

Finance facts: Buy Now, Pay Later

What is Buy Now, Pay Later?

Buy now, pay later (BNPL) is a type of financial product that allows you to buy goods or services immediately and pay in instalments.

This means that when you purchase an item or pay a bill using BNPL, you can pay it off later instead of at the time of purchase. You spread your payments over a period of time until you pay off the item.

How does BNPL work?

BNPL can be used for small purchases in shops, to pay for services such as medical and vet bills, and for more expensive things like home renovations. When a purchase is made using BNPL, the BNPL provider you chose pays for it on your behalf. You then repay the BNPL provider over an agreed length of time, in instalments. Your repayments are linked to the card or bank account set up when you select the BNPL service.

Each BNPL provider has its own requirements about the deposit and instalment amounts and how long you have to pay for the whole purchase amount. AfterPay, humm, and Zip Pay are some of the main companies who provide a BNPL service.

Most BNPL providers raise revenue from charging merchant fees to retailers.



A word of caution about BNPL

When you use BNPL, you borrow money from the BNPL provider to complete your purchase. You must pay a charge to the provider and they can add up quickly.

So, make sure you read the terms and conditions before you sign up and to keep an eye on when payments are due.

Warning!

- 15% of buy now, pay later users have missed or been late on a payment.
- 78% of people who have missed or been late on a payment have experienced financial hardship because of buy now, pay later fees, including taking out an additional loan or foregoing household essentials.

Alternatives to using BNPL

Alternative payment options to BNPL include using a debit card, credit card, BPAY® or PayPal. There are also pay advance products such as Beforepay. Beforepay is an app-based lending service that provides you access to credit based on a portion of your salary before your regular pay day. The borrower repays the loan across up to four pay cycles plus a 5% fee. The difference between BNPL and Beforepay is that BNPL lets you borrow money for specific transactions, whereas Beforepay lends you a lump sum directly deposited into your bank account.

What are the fees?

BNPL is often advertised as 'interest free' or 'zero interest'. BNPL providers make money by charging different types of fees. Fee examples include:

- **Establishment fee:** This could be 20% of the amount borrowed and a monthly fee of 4% of the amount borrowed. For a \$2,000 loan, that is a \$400 establishment fee and an \$80 monthly fee
- **Late fees:** if you miss a payment or pay late, around \$5 to \$15
- **Monthly account-keeping fees:** up to \$8 a month
- **Payment processing fees:** some providers charge an extra fee of around \$3 each time you make a payment.



Case study: Fees

Julia wants to give her friend Prisha a bracelet for her 21st birthday. Julia knows that she can buy the bracelet today and pay it off in instalments. The bracelet is \$350. Julia signs up to a BNPL service and chooses one that does not have an establishment fee. Julia has to decide between weekly, fortnightly and monthly payment options.

Julia decides to pay this off monthly and the monthly fee is \$7.95. Julia decides to pay this off in 2 months and pays the \$7.95 twice.

	Instalment	Fees	Total
June 2022	\$175	\$7.95	182.95
July 2022	\$175	\$7.95	\$182.95
			\$365.90

The total cost of the bracelet was \$365.90, which is \$15.90 more than the original purchase price.

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Benefits and risks of BNPL

Benefits	Risks
You can purchase now and make smaller payments over a period of time.	This service can be expensive. Consider all the fees you must pay to buy your item upfront, like monthly service charges, account set up fees and late payment fees.
You can set up automatic payments to pay from your bank account or credit card.	Missing instalment payments may negatively affect your credit score. This means that other lenders may charge you more, or not lend money to you, in the future.
Your BNPL account can get approved and set up quickly.	It's easy to overspend! Remember you must pay back what you have borrowed from the BNPL provider.

Smart rules to follow when using BNPLs

- Never sign up for something you don't understand.
- Only use a BNPL provider if you know you're going to pay the amount off as soon as possible.
- Before seeking out a BNPL plan, see if there are other options for managing bills or debts. Use your debit card to link to your BNPL account instead of your credit card so you can pay the instalments with money in your bank account instead of being charged interest on your credit card.
- Create a budget so you know what amount of money you can afford to repay.
- Calculate what you will end up paying by using MoneySmart's BNPL calculator [here](#).
- Check your credit score for changes.

Regulation of BNPL

From June 2025, BNPL providers will be subject to stricter regulations for low cost credit contracts. BNPL providers will need to demonstrate their ability to manage credit responsibly and protect consumers in order to obtain a credit licence from the Australian Securities and Investments Commission. They must comply with the obligations under the *National Consumer Credit Protection Act 2009* (National Credit Act), including lending responsibly, providing fair and clear information to consumers and addressing consumer complaints. They must also become a member of the Australian Financial Complaints Authority (AFCA), which will enable consumers to access AFCA to resolve disputes with BNPL providers.

Glossary

BNPL Provider	is the company with whom you create a BNPL account.
BPAY®	is an easy and secure way to manage your bills with one payment method through your online or mobile banking.
PayPal	is an online payment system that makes paying for things online and sending and receiving money safe. PayPal serves as a middleman between your bank and merchants and keeps your payment information secure.

Related Talk Money fact sheets

- Budgeting

Links

National Debt Helpline: ndh.org.au

The Government's MoneySmart website for more information that may help: [Buy Now, Pay Later Services](#) and [Loans and Credit Cards](#).

About Talk Money with Ecstra Foundation:

Talk Money with Ecstra Foundation is designed to help Australian students learn money lessons for life, to be confident talking about money and to make informed financial decisions. We offer facilitator led workshops for Years 5–10 students and additional resources to reinforce learnings. The program is provided at no cost to schools, enabling more students across Australia to access financial education at key life stages.

About Ecstra: Ecstra Foundation is an independent charitable foundation committed to building the financial wellbeing of Australians within a fair financial system. Ecstra launched Talk Money in February 2022.



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