

BUY NOW PAY LATER (BNPL) SERVICES

Buy now pay later services (BNPL) allow consumers to pay for goods in instalments over time, instead of paying the total amount upfront for a product. Usually, the customer pays off their purchase within a few weeks. With more expensive products, the payment period can be much longer. Compared to traditional credit cards and personal loans, it is relatively easy for consumers to get approval for BNPL loans. Common BNPL services in Australia include the following:

- Afterpay
- Zip
- Humm
- Openpay



Risk of using BNPL services

It's important to note that BNPL lenders do not currently have the same legal obligations as banks, credit card providers, or other financial institutions. This means they are not covered by the [National Consumer Credit Code](#). This means that consumers who take out BNPL loans may have fewer protections compared to consumers who have taken out loans through financial institutions.

It is essential to understand that some BNPL lenders are members of the Australian Financial Complaints Authority (AFCA) and comply with the ACCC's and ASIC's Debt Collection Guidelines. This gives you some protection as a consumer, but some BNPL lenders are not members.

Check if your BNPL lender is a member of AFCA [here](#).

Users of BNPL services were far more likely to have bank overdrafts, payday loans, pawn loans, and other high-interest financial products, indicating that they may experience [financial hardship](#) more often or to a higher degree than non-users of BNPL financing.

What to consider before signing up to a BNPL service

Before you sign up, keep in mind:

It's easy to overspend - you can over-commit to spending, especially if you're an impulsive shopper and do not shop with your budget in mind.

Fees may appear low but can add up – you are not charged interest, but you are charged 'fees' to use the service.

Multiple purchases in multiple BNPL schemes are hard to manage. If you sign up for more than one service at a time, it can be difficult to keep track of payments and manage your budget accordingly.

It might affect a loan application – BNPL users should carefully manage their payments – BNPL debt and late repayments will affect your credit history and credit rating, which may affect a future car loan, mortgage or financial future.

Consider in-store lay-bys – they do not incur interest and can therefore be cheaper. They generally don't incur account keeping fees or late fees. They also do not impact on your credit rating. However, they can incur a service fee to set up the agreement, and if you cancel the lay-agreement, you may have to pay a cancellation fee.

Consider the store's return policy - BNPL loans might affect your ability to return something that you've purchased. For example, a store may allow you to return the item. Still, you can only cancel the BNPL arrangement once you provide proof that the return has been accepted and processed. You may have to keep making payments in the meantime. If you don't, the payment might be seen as a default, resulting in added fees and negatively impacting your credit score.

It does not affect your Australian Consumer Law rights to return a faulty product.

Zero interest fees does not mean zero fees

BNPL services have become very popular. One reason for this popularity are their claims to be 'interest free' or offering '0% interest'. While these claims may be true, they will probably have the following types of fees:

- late fees - if you miss a payment or pay late, around \$5 to \$15
- monthly account-keeping fees - a fixed monthly fee of up to \$10 a month
- payment processing fees - some charge an extra fee of around \$3 each time you make a payment
- establishment fees - a fee to set up the account. Some providers may not charge establishment fees; others may charge up to \$110.

There are also fees that your bank or credit card provider may charge on top:

- overdrawn fees - if you don't have enough money in your account to cover the repayment
- interest - if you are paying by credit card

Fees can add up

If you use several BNPL services, it can be very hard to track your spending. If the repayment are close to your fortnightly income, it can be very hard to get on top of your debts. BNPL advertising targets younger people who are often on low wages and may have little experience in managing their budget. This may result in multiple payments coming out of their budgets for various products, and they easily find themselves in financial difficulties.

Managing your BNPL use

To make the most of BNPL services, it's essential to:

1. Set a limit

Consciously set a limit for your expenditure and stick to it. Try not to be enticed by advertising claims and other sales strategies.

2. Work out a budget

Working out a budget that includes all your costs can help you understand your financial position, including how much you can spend each fortnight. Try to keep some money aside for unexpected bills and costs.

3. Use only one BNPL service

Some people use a variety of BNPL services simultaneously. This makes it incredibly hard to manage their payments and their other financial commitments. It can easily lead to overcommitting money and getting into debt very quickly.

4. Link to your debit card

Consider linking your BNPL account to your debit card instead of your credit card. This way, you're using your own money and avoiding credit card interest. It can also be wise to have only one credit card for the same reasons it can be smart to only use one BNPL service provider.

What to do if you get into financial trouble?

Most BNPL providers have some form of complaints and hardship assistance service. Contact your provider if you have a complaint or if you're having trouble making repayments. Contact them immediately and do not delay. The longer you wait, the larger the issue – and possibly your debt - will become.

[Financial counsellors](#) can help you manage debts and get your finances back on track. This is a free and confidential service.

Call the [National Debt Helpline](#) on 1800 007 007.

Aboriginal and Torres Strait Islander people can call the [Mob Strong Debt Helpline](#) on 1800 808 488.

The more young Australians understand money management, the better they can spend carefully within a budget. This enables them to afford purchasing more expensive items in the future, such as a car and a home. To learn more about the principles behind careful money management, visit the Australian Government's [Moneysmart website](#).