

NAB CONSUMER INSIGHT REPORT

BUY NOW PAY LATER



NAB Behavioural & Industry Economics

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SUMMARY

The Buy Now Pay Later (BNPL) sector has grown rapidly in recent years. Nearly 1 in 5 (18%) Australians consumers were holders of BNPL debt in Q1 2021, making it the fourth most common type of debt held after credit cards (41%), home loans (34%) and personal loans (19%). BNPL debt was much more widespread among consumers under 50 with around 1 in 4 people aged 18-29 (26%) and 30-49 (24%) holding BNPL debt, compared to just 5% among over 65s. By state, holders of BNPL debt ranged from 19% of consumers in Queensland and WA, to just 8% in Tasmania. BNPL debt was also more common among consumers living in regional cities (21%) compared to rural areas and capital cities (17%). There was no clear pattern between BNPL debt and income - the highest number of consumers with BNPL debt earned between \$50-100,000 p.a. (21%), and the lowest \$35-50,000 p.a., with higher (19%) and lower (17%) income groups in the middle.

On average Australians consumers hold 1.8 BNPL accounts. That said, around 1 in 2 (51%) have one account, 3 in 10 (31%) 2, and 12% hold 3 accounts. Around 1 in 20 Australians have 4 or more accounts. Importantly, holders of multiple BNPL accounts are more likely among lower income earners (those earning less than \$35,000 p.a.).

BNPL is most likely to be used for the purchase of clothing (45% of all consumers) and major household items such as furniture and appliances (40%). Around 16% of Australians used BNPL for spending on their children, 14% on automotive, and 12% on food. Other common uses include beauty and hair (12%), travel and holidays (10%), entertainment such as movies, sporting events and concerts (10%), jewellery (10%), telecom related products or services such as phones and internet (10%), sports (7%) and pets or 'other' items (6%).

Significantly more women used BNPL services to buy clothing than men in all age groups, as well as beauty and hair products and services. More men in all age groups however used BNPL services for automotive purchases, with the gap widening significantly as they grew older.

By income, consumers on lower incomes (earning less than \$35,000 p.a.), were most likely to use BNPL for automotive (27%) and food & drink (21%) purchases. Consumers in the \$35-50,000 p.a. income group led the way for telecoms (16%), entertainment (19%) and 'other' (16%), and those \$50-75,000 for clothing (50%) and major household items (40%). Consumers in the \$75-100,000 p.a. group led for children (20%), beauty and hair (16%) and sports (14%), and in the highest income group for travel and holidays (16%).

Overall, BNPL debt stress is relatively low, however some groups are much more concerned than others. Across types of debt, pay day loans cause the highest stress for their holders (65.8 pts out of a possible 100), followed by loans from family and friends (59.8 pts), personal loans (54.1 pts) and investment loans (51.1 pts). Despite being the most widely held type of debt, stress was lowest for credit card debt (42.9 pts), followed by BNPL (46.1 pts).

That said, young men in the 18-29 age group reported much higher levels of stress over BNPL debt (62.0 pts). Men in the 30-49 age group (53.9 pts) and women in the 18-29 group (48.4 pts) also reported above average levels of stress.

By state, consumers in the NT (60.0 pts) and Tasmania (58.2 pts) - where uptake of BNPL loans is lowest - reported the highest concern over their BNPL debt. Consumers in WA - where BNPL uptake is equal highest in the country - reported significantly lower stress than in any other state of territory (37.2 pts). There was also a large gap between those in regional cities (49.2 pts) and rural areas (37.0 pts) - despite consumers in both regions holding a similar number of BNPL accounts. There was no clear pattern between BNPL debt stress and income. Stress was highest in the \$35-50,000 p.a. (52.3 pts) and \$75-100,000 p.a. (52.2 pts) income groups and lowest in the \$50-75,000 p.a. group (40.2 pts).

Comparatively low levels of BNPL debt stress likely reflects 'moderate' levels of difficulty reported in paying instalments on time. On average, consumers scored 33.6 pts (out of 100 where 100 equals extremely difficult). But men 18-29 (54.8 pts) and 30-49 (43.9 pts) experienced far more difficulty meeting their instalments on time. NAB's survey also found that almost 4 in 10 (37%) consumers with BNPL loans had missed a payment. Young men were again over-represented with almost 6 in 10 (59%) having missed a payment. Over 4 in 10 men 30-49 (44%) and women 18-29 group (41%) also said they had missed a payment.

HOW PREVALENT IS BNPL IN AUSTRALIA & WHAT IS IT USED FOR?

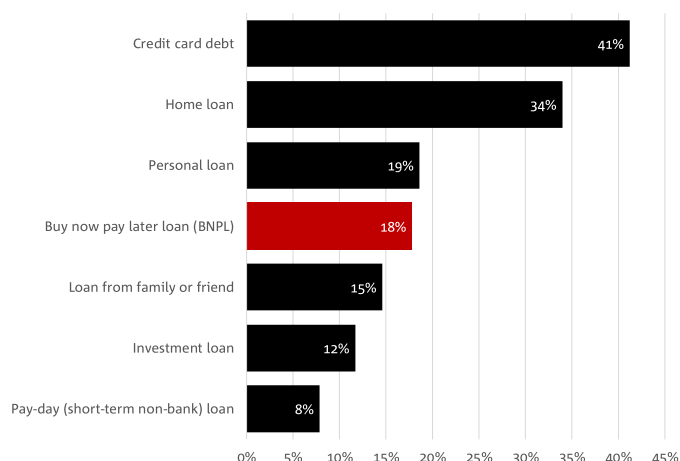
Many retailers offer buy now pay later (BNPL) services such as Afterpay, Zip Pay (and an ever-growing number of other providers), with some accepting payments from multiple providers. BNPL services enable consumers to buy goods and services by paying part of the purchase price at the time of purchase, and the remainder to the BNPL provider in a series of instalments (usually fortnightly over 3-4 payments but can be longer for bigger purchases). Unlike traditional lay-by, the consumer receives their purchase immediately and the merchant is paid up front by the BNPL provider.

Some popular BNPL services facilitate borrowing of amounts up to \$1,000 to \$2,000 and may be free for consumers if instalments are paid on time. Consumers are not charged interest but are charged fees for late payments or having insufficient funds in their account to cover payments. Others may charge monthly account-keeping fees, payment-processing fees, establishment fees or early exit penalty fees.

The BNPL sector has grown rapidly in recent years. According to RBA data, over 83,000 merchants used the 2 largest ASX-listed BNPL providers (Afterpay and Zip Co) alone in December 2020. Transactions processed were valued at almost \$11 billion, with around 6 million active users. Rapid growth and take-up of BNPL has disrupted lay-by services and the role of credit cards for consumers. It also suggests many consumers now view BNPL services as a convenient and cost-effective way of making purchases.

In this report, we look at how many consumers have BNPL debt, how many accounts they have, how often they use BNPL services and what are they mainly using them for. We also compare how much stress BNPL debt causes relative to other forms of debt, how difficult consumers have found it to pay instalments on time and whether they have ever missed a payment on their BNPL loan. The results are based on the survey responses from a representative sample of over 2,000 Australian consumers conducted over the period 10-23 March 2021.

TYPE OF DEBT CURRENTLY HELD: Q1 2021



Nearly 1 in 5 (18%) Australian consumers said they had BNPL debt in Q1 2021 - making it the fourth most common type of debt held after credit card debt (41%), home loan debt (34%) and personal loan debt (19%).

BNPL debt however was much more widespread among consumers under the age of 50, where research suggests ease of payments and focus on technology may be a key draw card. Some also suggest that the Global Financial Crisis had a big impact on the way millennials now view credit, debt and interest.

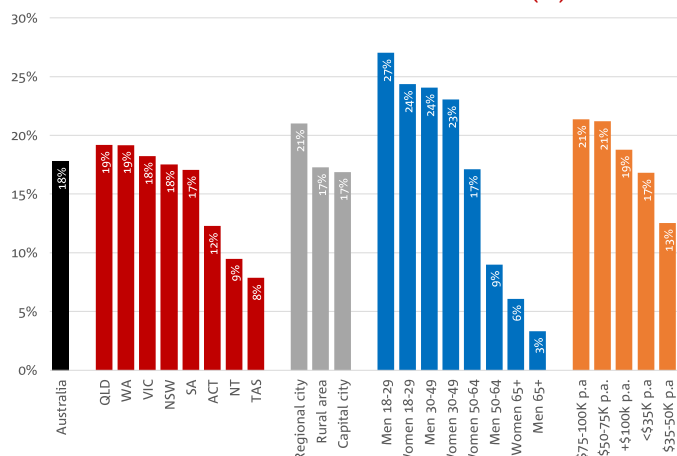
NAB's survey found around 1 in 4 consumers in the 18-29 age group (26%) and 30-49 group (24%) held BNPL debt in Q1 2021. This compared to just 13% in the 50-64 age group and 5% in the over 65 group.

Interestingly, more men than women under the age of 50 had BNPL debt, with the gap biggest between men (27%) and women (24%) in the 18-29 age group. In contrast, more women than men over the age of 50 had BNPL debt, particularly in the 50-64 group (17% women; 9% men) - see second chart on the left.

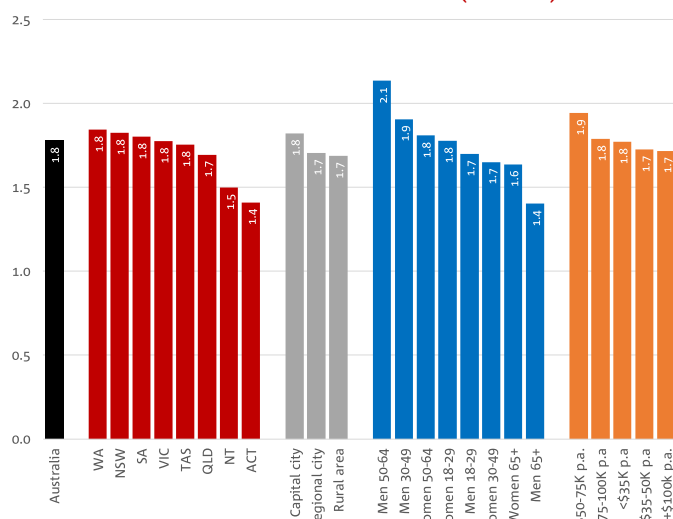
By state, BNPL debt was more common among consumers living in the main states than in the smaller states and territories. In Q1, the number of consumers with BNPL debt ranged from 19% in Queensland and WA to just 8% in Tasmania. BNPL debt was also more common among consumers living in regional cities (21%) than in rural areas and capital cities (17%).

The survey found no clear pattern between BNPL debt and income. In fact, the highest number of consumers with BNPL debt were earning between \$50-100,00 p.a. (21%), and the lowest number in the \$35-50,000 p.a. income group. Higher (19%) and lower (17%) income groups were in the middle.

NUMBER OF CONSUMERS WITH BNPL DEBT (%)



NUMBER OF BNPL ACCOUNTS HELD (AVERAGE)



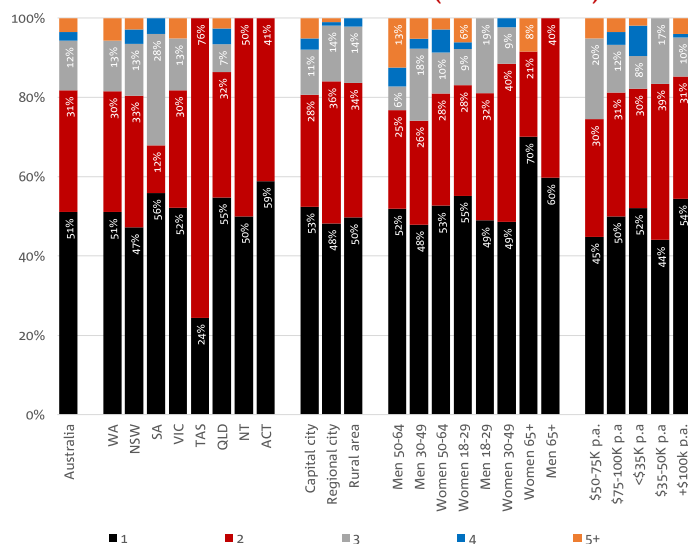
Australian consumers with BNPL debt on average had 1.8 BNPL accounts.

Although BNPL debt was most widespread among consumers in the 18-29 age group, the 50-64 age group had the highest number of BNPL accounts (1.9). This reflected a much higher number of accounts held by men in this group (2.1) - although this result should be treated with some caution because of a smaller sample size.

Overall, the 30-49 age group had the most accounts (1.8), with men (1.9) holding more accounts than women (1.7). Consumers in the 18-29 group were the next most prolific with 1.7 accounts distributed almost evenly between women (1.8) and men (1.7).

Australians over the age of 65 on average held just 1.6 accounts, with women (1.6) holding slightly more than men (1.4).

NUMBER OF BNPL ACCOUNTS HELD (PERCENT SHARE)



The average number of BNPL accounts was broadly similar in the main states (1.7 to 1.8), but somewhat lower in the NT (1.5) and ACT (1.4).

By region, consumers living in capital cities had the most accounts (1.8), but only slightly more than in rural areas and regional cities (1.7) where the highest number of consumers with BNPL debt were located.

There was also little difference in the number of accounts held across income groups. The \$50-75,000 p.a. group had the most (1.9) and the \$35-50,000 p.a. and over \$100,000 p.a. groups the least (1.7).

The chart on the bottom left shows the number of BNPL accounts held broken down by the percentage share of holders. On average, Australian consumers have 1.8 BNPL accounts, but around 1 in 2 (51%) only have one account, 3 in 10 (31%) 2 accounts, and 12% have 3 accounts.

Around 1 in 20 Australians holding a BNPL loan however have 4 or more accounts. With BNPL services not currently required to hold a credit licence and not subject to consumer protections under the National Consumer Credit Protection Act 2009, concerns have been raised that multiple accounts could leave the most vulnerable consumers struggling to manage multiple payments (also potentially impacting their credit scores and ability to take out credit or loans in the future).

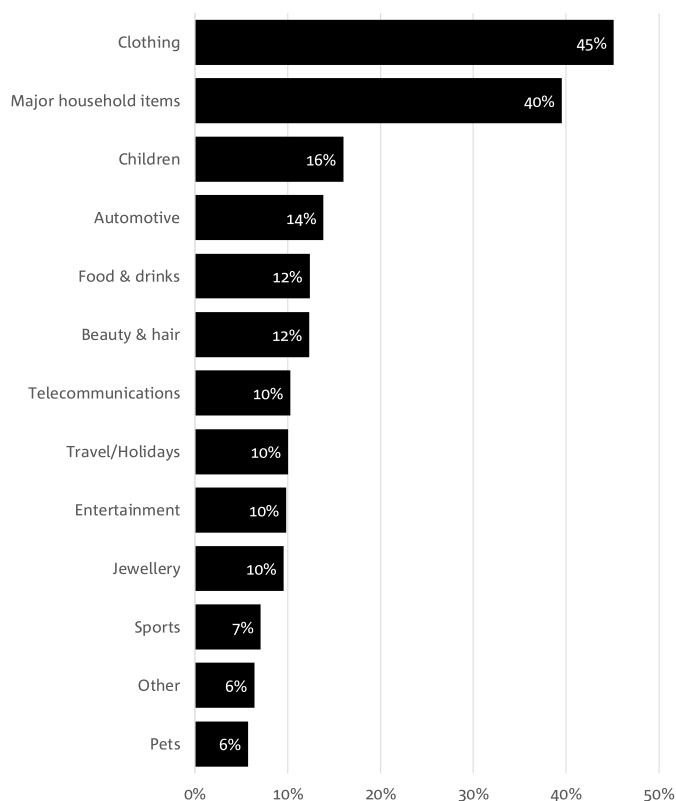
Indeed, NAB's survey reveals that (aside from men in the 50-64 where sample size is limited) the number of consumers with multiple BNPL accounts is highest among lower income group (i.e. those earning less than \$35,000 p.a.), with consumers in this group the most likely to be holding 4 or more BNPL accounts.

What are Australian consumers using BNPL for?

Overall, the survey found the most common types of purchases were for clothing (45% of all respondents) and major household items such as furniture and appliances (40%). Around 16% used BNPL services for spending on their children and 14% on automotive and food and drinks (12%). Around 12% of all consumers spent on "non-essential" good and services such as beauty and hair (12%), travel and holidays (10%), entertainment like movies, sporting events and concerts (10%) or jewellery (10%). Around 1 in 10 also used BNPL services to buy telecom related products or services such as phones and internet (10%), and 7% for sports and 6% on pets or 'other' items - see chart on next page.

But there were some significant differences in how BNPL services were being used by gender and age, and by household income levels.

MAIN USE OF BNPL SERVICES



Among some more interesting observations, significantly more women used BNPL services to buy clothing than men in all age groups, as well as beauty and hair products and services.

More men in all age groups however used BNPL services for automotive purchases, with the gap widening significantly as they grew older.

In other categories, results were mixed. More women in the 18-29 and 50-64 age group used BNPL services to buy major household items, but more men than women did in the 30-49 and 65+ groups.

More women used BNPL services to spend on their children than men in all age groups except the 65+ group. However, men typically were more prolific users of BNPL services to purchase telecom related goods and services, except in the 65+ group.

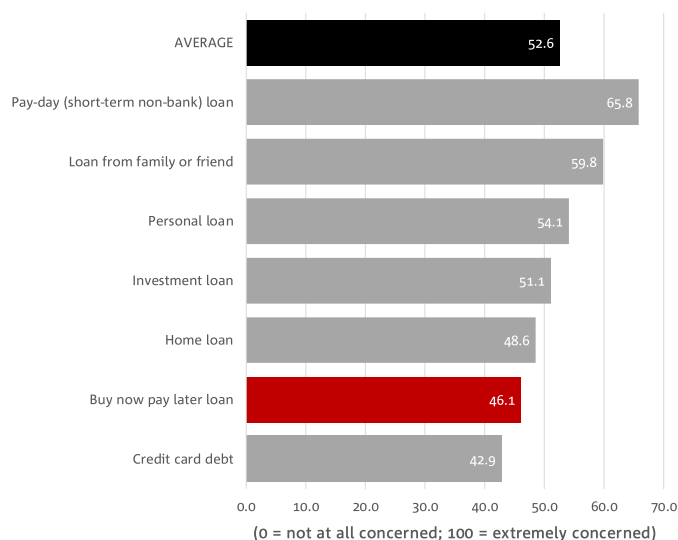
By income, consumers earning less than \$35,000 p.a. were most prolific for using BNPL services for spending on automotive (27%) and food and drinks (21%). Consumers in the \$35-50,000 p.a. income group led the way for telecoms (16%), entertainment (19%) and 'other' (16%), and those in the \$50-75,000 income group for clothing (50%) and major household items (40%). Consumers in the \$75-100,000 p.a. group led for children (20%), beauty and hair (16%) and sports (14%), and those in the highest income group for travel and holidays (16%).

MAIN USE OF BNPL SERVICE: GENDER, AGE & INCOME

	Clothing	Major household items	Children	Automotive	Food & drinks	Beauty & hair	Telecoms	Travel/Holidays	Entertainment	Jewellery	Sports	Pets	Other
Australia	45%	40%	16%	14%	12%	12%	10%	10%	10%	10%	7%	6%	6%
Men 18-29	31%	23%	11%	16%	17%	8%	17%	12%	18%	10%	12%	5%	3%
Women 18-29	51%	34%	16%	13%	13%	23%	9%	17%	7%	13%	6%	4%	5%
Men 30-49	33%	49%	16%	15%	13%	5%	12%	15%	14%	6%	10%	4%	1%
Women 30-49	61%	35%	27%	9%	10%	20%	7%	5%	11%	13%	2%	5%	9%
Men 50-64	41%	51%	0%	20%	13%	0%	18%	5%	0%	11%	19%	0%	5%
Women 50-64	50%	57%	15%	13%	6%	8%	0%	5%	0%	8%	0%	17%	10%
Men 65+	23%	80%	10%	34%	0%	0%	14%	0%	0%	0%	0%	13%	15%
Women 65+	67%	12%	0%	12%	24%	23%	14%	0%	0%	7%	9%	0%	25%
<\$35,000 p.a.	45%	35%	11%	27%	21%	9%	5%	6%	7%	5%	1%	8%	6%
\$35-50,000 p.a.	45%	37%	18%	18%	15%	0%	16%	4%	19%	11%	8%	6%	16%
\$50-75,000 p.a.	50%	40%	13%	11%	5%	13%	10%	7%	8%	11%	6%	8%	11%
\$75-100,000 p.a.	46%	40%	20%	9%	12%	16%	9%	7%	10%	10%	14%	4%	2%
\$100,000+ p.a.	43%	38%	18%	11%	12%	14%	13%	16%	11%	11%	8%	4%	4%

BNPL DEBT STRESS, INSTALMENTS & MISSED PAYMENTS

CONCERN OVER DEBT CURRENTLY HELD: Q1 2021



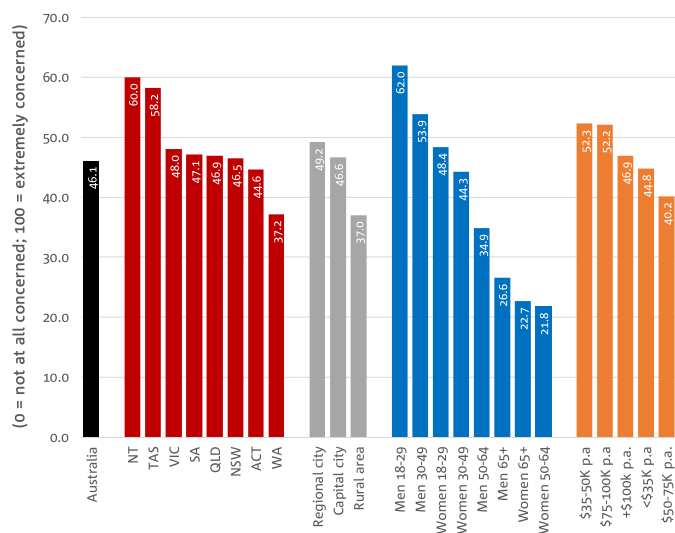
The NAB Australian Financial Wellbeing Survey tracks the level of concern or stress over the main types of debts consumers hold. From this we calculate a weighted average stress score. In the Q1 2021 survey, BNPL debt stress was monitored for the first time.

The latest results showed that the downward trajectory in debt concern seen in recent quarters reversed in Q1, with the average score rising to 52.6 pts. This was up from 51.7 pts in the previous quarter but down from 54.1 pts at the same time last year. Stress increased for all types of loans, except credit cards (unchanged).

Individually, pay day loans caused the highest stress for their holders (65.8 pts), followed by loans from family and friends (59.8 pts), personal loans (54.1 pts) and investment loans (51.1 pts). Despite being the most commonly held type of debt, stress was lowest for credit card debt (42.9 pts).

Debt stress was next lowest for BNPL (46.1 pts) - suggesting Australian consumers with this debt are experiencing 'moderate' levels of stress over it. While it has been argued that BNPL plans can be risky or cause people to spend more, the survey suggests consumers are currently not experiencing overt levels of stress about their BNPL debt. However, some groups are more at risk than others.

CONCERN OVER LEVEL OF BNPL DEBT



Young men in the 18-29 age group reported much higher levels of stress over BNPL debt (62.0 pts) than any other age group. Men in the 30-49 age group (53.9 pts) and women in the 18-29 group (48.4 pts) also reported above average levels of stress from BNPL debt. Consumers over 50 were noticeably more comfortable about their BNPL loans.

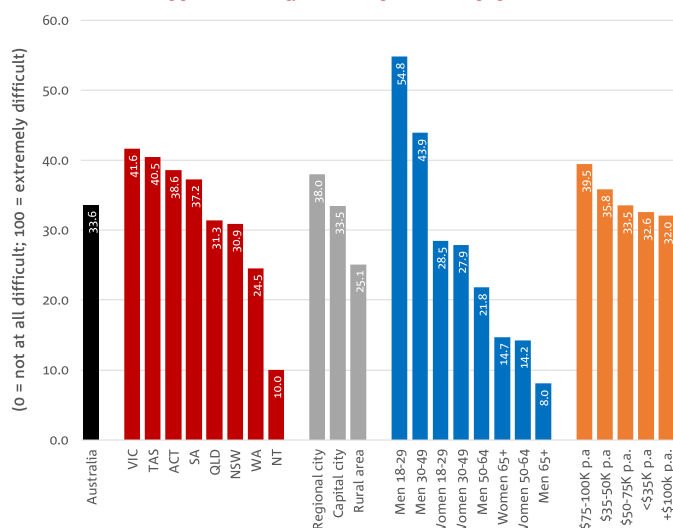
By state, consumers in the NT (60.0 pts) and Tasmania (58.2 pts) - where uptake of BNPL loans is lowest - reported the highest concern over their BNPL debt. Consumers in WA - where BNPL service uptake is equal highest in the country - reported significantly lower stress than in any other state of territory (37.2 pts).

We also observed a large gap in BNPL debt stress between consumers in regional cities (49.2 pts) and rural areas (37.0 pts) - despite consumers in both regions holding a similar number of BNPL accounts.

The survey showed no clear pattern between BNPL debt stress and income. Stress was highest in the \$35-50,000 p.a. (52.3 pts) and \$75-100,000 p.a. (52.2 pts) income groups and lowest in the \$50-75,000 p.a. group (40.2 pts).

Comparatively low levels of BNPL debt stress among consumers with this type of debt stress are reflected in 'moderate' levels of difficulty reported in paying instalments on time. On average, when asked how difficult they found it, Australians scored just 33.6 pts (out of 100 where 100 equals extremely difficult) - see chart on the following page. But the average hides important differences across key demographic groups - men in the 18-29 (54.8 pts) and the 30-49 (43.9 pts) age groups experienced far more difficulty meeting their instalments on time, which helps to explain why BNPL debt stress is also highest in these two groups.

DIFFICULTY PAYING BNPL INSTALMENTS ON TIME

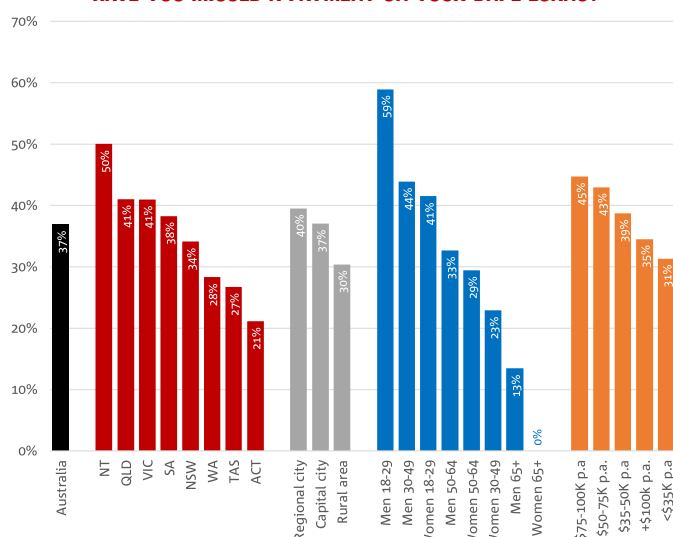


By state, consumers in Victoria had the most difficulty paying their instalments on time (41.6 pts), followed by Tasmania (40.5 pts) and the ACT (38.6 pts) - where BNPL debt stress was also highest. Despite reporting the highest level of BNPL debt stress, consumers in the NT (10.0 pts) had the least difficulty meeting their obligations (but this result should be treated with caution due to sample size), followed by WA (24.5 pts).

By region, difficulty in paying instalments on time was highest in regional cities (where BNPL debt stress was also highest) and lowest in rural areas (where BNPL debt stress was also lowest). The gap was also significant - 38.0 pts in regional cities compared to just 25.1 pts in rural areas.

Also interesting was our finding the highest (32.0 pts) and lowest (32.6 pts) household income groups reported having the least difficulty in meeting their instalment obligations.

HAVE YOU MISSED A PAYMENT ON YOUR BNPL LOANS?



NAB's survey also found that almost 4 in 10 (37%) consumers with BNPL loans had missed a payment on them.

Young men were over-represented with almost 6 in 10 (59%) indicating they had missed a payment. Over 4 in 10 men in the 30-49 age group (44%) and women in the 18-29 group (41%) also said they had missed a payment. Not surprisingly, these groups also reported the highest BNPL debt stress and difficulty in paying BNPL instalments on time.

In other findings, missed payments were most common in the NT (50%), with above average levels also seen in QLD (41%), VIC (41%) and SA (38%). Around 4 in 10 consumers in regional cities had missed a payment, compared to only 3 in 10 in rural areas. Interestingly, fewer consumers in the lowest income groups (31%) said they had missed a payment on their BNPL loans than in any other income group.

BNPL STATUS: GENDER & AGE

	Percentage of Australians consumers holding BNPL Debt	Average number of BNPL accounts held by consumers with BNPL loans	Difficulty consumers had paying BNPL instalments on time (out of 100)	Percentage of consumers who missed a payment on a BNPL loan	Consumer concern over level of BNPL debt currently held (out of 100)
Overall	18%	1.8	33.6	37%	46.1
Men 18-29	27%	1.7	54.8	59%	62.0
Women 18-29	24%	1.8	28.5	41%	48.4
Men 30-49	24%	1.9	43.9	44%	53.9
Women 30-49	23%	1.7	27.9	23%	44.3
Men 50-64	9%	2.1	21.8	33%	34.9
Women 50-64	17%	1.8	14.2	29%	21.8
Men 65+	3%	1.4	8.0	13%	26.6
Women 65+	6%	1.6	14.7	0%	22.7

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