

Missed Buy Now Pay Later repayments surge 83%

- Credit industry leader ClearScore warns of default shake-out, lasting consumer detriment

SYDNEY, 2nd July 2021 - Australians swarming to largely credit check-free Buy Now, Pay Later (BNPL) products risk unwittingly damaging their credit scores for years to come, thanks to a surge in vulnerable consumers loading-up on unregulated products that a finance industry leader has labelled "loose credit".

New data released by consumer credit marketplace and technology firm ClearScore reveals that over the past 8 months, the number of consumers running up multiple (3+) BNPL debts has jumped to 30% of BNPL users, while the number having missed repayments has blown out by 83%*. One in three BNPL users now claim to have missed repayments to BNPL firms.

The sharp increase in multiple debts and missed repayments detected in the ClearScore survey exposes a significant issue facing the opaque BNPL industry where consumers are increasingly enticed to make purchases based on instant availability and convenience of credit rather than a capacity to repay.

"Sooner or later a cohort of consumers will fail to keep up with snowballing repayments that attract steep late fees relative to the amount borrowed," said Steve Smyth, ClearScore's Australian Managing Director.

"When those debts are sold on to collection agencies, they will show up as multiple defaults, even if the dollar amount defaulted is comparatively small. This is a consumer credit access horror show in the making."

A major vulnerability for consumers of BNPL products is that while few providers assess affordability through credit checks thanks to a regulatory loophole, those same providers are happy to milk steep late fees and then sell on the debt when overloaded consumers cannot afford to make repayments.

At the same time, because there is no external credit health assessment on most BNPL transactions, there is no independent aggregate picture of the overall financial health of BNPL customers or way of assessing their level of strain or resilience or vulnerability to a financial shock.

"The data we have collected shows this is an industry flying blind," Smyth cautioned.

"The real issue is that regulators have over-regulated responsible lending and reduced competition in credit for lower income customers. This removes affordable credit options, so the only option for many consumers is to take out multiple BNPL accounts, without adequately checking affordability. This is building up to be a trainwreck for vulnerable customers and the question for regulators is whether they will prevent substantial consumer detriment – or are they just going to intervene after the real harm is done?"

The release of the ClearScore survey follows earlier research by regulator the Australian Securities and Investment Commission late last year that found the total amount of credit had doubled in 12 months – and that one in five consumers is missing payments [<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-280mr-asic-releases-latest-data-on-buy-now-pay-later-in-dustry/>].

This week, respected consumer advocacy group Choice released its own assessment of the regulatory environment for BNPL that found that "responsible lending checks fall well below those for other forms of credit"

[<https://www.choice.com.au/money/credit-cards-and-loans/personal-loans/articles/does-buy-now-pay-later-need-tighter-regulation>].

Smyth said that with Australian regulations and responsible lending obligations already comparatively tight for mainstream credit products – like credit cards, mobile plans, car loans and mortgages – those who could benefit the most from credit could be unintentionally locked out of the market.

"Think about a 30-something tradie that needs a loan to buy a ute and some tools to start out on his own," Smyth said. "A damaged credit record could affect his life for years to come."

* Conducted between March and June 2021 and administered by Qualtrics, ClearScore's survey researched more than 1100 Australian's attitudes toward personal credit, with a specific focus on Buy Now, Pay Later and Credit Card use and attitudes. Increases are compared to a survey to the same userbase conducted between August and October 2020.

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About ClearScore

ClearScore launched in Australia in March 2020 to continue its mission to help users take control of their financial health by giving everybody access to their credit score and report for free, forever. ClearScore combines a team of industry experts, sophisticated algorithms, and clever tech with a

trustworthy brand. The result is a beautiful product that delivers an experience that is clear, calm, and easy to understand. ClearScore uses data every step of the way to ensure that users see the most relevant financial products for them, giving them the tools to manage their finances in a way that suits them. The ClearScore app is already the most popular credit scoring app in Australia with over 400,000 users, and with a further 14 million worldwide, ClearScore continues to innovate to help their users on a journey to greater financial wellbeing. Co-founded by CEO, Justin Basini, ClearScore is based in London, Sydney and Cape Town, supported by investment from QED Investors, Blenheim Chalcot, Lead Edge Capital and Invus Opportunities.

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