



BUY NOW PAY LATER – TOO GOOD TO BE TRUE?

Categories: Finance,

This series is provided in partnership with **Financial Counselling Victoria** and is around debt. We follow the journey of Young Carer Julie through understanding debt and putting her knowledge into practice. If you haven't read the first post 'Understanding debt' you should start there!



DREAMER DIARIES

By the middle of the year, Julie had fallen into a rhythm – she worked at the café every Sunday, and used most of the money she earned from her job to pay her parents a small amount of rent. She used her credit card to pay for her mobile phone bill and for the streaming services she subscribed to. Any money she had left over from the café would be her spending money for the week – except when her credit card bill was due, in which case she would use the leftovers from her café job to make the minimum repayment. Julie had paid her late mobile phone bills, and was pleased that her phone and subscription accounts were all under control. There was something reassuring about knowing that she had to be on top of only one bill – her credit card bill.

Well – there was the annoying fact that paying the minimum repayments each month did not seem to decrease the total amount she owed the bank – in fact, it actually seemed to go up slightly each month – but Julie felt sure that as long as she kept paying the repayments as she'd been asked, she'd get on top of it eventually.



In any case – there was so much going on that Julie didn't have time to think too much about her credit card bill.

School was a lot of work and, when she wasn't studying or at soccer training, she was putting the final touches on the script for her short film.

The school formal was also coming up, and this seemed to occupy an enormous amount of her friends' time. They spoke of nothing else and insisted that Julie buy a ticket.

It took two weeks' worth of the money left over from her café work to cover the cost. She had no idea what she would wear, and was pretty sure the music would be rubbish, but she was secretly pleased she'd been forced into going as she knew she'd be disappointed if she missed it.

Window shopping in the city one day after school, Julie came across a suit in an eggshell blue colour. As soon as she saw it, she knew it was the perfect outfit for the formal. Without another thought, she went into the shop and asked the sales assistant if she could try it on. It fit perfectly – as if there had ever been any doubt. Cautiously, Julie reached to inspect the price tag – \$300. Her heart sank – she knew it would be completely

irresponsible to use her credit card to buy the suit, particularly when her repayments were barely making a dent in the overall debt.



Julie came out of the change room and handed the suit back to the sales assistant.

“You didn’t like it?” the sales assistant seemed surprised.

“No...” Julie hesitated. “I loved it. But it’s too expensive for me right now.”

“Oh, but that’s not a problem! Haven’t you ever tried Afterpay? You can pay for the suit in instalments over six weeks. There’s no interest so you’ll only pay \$300 – the same as if you bought it in one go! And of course you can take it home with you today!”

No interest – that sounded like a dream! It was, after all, the interest that was the only problem with Julie’s credit card. Julie could already picture herself wearing the suit at the formal, and could imagine the compliments she would receive.

You've probably heard of Afterpay. It is one of the many 'buy now pay later' (BNPL) services that are now available in Australia. As the phrase 'buy now pay later' suggests, these services allow you to delay payment for a purchase – while still taking the item home on the day! Other BNPL services you may have heard of include:

- Brighte
- Humm Group (formally Certegy)
- Openpay
- Payright
- ZipMoney
- Klarna

BNPL services are becoming increasingly popular among consumers. In fact, recent research suggests that many younger Australians, in particular, are beginning to use BNPL as a regular part of their purchasing routine. This stands in contrast to a trend among young Australians to turn away from traditional credit cards and other forms of debt – often because they have seen the negative impact of crippling debt on their parents' generation.

Perhaps one of the reasons for BNPL's popularity among younger people is because it seems like a safer option than other forms of credit – BNPL services are often advertised as safe and easy alternatives to paying for an item upfront. In a recent study, many younger users of BNPL noted that they thought it actually helped them to budget for both day-to-day and larger purchases. However, although these services are seen to be safer than other forms of credit, they are not without risk.

Perhaps you know young people who use BNPL regularly, or perhaps you've thought about using it (even if you have never thought about using a credit card). However, it's important to understand the pros and cons of this kind of purchasing before deciding if it's right for you.

WHAT ARE THE BENEFITS?

The convenience of BNPL makes it an accessible and easy alternative to paying for a product upfront. Users can organise credit in store at the time of purchase, rather than applying for a credit card ahead of time. Using BNPL online is even easier – and consumers are often encouraged to

consider BNPL as an option. Have you ever seen ‘more options to pay’ flash up on your screen

as you are buying something online? When you click it, you will see many suggestions for BNPL services offering payment plans for the purchase you are about to make.

As the sales assistant explained to Julie, BNPL purchases are also interest free. As we explained in our previous posts, which you can read [here](#), interest is an amount of money that a lender charges on top of the money they have lent.

Without interest, the total amount owed to a creditor is easier to anticipate – making payments easier to budget for. This may be why some young Australians have found BNPL a useful budgeting tool – they know how much they owe in a given week and are not subject to surprise increases in interest rates.

SO WHAT ARE THE RISKS?

Although BNPL services can provide a safer, interest-free alternative to a credit card, many of the same dangers exist. As with any service that delays payment for a purchase, it’s important to recognise that we are delaying payment for the future – and we can’t always anticipate what the future will look like! Our financial situation may have changed – our work may have slashed our shifts,

or we may have quit our job to focus on our studies – and these sorts of changes can have a huge impact on whether or not we will be able to make our repayments.

While the amount of each repayment on its own may seem manageable, it’s also important to consider the additional fees that a consumer may be charged as part of a BNPL arrangement. In particular, late fees, which may be flat or fixed fees, can be large when considered as a proportion of the total cost of the purchase. Establishment and account keeping fees may also apply

depending on the service provider that you use – [click here](#) for a list of the fees charged by each common provider. So – while the repayments may

initially seem small and manageable, if you miss one the total amount owing may **** out of proportion very quickly.

Let's have a look at Julie's purchase to see how this might work in practice:

- Cost of the suit \$300
- Repayments: monthly over 12 months \$25 per month
- Late fees per month \$40 per month (if payment is late)
- Establishment and monthly account fees up to \$90

Here we can see that the monthly late fee is almost double the cost of a monthly repayment. This means that, if Julie is late for a payment, she will owe \$65 the next month – an amount that is much larger and more unmanageable than the \$25 she budgeted for. And if she cannot pay that \$65 in one month and is late to pay again, this amount will grow quickly.

WHAT IF SOMETHING GOES WRONG OR I CAN'T AFFORD REPAYMENTS? WHAT PROTECTION IS THERE FOR CONSUMERS?

Most credit providers (think banks, or any institution that will provide consumers with a credit card) in Australia must comply with certain banking regulations. This means that they must engage in responsible lending practices, and cannot provide credit contracts to consumers who may not be able to make the repayments outlined in the contract. However, because BNPL service

providers don't charge interest, they do not have to comply with these regulations. This leaves consumers – particularly vulnerable consumers without stable employment – more open to unmanageable debt, and less able to complain if they have been treated unfairly.

For transactions under \$2000, BNPL service providers are not obligated to assess the capacity of customers to make repayments – even customers that do not have secure work or who may be financially vulnerable. While this might actually seem convenient for a customer who does not have a regular income, or one who relies on BNPL to purchase groceries, remember that it is also these same consumers who are most at risk when borrowing money – if only because their financial situation is subject to change.

Younger people may also be vulnerable because they are more likely to be casually employed, which means that their income can change from week to week. BNPL providers are not required to protect vulnerable or at-risk customers; this means that

consumers may get convinced into making purchases they cannot afford, and may find themselves accumulating debt and crushing late fees. It's important to remember that BNPL's ease of access goes hand in hand with the increased risk it poses to consumers.

Also – because BNPL providers do not comply with banking regulations, consumers have limited rights to complain about difficulties and poor conduct. This means that there is little that can be done if you think you have entered an unreasonable or unrealistic credit contract.

SO WHAT DO I DO IF MY BUY NOW PAY LATER PURCHASE DOES GO WRONG?

Although BNPL providers don't have to comply with banking regulations, there is still help available if you have used BNPL and think that you are being treated unfairly by your BNPL provider. In this case, you should follow these steps:

1. Cancel your arrangement with the BNPL provider
2. Seek free advice from the National Debt Helpline (NDH):

www.ndh.org.au

3. Complain to ASIC
4. Complain to AFCA

CHECKLIST FOR ENTERING INTO A BUY NOW PAY LATER SCHEME

So – should you use a BNPL service to buy those new sneakers you've been dreaming about? There's no one-size-fits-all answer to that question.

For lots of young Australians, BNPL works as a way of purchasing bigger items they can't afford in one go, or of 'smoothing' their debt so that their repayments are roughly the same amount each month. However, it's important to

remember that BNPL isn't risk-free, and is especially risky for casual employees, or those without stable employment.

Here are some useful questions to ask yourself if you are thinking of using a BNPL service to delay payment on a purchase:

- Can I afford these extra repayments in my monthly budget?
- When will I finish the repayments?
- Is my financial situation likely to change in the next few months? If it does, will I still be able to afford the repayments?
- How much are the fees if I am late to make a payment? How likely is it that I won't be able to make a payment?
- What additional fees and charges are there? Can I afford these?
- If I want to exit the arrangement, what are my consumer rights?
- Who can I contact for help if I am unable to keep up with my repayments? Will a financial counsellor be able to help?

If you are over 18 and experiencing a financial problem, it may help to talk to a financial counsellor. Their assistance is free, confidential and independent. If you would like to talk to a financial counsellor, click [here](#) to access the Carer Pathway to financial counselling.