



## Buy Now, Pay Later

Buy Now Pay Later providers were about to be hit by new regulations for lenders shortly due to take effect under the Credit Contracts and Consumer Finance Act 2003 (CCCFA).

Work was underway to change those regulations, but when we investigated we found the proposal to change those regulations would still have meant Buy Now Pay Later (BNPL) providers faced high compliance costs in relation to the default fees they charge to consumers.

BNPL providers aren't the same as traditional lenders – some for example, don't charge interest, and stop users from borrowing more if they miss a repayment.

A BNPL provider we spoke to explained their business model earns the bulk of their revenue from merchant fees paid by the merchant at the time of sale, with a smaller proportion of revenue from default fees which are capped. Because of the way they operate and existing market competition, we thought that a relaxation of the compliance requirements could go further than was being proposed.

We took action because compliance with the new regulations would have added more costs for the BNPL providers, who would have either been forced to shut down New Zealand operations or pass on these costs to merchants, which would in turn led to higher costs for consumers (either directly or indirectly). This outcome would have made it more difficult and expensive for New Zealanders to access this form of short-term lending to buy the goods they need.

We suggested a better way – we felt that competition among lenders, as well as existing regulatory settings, already provided adequate protections for consumers subject to BNPL default fees.

### **What did we do?**

We proposed to fully exempt BNPL providers from the default fee regulations, with provision for a review if there is evidence of a problem emerging.

Cabinet agreed to support our recommendation.

### **What is the benefit for New Zealanders?**

Keeping the cost of BNPL services for consumers down so New Zealanders can continue to have affordable alternative credit options to buy the things they need.