



Secretariat
Payments System Review
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: paymentsreview@treasury.gov.au

Review of the Australian Payments System

Dear Payments System Review Secretariat,

The Salvation Army thanks the Treasury for the opportunity to inform the review of the Australian payments system. Our comments (see *Appendix A*) have been informed by the experiences of our financial counselling services, primarily concerning one of the new payment technologies identified in the issues paper – buy-now pay-later (**BNPL**) arrangements.

The Salvation Army is one of Australia's largest providers of social services and programs, including services to support people in, and at risk of, financial hardship. Our financial counsellors have reported that a significant proportion of the cases they see involve at least one BNPL debt.

Our experience is that the success of the BNPL model is in part due to its point-of-sale nature, which is designed to secure a sale before a consumer walks out the door. This facilitates impulsive shopping decisions, with 60 per cent of BNPL customers reporting making purchases that they otherwise would not have made.ⁱ This easy access to credit normalises unsecured debt to the extent that some BNPL users we have assisted do not realise that they have taken on debt.

The Salvation Army recognises that the purpose of this review is not focused on BNPL. It is our hope that our experiences will, together with other submissions to this review, inform a system that is better equipped to respond to new technology and prevent consumer harm.

Thank you for your consideration.

Yours sincerely,

Paul Hateley, Major
Head of Government Relations
The Salvation Army Australia

3. What is the appropriate balance between self-regulation, formal regulation and government policy to ensure the payment system continues to work in the best interests of end-users?

For over 30 years The Salvation Army's Moneycare service has been delivering a range of free and confidential services, including financial counselling, financial capability support, financial literacy and capability workshops, and microfinance. Our experience is that formal regulation is needed to ensure consumer protection. Relying solely on self-regulation fails to consider the effect of the "asymmetry of knowledge and power" between consumers and service providers, particularly where consumers lack financial literacy and/or capability.ⁱⁱ Our experience helping people with credit card debt is that consumers continue to be sold unsuitable products despite a code of practice having been in place since 1993.

A code of practice, while not effective on its own, does provide avenues to achieve better outcomes for the people we support. In particular, our financial counsellors appreciate the dispute resolution mechanisms available through entities like the Australian Financial Complaints Authority.

6. What are the required features of a future regulatory architecture to ensure it is well-placed to meet the needs of end-users in relation to emerging innovations in the payments system such as those discussed above? Are changes needed to existing structures, roles and mandates involved in the governance of the system?

The Salvation Army's expertise lies in working people experiencing financial hardship, in part because of inadequate regulation in the current system.

Buy-now pay-later schemes are not a new concept but as shown by the Australian Securities and Investments Commission in their November 2020 report into the industry, consumer uptake has increased significantly in recent years. Despite this, regulation has been slow to respond. The Salvation Army understands that a code of practice will be implemented from early 2021 and that product design and distribution obligations will apply from October 2021. **This is too late.**

Our experience leads us to believe that the Payments System Board's "philosophy of only regulating when it is clear that doing so is in the public interest" has allowed vulnerable people to fall into financial hardship.ⁱⁱⁱ BNPL essentially provides a credit product without being mandated to perform the identity, income and suitability checks that credit providers are currently required to conduct. This makes it particularly attractive to people who may be locked out of accessing more traditional credit products and leaves them vulnerable to taking out more debt than they can afford. This has significant implications for physical and mental health, with research showing higher rates of suicidal ideation and depression in individuals with unmet loan payments.^{iv}

Recent research reveals that almost 70 per cent of surveyed BNPL users reported feeling "financially stressed" about purchases they have made and more than 50 per cent said that their BNPL purchases were causing strain to loved ones.^v The finding that 20 per cent of surveyed consumers had gone without essentials to make a payment on time is particularly concerning to us as a national provider of emergency relief and community support.^{vi} Increasing uptake of BNPL schemes, particularly during a period of economic uncertainty, could lead to increased demand for our services, which are already at capacity.

The experience of our financial counselling and capability services is also that the lack of robust identity and suitability checks has resulted in instances of fraud. Through our prison outreach services, we have heard of inmates' partners using their identity to create BNPL accounts. This can affect their credit rating and therefore their ability to rebuild their lives upon release. The lack of a robust identity verification system also does not provide sufficient safeguards to prevent access by people under 18 years old, who are on the cusp of the BNPL main clientele group.^{vii}

Our experience shows that the payments system needs to be designed with enough flexibility and responsiveness to enable regulation either in anticipation of harm or as evidence emerges. It is our hope that our past experiences can inform a system that will be better equipped in the future to protect 'end-users' as new products and systems emerge.

9. Given rapid changes to the system, what need is there for education for end-users (including consumers and businesses) about payments and who should provide that education?

The number of people accessing our Moneycare services who do not recognise BNPL loans as debt, even at the end of a financial counselling session, reveals that more education is needed to equip people to identify credit and its consequences. The 2016 Household, Income and Labour Dynamic in Australia (HILDA) survey revealed only around half of all Australians are financially literate, with women and younger people generally displaying lower levels of financial literacy.^{viii}

Targeted investment in financial capability support is needed for younger people given they tend to use BNPL more yet tend to be less financially literate.^{ix} Though the Treasury remains responsible for financial capability policy and coordination, we all have a part to play in raising our nation's financial capability. The Salvation Army is honoured to be among a range of organisations delivering initiatives under the National Financial Capability Strategy. Due to their increasing prevalence, Moneycare is adding a specific section on BNPL loans to our *You're the Boss* financial capability program. We have run *You're the Boss* in schools, technical and further education institutions (TAFEs), employment services and other settings targeted at young people in the past. We would welcome more opportunities to do so in the future.

ⁱ Pelosi, J.P. (2020, May 12). "2020 BNPL report: Buying now is easy, it's paying later that's tough". Mozo. <https://mozo.com.au/credit-cards/articles/buying-now-is-easy-it-s-paying-later-that-s-tough>

ⁱⁱ Sylvan, L. (2019). *The Countervailing Power: Review of the coordination and funding for financial counselling services across Australia*.

ⁱⁱⁱ Lowe, P. (2020, December 7). "Innovation and Regulation in the Australian Payments System: Address to the Australian Payments Network". Reserve Bank of Australia. <https://www.rba.gov.au/speeches/2020/sp-gov-2020-12-07.html>

^{iv} Turunen, E. and Hiilamo, H. (2014). Health effects of indebtedness: a systematic review. *BMC Public Health* 14(489).

^v Pelosi, J.P. (2020, May 12). "2020 BNPL report: Buying now is easy, it's paying later that's tough". Mozo. <https://mozo.com.au/credit-cards/articles/buying-now-is-easy-it-s-paying-later-that-s-tough>

^{vi} Australian Securities and Investments Commission. (2020). *Buy now pay later: An industry update* (Report 672).

^{vii} Ibid.

^{viii} Preston, A. (2020). *Financial Literacy in Australia: Insights from HILDA Data* (Powerpoint presentation). University of Western Australia.

^{ix} Ibid.