed payment schemes an expensive form of debt
- prioritising their repayments above other essential spending, such as food or medical expenses
- and using other borrowing to repay their delayed payment purchases.

The final point is particularly concerning, as borrowing to repay debt is a balancing act at best, and a debt spiral at worst.

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We also measured respondents' general over-indebtedness. On average, those with a current delayed payment debt were more indebted than those without. We found those using these payment schemes badly were significantly more likely to have a higher over-indebtedness score.

Delayed payments appeared to be putting people under increased financial strain and compromised their overall financial wellbeing.

At the same time, credit cards and hire purchases didn't significantly increase over-indebtedness. While both are similar to delayed payment options, these older forms of borrowing are subject to consumer finance law, suggesting protective regulation reduces their impact on problem debt.

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Regulating delayed payment schemes

In New Zealand, consumers are protected from unsafe lending by the Credit Contract and Consumer Finance Act (CCCFA). This requires lenders to ensure their product is suitable for the borrower and that borrowers are able to meet the debt repayments without substantial hardship.

This affordability requirement prevents lenders from giving loans to people who, after necessary expenses, wouldn't be able to meet the repayments. Until recently, delayed payment schemes fell outside our definition of "debt".

Despite bearing all the characteristics of borrowing, providers have been able to present themselves as being better than traditional forms of lending.

Regardless of how these payment schemes have presented themselves, there has been bipartisan support to bring buy now, pay later schemes under the rules of the CCCFA.

New rules are coming

From September 2024, delayed payment lenders will need to do a credit check on users. But these lenders will remain exempt from the affordability and suitability assessments that exist on other types of borrowing.

Consumer advocates argue that requiring credit checks is necessary to prevent people getting into financial trouble.

At the same time, these groups acknowledge the accessibility of delayed payment schemes enables people currently locked out of low-cost consumer finance (often due to poor past credit histories) to borrow at no cost.

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Unlike credit cards, where balances incur ongoing interest costs, delayed payment schemes are limited to smaller sums and the total late repayment fee is capped. Afterpay, for example, has a $2,000 limit and caps fees at $68 or 25% of the original purchase price, whichever is lower.

Time will tell whether these limits will be enough to protect New Zealanders from getting into financial strife. But the path to financial wellbeing for young New Zealand adults is increasingly more difficult and treacherous.

And the consequences of poor financial decisions are severe, limiting future opportunities like home ownership and savings.

Our findings suggest delayed payment schemes are increasing the over-indebtedness of younger users in a way that other forms of similar consumer debt do not. These payment schemes should be regulated in the same way as credit cards and hire purchases – if it looks like debt, it should be treated as debt.