

Buy now Pay Later: Is it all good?



NIYATI KHANNA

*CFP® Professional, CA, MBA (Finance & Strategy)
representative of Alman Partners Pty Ltd,
Australian Financial Services Licence No: 222107*



AlmanPartners
True wealth

Markets have seen the evolution of a variety of buy now pay later (BNPL) options. This trend capitalises on the increasing desire of instant gratification, insufficient means to purchase notwithstanding.

In a survey by LendingTree, 70% of the users admit to spending more than they would if they had to pay for everything upfront.

On the face, these schemes are cheap, convenient, and extremely popular amongst the younger consumers. Unfortunately, this is the very group of consumers who cannot afford to be hurt via these schemes.

Using BNPL by itself this is not a problem but when consumers go from buying – bikes, cars and other such large consumption items to household items – thinks sneakers, jeans etc.

That signals a bigger problem! Using these buy now pay later schemes to just sustain themselves is a cause of concern, now more than ever as the cost of living continues to rise and unfortunately the real wage increase has not kept pace with it.

Any missed repayments on these schemes attract fines and penalties including late fees and deferred interest charges.

One of the biggest gaps in such schemes is that there is no legal requirement for the firms to assess the repayment capacity of the borrowers.

As such, there is an increasing number of people who have become overcommitted and have debts with multiple lenders.

According to the RBA in December 2020, the 2 largest BNPL companies had around 6 million active users. In addition, more than 20% of people with multiple loans had missed a repayment.

The delayed payments and the abundance of such schemes particularly with online shopping is causing people to go into a debt spiral i.e., borrowing further to service debt.

What many do not realise is that any delays or missed payments on these BNPL schemes impact their Credit history and therefore the credit score. This can come back to haunt them when looking for a mortgage as this adversely affects their ability to secure future loans and the terms of these borrowings.

The lenders are also likely to question debt servicing capability if BNPL is used for everyday household consumption items.

Amidst concerns that this can become a much bigger problem give the current economic environment, more than 100 organisations including Anglicare Australia and Financial Counselling Australia have signed an open letter to the parliament requesting these products are made safer.

Whilst regulations will make a difference, the key however is for consumers to check their spending habits and stay disciplined in their approach to purchases – noting the delayed gratification can feel great and comes minus the stress of associated debts.

» If you need support, the National Debt Helpline is 1800 007 007.