

Buy Now Pay Later



A report on the state of buy now pay later (BNPL)
in New Zealand

Contents

The rise and rise of BNPL	3
Young Kiwis are driving the proliferation of BNPL	3
BNPL takes advantage of human psychology	4
The growth of online shopping has underpinned BNPL's claim to fame	5
COVID-19 has proven that BNPL is pandemic-proof	6
Comparing credit cards and BNPL	6
Could this be the beginning of the end for credit cards?	6
Shoppers tend to underestimate the impact of late fees	7
There are regulatory concerns around BNPL	8
BNPL can make it easier for consumers to get into debt	8
The lack of industry regulation has some concerned	9
Pay-on-demand is the new Afterpay	9
The future of BNPL	9
What do Finder's experts have to say?	10
References	11

The rise and rise of BNPL

Buy now pay later (BNPL) services landed in New Zealand in 2016 and have seen exponential growth over the past few years. Unlike credit cards, BNPL allows users to purchase a product, pay it off in instalments and avoid paying interest. It also bypasses many of the logistical barriers such as application processes and credit checks that may stop consumers from getting a credit card.

BNPL has been hugely popular, particularly among younger generations, and has been one of the driving forces pushing consumers away from credit cards. Part of this can be explained by how Millennials and Gen Z, the largest markets for BNPL, experienced the global financial crisis of 2008, and in particular, what the reliance on credit did to people's savings at the time. This has contributed to a fear of debt, overspending and interest among these generations, and by extension, an aversion towards credit cards.

A simpler explanation is that the digitalisation of the world – with endless information, products and services at our fingertips – has made consumers crave instant gratification without the consequences of charges and fees. More than ever, young people want to be in control of their finances, and that includes deciding when and how they pay for things.

Young Kiwis are driving the proliferation of BNPL

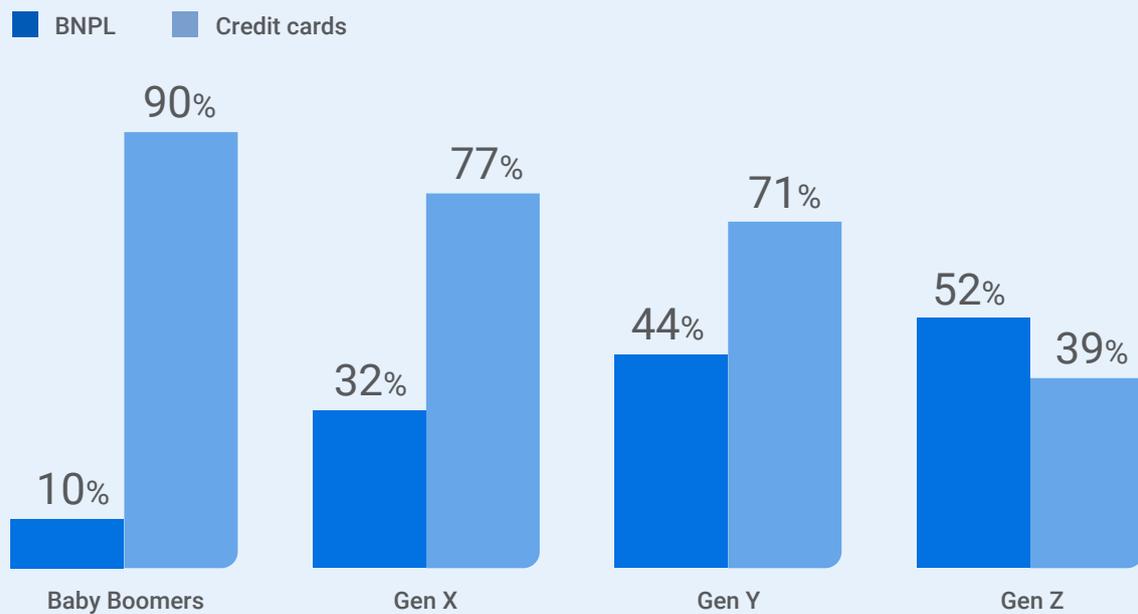
There are six major players in the New Zealand BNPL market: Laybuy, Afterpay, Humm, Zip, Klarna and Genoapay. The BNPL market has seen healthy growth since inception, but 2019 was the year that the industry exploded; the number of customers grew by 49% and total spending more than doubled.¹

According to a Finder survey, nearly a third of Kiwis (31%) have used BNPL services within the past three years, with the average customer using BNPL around eight times in six months. BNPL is most popular among younger generations, with 52% of Gen Z and 44% of Millennials having used the service within the past three years, compared to just 10% of Baby Boomers. On the other hand, 9 in 10 Baby Boomers (90%) use a credit card, compared to just 39% of Gen Z. Women (39%) are also more likely than men (23%) to have used BNPL within the past three years.²

Growth in BNPL customers
between 2018 and 2019

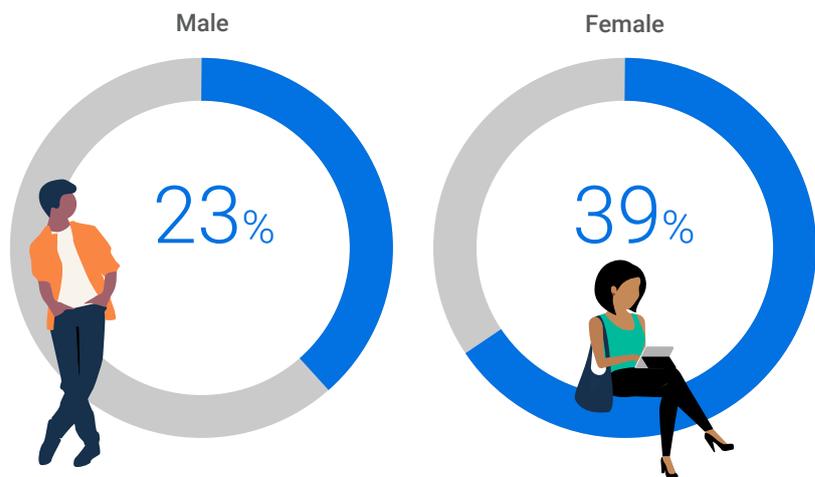


BNPL and credit card use by generation



Source: Finder Consumer Sentiment Tracker, January 2021

Kiwis who have used BNPL within the past 3 years



BNPL takes advantage of human psychology

According to prospect theory, humans are inherently more averse to financial loss than they are attracted to a gain of the same amount.³ When it comes to BNPL, paying for a product in small instalments reduces the pain associated with a purchase because the perceived cost is lower. Shoppers receive the same gratification at a fraction of the cost – or at least that’s what it feels like. The “buy now” component of the service encourages little consideration before making a purchase – a tailored

message to the young demographic who shop for what they want rather than what they need. Consumerism and ever-changing fast fashion cycles add to the pressure to “buy now” for fear of missing out.⁴

There is also something to be said for cost certainty. For low-income or debt-ridden customers, a fixed late fee may be preferred over an uncertain interest charge. For Millennials and Gen Z, who are typically averse to credit cards, BNPL can help them feel more at ease with their debt. Unlike the interest on a credit card, they know their charge at least has a fixed limit.

The growth of online shopping has underpinned BNPL's claim to fame

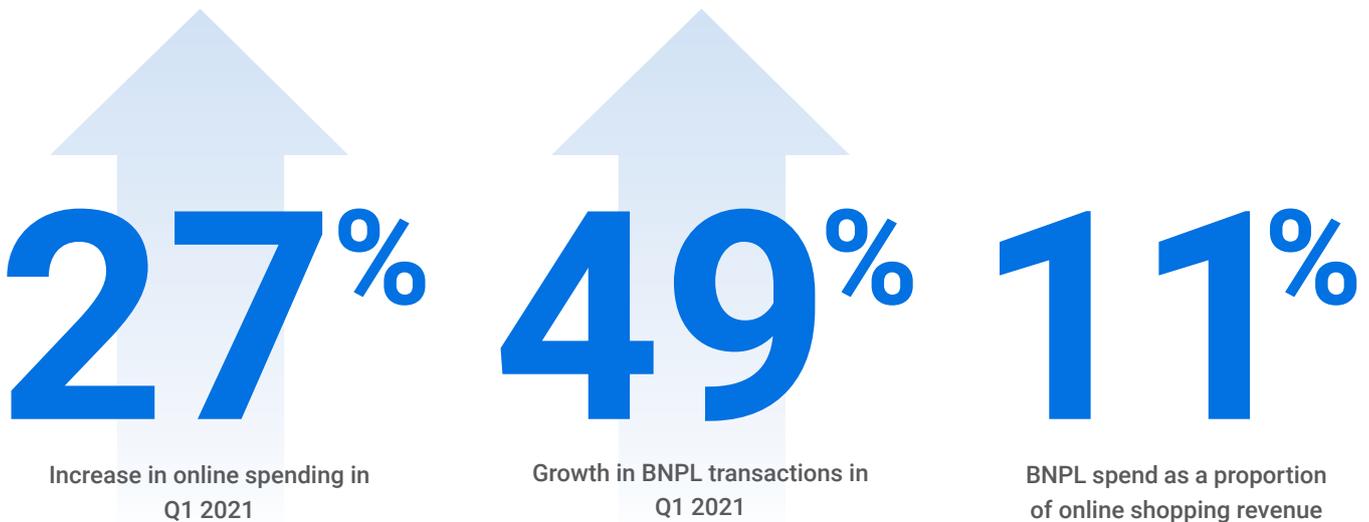
The explosive popularity of BNPL is a symptom of several factors: a culture craving instant gratification and customisation, a recession leaving some people in debt and unable to purchase products outright, and an ongoing shift towards the online marketplace. Between 2018 and 2019, total online spending grew by 13% to reach \$4.7 billion, supported in part by the growing popularity of big shopping events like Black Friday. Over the same period, there was a 48% increase in Singles Day transactions and a 21% growth in Black Friday transactions.⁵

COVID-19 accelerated the rise of the digital marketplace, as lockdown measures meant that only quick-to-adapt online businesses could do well through the pandemic. Where the world of online shopping had previously been dominated by non-essential department stores and

clothing, consumers were now ordering everything from groceries to pharmaceuticals to appliances from the comfort of their own homes.

The March quarter 2021 saw online spending reach \$1.47 billion, up 27% over the same period in 2020, and an increase of nearly 50% over 2019. There were an estimated 2.2 million online shoppers across the country through the quarter, equivalent to more than half of the nation's adult population.⁶

The surging demand through online channels has led the way for BNPL to thrive. According to NZ Post, BNPL transactions grew by 49% in the first quarter of 2021 compared to the same period in 2020. NZ Post also estimates that BNPL accounts for 11% of all online shopping revenue.⁷ It's likely this growth will continue in the wake of the pandemic.



In 2020-21, the online shopping industry in New Zealand is forecast to grow by 6.7%.⁸ A Finder survey from July 2020 revealed that one in three Kiwis (33%) was continuing to shop online even after the first lockdown was lifted, and 13% were still buying their groceries online.⁹ It seems that even as the pandemic eases and the economy recovers, consumers are reluctant to let go of their new shopping habits.



COVID-19 has proven that BNPL is pandemic-proof

Reduced discretionary household spending as a result of the recession could result in dampened revenue for the BNPL sector in 2020-21. In July 2020, a Finder survey found more than half of Kiwis (56%) had reduced their spending during the pandemic in order to save more.¹⁰

However, the latest data suggests that the economy is quickly bouncing back. Total retail spend increased 4.9% between December 2019 and December 2020, and nearly three in five consumers (58%) say their spending has returned to normal.^{11,12} While consumers may be more money-cautious initially, KPMG has predicted that the post-pandemic optimism will incite an ecommerce boom similar to that which followed the Global Financial Crisis in 2008.¹³

In fact, households facing financial challenges may actually be a key growth market for BNPL players as consumers look for ways to finance products on a budget. The nature of BNPL transactions – typically low value and high volume – means the sector is actually quite recession-proof, and the growing revenue of major players throughout the pandemic is evidence of this. For example, between the second half of 2019 and the same period in 2020, Laybuy's revenue from late fees increased by 164% and revenue from merchant fees increased by 133%.¹⁴

Comparing credit cards and BNPL

Could this be the beginning of the end for credit cards?

The rapid rise of BNPL, particularly among younger generations, has many questioning whether the new digital payment mechanism will replace the traditional plastic card. These questions are not unwarranted, as data consistently show that younger generations are forgoing credit cards and choosing BNPL. Throughout 2020, as the BNPL industry thrived, credit card balances fell by 21% between February and April, and even in February 2021 balances remained 15% lower year-on-year.¹⁵

However, taking over the credit card industry will be more difficult than that. Having understood the threat that BNPL places on the credit card market, providers have begun to offer competitive products such as interest-free credit cards, which charge shoppers no interest for a period of time, either upon purchase or for a certain number of days each statement period.

And while neobanks like Revolut are yet to set foot in New Zealand, low interest rates and declining trust in big banks could create conditions for neobanks to thrive in New Zealand, which means the credit environment could become even more competitive in the coming years.



Shoppers tend to underestimate the impact of late fees

While BNPL's interest-free appeal may be tempting, research from the Australian Securities and Investments Commission (ASIC) in Australia reveals that 21% of BNPL users incur late charges – and this isn't specific to just Australia.¹⁶ BNPL providers rely on late fees, which make up a hefty portion of their revenue alongside merchant fees. Laybuy, for example, earned \$5.8 million in late fees in the second half of 2020 alone.¹⁷

For shoppers, Finder analysis reveals that customers could actually be better off paying credit card interest than paying late fees on BNPL payments. The chart below shows the maximum charges a customer could

incur on a \$100 purchase. In some cases, it's up to 50% of the item's value using BNPL. On the other hand, the average credit card holder would pay 19.4% in interest per annum, or around \$3 over an eight-week period, making them better off overall.

However, most BNPL providers cap their maximum late fees, which means that fees as a percentage of the purchase cost go down the more a customer spends, and those who avoid paying late fees altogether enjoy the service for free. Meanwhile annual fees could add several hundred dollars per year for credit card holders. The bottom line is that BNPL is far cheaper if repayments are made on time, but those who repeatedly incur late fees might be better off with a credit card.

Maximum late fees on a \$100 purchase (8 week period)



*Based on the average annual credit card interest rate of 19.4% according to RBNZ data. Data displayed is for an 8-week period.

Source: Finder, RBNZ, terms and conditions documents for the providers listed

There are regulatory concerns around BNPL

BNPL can make it easier for consumers to get into debt

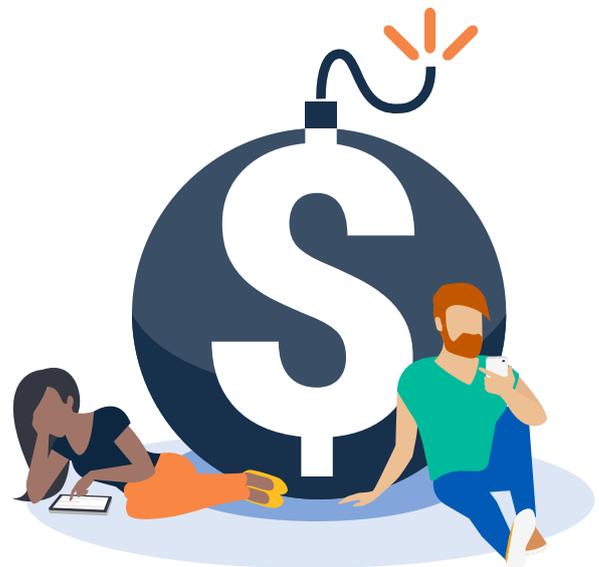
Kiwis who are carrying debt through BNPL



According to a January 2021 Finder survey, 17% of Kiwis are carrying debt through BNPL services, with the average outstanding debt sitting at \$418. And while 38% of the general population say that they are extremely or somewhat concerned with their current level of debt, this figure jumps to 63% for those with BNPL debt.¹⁸

The relative accessibility and zero-interest allure of BNPL can make it easy to get into debt quickly if shoppers don't have the means to make repayments on time. Concerningly, new research from the Australian Securities and Investments Commission (ASIC) in Australia has found that 20% of BNPL users are reducing or cutting out essentials to meet their repayments, and 15% have taken out another loan to meet their repayments.¹⁹ It's reasonable to believe that there is a similar struggling demographic in New Zealand as well.

Many consumers are not aware that BNPL spending can also come with an invisible cost: a blow to their credit score. BNPL providers are authorised to report missed or late payments to credit agencies, which means that irresponsible spending could adversely impact a consumer's ability to buy a house or be approved for a loan later down the track.



The lack of industry regulation has some concerned

Recessions tend to be opportunistic moments for loan sharks to take advantage of people in vulnerable situations. BNPL providers are categorised differently to credit card providers and therefore don't fall under the Credit Contracts and Consumer Finance Act 2003 (CCCFA). This regulation ensures that borrowers are adequately assessed for their suitability to take on a loan. This means it is potentially easier for bad borrowers to get into debt through BNPL services than through traditional credit cards or loans.

Last year, the government fast-tracked the Credit Contracts Legislation Amendment Act – an amendment to the CCCFA that prevented borrowers from paying more than 100% in fees and interest, meaning that they would only ever pay back twice the amount they borrowed at most – and also regulated that missed fee payments cannot exceed \$30.²⁰ However, this legislation does not apply to BNPL, and while caps on maximum fees limit the amount of debt a customer can accrue, there are still concerns that the relatively unregulated nature of the BNPL industry could be dangerous.

Pay-on-demand is the new Afterpay

Pay-on-demand services – apps that allow consumers to access some of their salary before payday – are a similar form of loan in disguise. In Australia, services such as CommBank AdvancePay and Beforepay offer loans of up to \$750, which are usually repaid automatically once consumers are paid by their employer.²¹ Pay-on-demand services are intended to help consumers pay for essentials like bills, groceries and rent, which are typically services that cannot be covered by traditional BNPL providers. While they are interest-free, pay-on-demand services charge a flat-rate fee, which is taken from your pay, as well as late fees. This can make such loans expensive and an easy way to get into debt if not spent wisely.

Pay-on-demand apps have yet to enter the New Zealand market. While there are services offering payday loans, they charge extremely high interest rates – up to 292% per annum – as well as expensive establishment fees.²² This can make it extremely easy for borrowers to get into debt, particularly if they are living paycheck to paycheck and unable to repay their loans within a short time frame.

The future of BNPL

The emergence and rapid growth of BNPL have contributed to an increasing level of competition in New Zealand's credit market, with the credit card industry dipping its toes into interest-free products. The fight over customer loyalty is also leading to a growing focus on understanding consumer psychology around borrowing and spending behaviour in a culture that values instant rewards and demands personalised offerings.

With BNPL services relying on a large portion of their customer base being young and on a budget, there are also questions as to whether companies like Afterpay and Laybuy will be able to retain their customers as they grow up and stop needing to rely on instalment plans to purchase a new pair of shoes.²³ But in the meantime, the after-effects of the pandemic and the growth of online shopping have enabled BNPL to prosper.

As the industry grows and new forms of lending emerge, so too may consumer behaviour and levels of debt, and regulating the industry could become more vital and more complex. For now, the burden remains with the consumer to determine whether they can afford to use BNPL services without tumbling down a rabbit hole of debt.



What do Finder's experts have to say?

Kevin McHugh

Publisher, New Zealand

Buy now pay later services are increasingly popular, especially among younger people. The immediate gratification of making a purchase, even if the money isn't available right now, can be attractive.

Like any form of credit, BNPL can be a useful tool if managed well. If you make sure you meet the regular payment instalments in full and on time, you can spread the cost of your purchases over a period of weeks or months. This offers consumers a flexible, interest-free purchasing option.

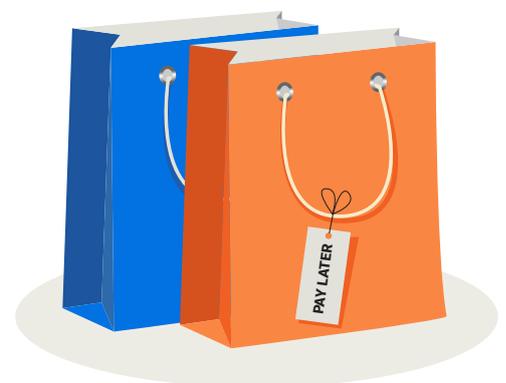
But consumers should be fully aware of the risks of BNPL and how it compares to other forms of credit.

Those considering BNPL as a payment method should ask themselves some important questions:

- **Do I have the funds available right now?** Spreading the cost of a purchase over time might seem appealing, but it's probably not the sensible option if you can afford to pay for the purchase outright. From unexpected outgoings, to simply forgetting, there are lots of reasons why you might not be able to make a payment.
- **Can I make the repayments on time?** Missing instalments means late payment fees, which can be high when compared to the purchase made. As BNPL services are authorised to report negative information, it could also mean damage to your credit score and your ability to get credit in the future.
- **What are the alternatives?** If you're not sure whether you can make the repayments of a BNPL service, a credit card with a low interest rate on purchases may be a better option. As long as you make the credit card's minimum payment by the due date, you will only be charged the interest. This is likely to be much lower than a late fee charged by a BNPL service provider.

With its popularity among younger demographics and widespread acceptance by retailers, we can expect BNPL to continue its strong growth in New Zealand.

However, calls for regulation and competition from an increasing range of credit options means that current BNPL providers will be expecting significant challenges in the near future.



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