



December 9, 2021

'Buy now pay later' debt trap as low income families look towards Christmas

As low income families around Australia look towards Christmas and the cost of presents and celebrations, the temptation to 'buy now and pay later' (BNPL) starts to become an attractive option.

But, according to Francis Sullivan, Chair of Catholic Social Services Australia, using BNPL companies include Afterpay, Zip Pay, Latitude and Sezzle, could lead to major debt problems in the New Year.

"Everyone deserves to celebrate Christmas but for low income families this can look very different to the more affluent in our communities," Mr Sullivan said.

"The facts are that using BNPL companies to buy presents, food and other Christmas related goods can often lead to a debt spiral that many low income families struggle to get out of."

In its annual survey, Financial Counselling Australia (FCA), found a sharp increase over the past year in people with BNPL debt seeking help from financial counsellors.

The survey found:

- 84 per cent of financial counsellors reported about half, most or all clients had BNPL debt at the time of the survey. This compares to 31 per cent just a year ago.
- 61 per cent of those surveyed said most or all clients with BNPL debt were struggling to pay other living expenses.

Mr Sullivan said many of these BNPL products are piling debt on top of credit cards, personal loans, and often utility bills or rent. It becomes a difficult situation that only gets worse as late fee payments back up.

"All these companies have hardship programs to help including repayment plans but they often fall well short.

"Regulations around BNPL products are at best slack with these companies operating under a voluntary industry code of practice. There needs to be major reform and safeguards to protect low-income earners.

"No one should be denied a happy and festive Christmas but as we see all year round, there are always going to be some people that fall through the cracks," Mr Sullivan said.

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