

The rules for Afterpay, Zip and other 'buy now, pay later' providers are changing. What it means for you, and them

May 24 2023, by KB Heylen



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More than [6 million Australians](#) have used the "buy now, pay later" lending services offered by Afterpay, Zip and [more than a dozen other companies](#).

Buy now, pay later offers an easy and convenient alternative to credit card services. You can sign up and have your loan approved almost immediately. One reason for this is that buy now, pay later companies aren't regulated by the same consumer-protection rules that apply to other credit providers.

But now the Australian government is going to change that—at least partly, in response to concerns the unregulated sector will lead to more people get caught in debt traps.

"BNPL looks like credit, it acts like credit, it carries the risks of credit," federal Assistant Treasurer Stephen Jones [said this week](#).

The government will bring the industry in line with with other credit products by amending the National Consumer Credit Protection Act to include buy now, pay later companies, defining buy now, pay later companies as credit providers.

Here's what this means, for you and the sector.

What is a buy now, pay later service?

First, let's recap what exactly makes buy now, pay later companies different to other forms of credit.

The crucial difference is that buy now, pay later companies don't charge interest, which is how the [National Consumer Credit Protection Act](#) defines a credit service. Instead buy now, pay later companies charge retailers a commission on transactions and charge customers late fees if they fail to make repayments on time. Some also charge monthly account keeping fees.

This has enabled buy now, pay later lenders to pitch their products as

"interest free", as well as avoid the regulatory requirements of the federal credit law.

One of these is the requirement to perform a credit check, which involves assessing a customer's financial history and capacity before lending money, although some buy now, pay later companies already do so voluntarily. This is why financial regulators such as the Australian Securities and Investments Commission [have warned of the risk](#) of buy now, pay later products contributing to financial stress and hardship.

More credit checking

The changes to the Credit Act will require all buy now, pay later providers to hold an Australian Credit Licence, [like other credit providers](#), and to improve their dispute resolution, hardship, product disclosure and marketing practices.

Most importantly it will impose credit-check requirements.

The comprehensive credit-reporting framework currently requires credit providers such as banks to report on consumers' loan, repayment, overdue and default histories. This data is used by providers when assessing a person's affordability and suitability for credit.

Afterpay and others have argued they don't need this credit-reporting system because they use their own algorithmic checks. The problem is no one knows what data they are using or how they are making decisions.

While the credit reporting system is not perfect, it is better to have all providers working from the same data set than individual companies making up their own rules.

As credit services, buy now, pay later providers will gain full access to this data, covering consumers' repayment and hardship history for other credit products such as loans and credit cards.

This means that when you apply for a buy now, pay later loan, the process may take longer, with a greater possibility of rejection if you have a history of late or overdue loan or credit card repayments.

However, unlike banks, provider will not necessarily have to report your data into the credit-reporting system. This is because the government doesn't regard them as risky as the likes of pay-day loans or consumer leases.

So a buy now, pay later provider won't know your history with other buy now, pay later providers. This means you could theoretically continue to have multiple services, which is a known contributor to debt stress.

Spending limits and fee caps

The [new regulations](#) will put cap on fees for late or missed payments.

Currently, Afterpay, Zip, Humm and others having very different approaches to how they charge fees, making it hard for customers to compare and assess. While the lure of "no interest" may seem appealing, these late fees can add to a huge effective rate.

For example, [research from Curtin University](#) shows falling behind over ten fortnightly repayments for a small purchase results in an effective annual interest rate of 28.25% for Afterpay, 29.32% for Zip and 177.44% for Humm's "Big Things" loans. These annualised rates are higher than most credit cards.

The new cap should help bring the fees in line with similar charges on

other credit products.

Another changes to the Credit Act will mean your credit limit can no longer be increased unless you explicitly ask for it. Currently services like Zip and Afterpay start first-time users with a low credit limit and automatically increase it based on good repayment history.

This could mean buy now, pay later providers will offer larger credit limits to users up front, just like credit cards. This could be risky for some customers, but it also presents a higher risk for buy now, pay later services.

What this means for the industry

Greater protection from consumers will likely result reduce revenue for buy now, pay later providers.

Restricting the ability to automatically increase credit limits means buy now, pay later companies must either offer higher starting limits and accept higher default risks or contend with lower transaction totals overall.

The cap on fees and charges will likely bring in less revenue. More rigorous credit checks may result in fewer new customers.

Bringing all providers into the regulated system will allow for greater transparency around how credit decisions are made and create a more level playing field between [credit](#) providers.

The government will now work with industry and consumer groups to refine the details. The new laws are expected to be introduced to Parliament later this year.

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