

Afterpay Day Spend Could Cost You!



Many of us are guilty of using Buy Now Pay Later (BNPL) to buy a new pair of shoes, clothes or even a short break or holiday. However, it is concerning that some Australians have even resorted to using BNPL for essential items like healthcare and car repairs, oblivious of the consequences.

Online shopping peaks

Not surprisingly, online shopping has accelerated nationwide during the COVID-19 pandemic and lockdowns, topping out at a 57% increase year on year. In fact, around four in five households (or almost nine million) purchased online at some point during the year¹.

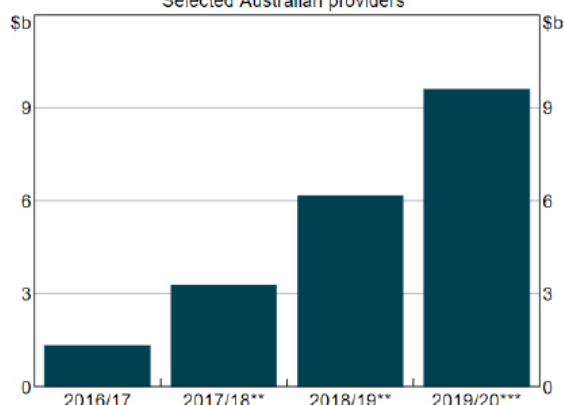
It is not only online shopping sales that have increased, Aussies have also been using BNPL more often to satisfy their spending wants and needs.

Buy Now Pay Later sales increase

Afterpay, Australia's leading BNPL platform, has not only increased sales by 63% year-on-year but also added another 18,000 merchants to reach 48,000 – a 50% yearly increase².

BNPL Payments Processed

Selected Australian providers*



* Includes services offered by Afterpay, FlexiGroup, Openpay and Zip Co; Openpay is only included in financial years 2018/19 and 2019/20

** Afterpay and FlexiGroup include both Australia and New Zealand payments

*** Afterpay, Zip Co and FlexiGroup include both Australia and New Zealand payments; Openpay includes both Australia and United Kingdom

Sources: Afterpay; FlexiGroup; Openpay; Zip Co

Source: Developments in the Buy Now Pay Later Market | Bulletin – March Quarter 2021 | RBA

The banks are even getting on board!

It's easy to see why even the big banks are getting on board, as BNPL offerings are competing against the traditional credit card for a share of online sales.

The Commonwealth Bank of Australia is entering the BNPL market with the soon to be launched 'StepPay'. With StepPay, you can split purchases from \$100 to \$1,000 into four repayments where Mastercard is accepted.

Beware the risks of BNPL

We are all aware of the benefits of BNPL in the lead up to Afterpay Day – a bi-annual shopping event traditionally in March and September each year with offers and discounts available for thousands of brands online and in-store. However you need to be conscious of the risks of BNPL. **Why?**

For some of us, it can be difficult to make BNPL repayments on top of other financial commitments.

ASIC, Australia's integrated corporate, markets, financial services and consumer credit regulator, has released research into the BNPL industry.

The research unveiled some concerning facts about the ability of users to make their BNPL payments on time:

- 20% missed or were late paying other bills or loans,
- 20% of consumers surveyed said they cut back on or went without essentials (eg meals), and
- 15% of consumers surveyed said they had taken out an additional loan³.

Before you spend up on Afterpay Day, know the following!

You could be risking the success of your next loan application.

Using a BNPL service could affect your chances of securing a home loan. Lenders often review what you owe on these accounts and payments made to such services.

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Not all BNPL providers perform credit checks before offering their services, but if you default on a BNPL payment, it could be flagged on your credit report and possibly have a negative impact on future loan applications.

There are examples of this occurring, with the purchase of a \$500 dress using Afterpay almost costing a young woman her dream home⁴.

Read more about what can affect your credit score in our article '6 Ways You Could Be Damaging Your Credit Score'.

If you use BNPL, other risks to be aware of include:

- Default payment penalties can be high with the possibility of paying up to 25% of the initial purchase price
- Late repayments can be recorded against your credit report
- It can become easy to spend beyond what is affordable
- You could find yourself in a vicious debt trap by taking out another loan to repay your BNPL 'loan'
- Having multiple BNPL accounts can become hard to manage and repay when you sign up for more than one service

Saving for your purchases or using lay-by can ultimately be a cheaper solution and will ensure that you are spending within your means.

BNPL arrangements are clearly a popular payment method. While many of us can manage this instant gratification payment scheme, some consumers can suffer the consequences. If we reflect on the basics of how these BNPL companies make their profit, it is clear that the service should be used with caution.

¹ Online shopping trends in Australia - Australia Post (auspost.com.au)

² Afterbay global users surpass 11 million (afr.com)

³ 20-280MR ASIC releases latest data on buy now pay later industry | ASIC - Australian Securities and Investments Commission

⁴ Shopper claims that buying clothes off Zip Pay ruined her credit rating | Daily Mail Online

Contact us for a copy of
'6 Ways You Could Be
Affecting Your Credit Score'

