

Paying to pay: Using credit products to afford energy

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About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

Contents

- 1. Summary of research findings2**
- 2. Introduction6**
 - Research methodology 8
- 3. Increased use of unregulated and lightly regulated credit products 10**
 - Unregulated and lightly regulated credit products are increasingly being used for essentials 10
 - Concern about debt spirals and the lack of regulation of credit products..... 13
 - Some people prioritise repaying credit products above essential expenses..... 14
 - Prevalence of use of credit products 15
- 4. Safer alternatives to credit products to afford energy bills20**
 - Credit products cause harms, but they fill a need 20
 - BNPL and similar products should not be able to be used to pay energy bills 29
 - BNPL and similar credit products being used outside the energy sector 29
 - Harms in use of credit cards are not as straight forward 30
- 5. Further ‘Paying to pay’ research reports32**

Recommendation 1

Reform retail markets and protections to ensure genuinely fair and efficient default pricing for all household consumers, with a requirement on retailers to shift people off inferior offers.

Recommendation 2

Review the objective, eligibility criteria and formulation for rebates in NSW, including the Low Income Household Rebate and Family Energy Rebate, to make them more effective supports for households struggling to afford the energy needed for health and wellbeing.

Recommendation 3

Provide NSW household energy rebates as a percentage of energy bills, instead of a fixed amount.

Recommendation 4

Reform the Energy Accounts Payment Assistance (EAPA) scheme to improve access and effectiveness, including to help people in long term need and with debt amounts EAPA is not currently able to resolve.

Recommendation 5

Make energy retailer payment options as easy to access and alter as credit products, (such as BNPL). Consideration should be given to encouraging retailers to ensure their best deals have fortnightly or monthly payment options as a default, or an easily selected option.

Recommendation 6

Regulate credit products to limit their availability, particularly to people on low incomes. Parallel reform should ensure energy retailer and government supports are provided in 'good faith' and made easier to access and alter to mirror the positive aspects of credit product design.

Recommendation 7

Prohibit advertising/marketing of BNPL and other credit products as a way to manage essential bills.

Recommendation 8

Prohibit use of BNPL and similar credit products for payment of energy bills, and consider prohibiting for other essential service payments.

1. Summary of research findings

Buy Now Pay Later (BNPL) and similar credit products cause consumers harm. They should not be able to be used to pay for essential utilities including energy. Instead, the energy sector should apply the aspects of credit products that consumers find helpful to their own payment and assistance systems.

Our research shows that Buy Now Pay Later (BNPL) and similar credit products cause harm, including by increasing the cost of essential bills (through fees and interest) such as energy.

“It just got me further behind in the end, so it really wasn't worth it. It became an extra bill which I couldn't afford!!” – energy consumer response in survey.

Credit products such as BNPL fill a consumer need for small, predictable bill management arrangements that can be accessed in easy and apparently ‘positive’ ways and can be altered relatively easily. At least for a short time, people feel the credit products help manage a lack of income, cashflow problems and/or unexpected expenses.

Increasingly, people are using these credit products day-to-day and as part of strategies to afford utility bills, for example, by using them to pay for other essentials (including groceries) to free up money for energy bills.

Energy is an essential service that requires protections for people experiencing payment difficulties, to ensure ongoing access and affordability. The positive aspects of credit products identified by people should be available, subject to regulation, to help manage energy payments, but without the existing downside of fees, debts and other impacts that come with unregulated and lightly regulated credit products.

PIAC recommends a ban on advertising and use of BNPL and similar credit products for energy bill payments. At the same time, there must be improved design of, knowledge of and access to energy retailer and government supports, so people have access to the payment options they need.

Use of credit products is increasing, including for essentials

“...costs of housing, income being so low and casualisation, they can't... if there's an emergency, they use [a credit product] as a buffer to even out their expenditure.” – Financial Counsellor, QLD

Service providers¹ and energy consumers² indicate that credit products such as BNPL are becoming increasingly popular and more commonly used for essentials, including groceries and energy bills. For energy, this means people using these products are effectively missing protections available within the energy retail system.

¹ ‘Service providers’ are frontline workers such as financial counsellors who help people experiencing payment difficulties. See below ‘Research methodology’ for explanation of terminology used in this report.

² See below ‘Research methodology’ for explanation of terminology used in this report.

“BNPL creeping into the energy market is allowing this hardship issue to be masked... and it means that clients, by the time they get to me, they’ve lost those protections of the ombudsman, they’re now in trouble with BNPL, the energy providers are not necessarily aware of the problems, so none of those potential safeguards have been done. The energy situation needs to be a barrier on BNPL being used for these things.” – Financial Counsellor, NSW.

“So, now they want to get off [BNPL credit product] Deferit, and to get off Deferit they’ve got to go get a payday loan to pay the bill in whole for the energy bill. Let’s say it costs \$500, now on top of the Deferit fee, now on top of the payday lender fee, the bill is now twice the cost. So, if there was a much clearer path of “this is what it costs” or “this is what you’re affording or paying fortnightly”.” – Financial Counsellor, NSW.

Energy bills are prioritised and carefully budgeted for, with sacrifices made, but many still find them difficult to pay on time.³ Despite hard work to manage their bills, many people see credit products as the only way to meet their needs.

The Ipsos survey⁴ indicated almost half (47%) of total consumers had used a credit card to pay their energy bill in the last two years, 21% had used a BNPL product, 21% had borrowed from family/friends, 16% had used a payday loan, and 17% had used a wage advance product. Use of unregulated and lightly regulated credit products was much higher amongst people from First Nations communities with 58% indicating they used a BNPL product, 64% had used a payday loan, and 60% had used a wage advance product. Numbers were also quite high for people from CALD backgrounds: 41% had used a BNPL product, 39% had used a wage advance product and 30% had used a payday loan.

When asked in the AMR survey⁵ about the bills they pay, 43% of people surveyed reported repaying BNPL loans and 53% reported they have other loans or credit cards they are paying off.

Some consumers articulated the perceived positives of credit products, explaining they are helpful for budgeting, valuable to cut large payments down into smaller amounts, are easy to use and help make ends meet. People cite using BNPL to pay for energy because they feel it gives them control, helps them track payments, is a set repayment amount (whereas energy bill amounts fluctuate) and because they cannot otherwise afford the bill.

Many people have little awareness of the pitfalls. For example, paying a fee is seen as reasonable, even though energy retailers are required to offer regulated payment plans and bill smoothing at no charge. The effectiveness of protections in the energy system are undermined by the wide-spread use of credit products, which normalise problematic fees and charges.

“I would use AfterPay on bills if it was a particularly large bill. I haven’t had to pay a full summer’s worth of cooling/heating so then I would consider a similar service.” – Low Income, Female, 25-29 years, VIC.

³ More information about these findings can be found in our report, ‘Paying to pay: The hidden cost of managing energy bills’.

⁴ See below ‘Research methodology’ for explanation of research surveys and interviews.

⁵ See below ‘Research methodology’ for explanation of research surveys and interviews.

“When you need a spare \$100 for groceries, it [BNPL] really comes in handy.” – Low Income, Female, 65-69 years, QLD.

Eight percent of energy consumers who have used credit products for ongoing expenses said they had paid additional fees or costs using these methods.

“It makes the cost involved higher, by accruing interest on top of the original, if not paid in full on time.” – energy consumer response in survey.

Many expressed that the product helped them at the time but made their financial difficulties bigger in the longer term.

“Harder to pay off in the long run but less stressful in the current time.” – energy consumer response in survey.

Some consumers shared service providers’ concerns about the rise in use of credit products such as BNPL, especially for essentials:

“No [I haven’t used BNPL]. Once you start that, you get behind and then you are really bugged. They get the money and pay from wherever it comes from and by the time they get the pay it’s gone again.” – Senior on Aged Pension, Female, 65-69 years, WA.

“I was in a horrible situation with this guy that I met and he convinced me to get a cash stop loans, I know it’s really silly... I had no money to live off. I think that these credit companies really need to be held accountable. They don’t follow lending laws.” – Female, 40-44 years, NSW.

The Ipsos survey indicated reasonably high levels of *occasional* usage of BNPL, payday loans and wage advance products to pay energy bills. Fifteen percent of energy consumers *regularly* pay for their energy bills by a credit payment method (including credit cards as well as unregulated and lightly regulated credit products). One percent of energy consumers indicated BNPL is their main method for making energy bill payments.

However, there is a worryingly high level of interest in using BNPL, with 31% of energy respondents indicating they are likely to use BNPL to pay for energy in the future.

“BNPL for energy would be good.” – CALD, Female, 35-39 years, QLD

Removing the need to pay more to pay for energy

Energy retailers could give consumers a more positive experience when paying bills directly. Payments could be broken into smaller, more manageable increments, with consumers able to easily adjust payment amounts.

Governments have a role to play in making energy more affordable, particularly as we transition to a zero emissions energy system. The NSW Government could introduce percentage-based rebates and more accessible Energy Accounts Payment Assistance (EAPA) payments. These

should be provided in conjunction with effective ‘best retail offer’ requirements and energy efficiency programs, to help keep energy bills low.

The Federal Assistant Treasurer and Minister for Financial Services, Stephen Jones, has announced there will be reforms to regulate BNPL loans under the Credit Act.⁶ Financial counsellors and consumer groups are ‘cautiously optimistic’ but will not know how effective the reforms will be until details are released. Concerns remain that the reforms won’t do enough to protect vulnerable consumers, as even small loan amounts can cause harm, particularly when people have multiple small loans.⁷ We support the work of Financial Rights Legal Centre, Consumer Action Law Centre, Financial Counselling Australia, CHOICE and others who are proposing safe regulation of these products.⁸

However, even if BNPL and similar credit products were to be fully regulated as credit products, that will not address the affordability of household essentials. Issues around the marketing and design of these credit products will also need to be addressed to ensure good consumer outcomes.

⁶ <https://www.abc.net.au/news/2023-05-21/buy-now-pay-later-regulations-credit-act-afterpay-zip-pay/102368810>
⁷ <https://www.choice.com.au/money/credit-cards-and-loans/personal-loans/articles/bnpl-regulation-announcement>
⁸ <https://financialrights.org.au/credit-debt/advocates-and-industry-agree-time-to-close-lending-loopholes-on-buy-now-pay-later/>

2. Introduction

PIAC partnered with the Australian Communications Consumer Action Network (ACCAN) to research payment harms in energy (gas and electricity) and telecommunications (phone and internet). The research examined whether people experiencing disadvantage pay more to receive utilities because of the way they pay.

This report is one in a series of reports based on this research released by PIAC⁹ and ACCAN.¹⁰

Financial counsellors report an increase in clients with Buy Now, Pay Later (BNPL) debt¹¹ and people are increasingly using BNPL for essentials, including utility bills.¹²

We wanted to understand how credit products, especially unregulated and lightly regulated credit products such as Buy Now Pay Later (BNPL), affect energy consumers and energy bills and what implications there are for energy supports and regulation.

By using credit/deferred payment products, some consumers are paying more for their energy bills because of associated fees or interest payments. These credit products also delay, and in many cases compound, issues with arrears and debt, the costs of which are hard to quantify.

Using a credit product to either pay directly for energy, or to pay for other expenses in order to make available funds for energy, should be unnecessary and masks peoples' need for assistance. Energy retailers are required to offer payment plans and hardship programs, and many retailers also offer monthly or fortnightly billing and other bill smoothing options that serve the same purpose for people, but more safely. Some consumers also set up their own payment plans by making regular smaller payments towards their energy bill via BPAY.

“BNPL creeping into the energy market is allowing this hardship issue to be masked... and it means that clients, by the time they get to me, they've lost those protections of the ombudsman, they're now in trouble with BNPL, the energy providers are not necessarily aware of the problems, so none of those potential safeguards have been done. The energy situation needs to be a barrier on BNPL being used for these things.” – Financial Counsellor, NSW.

“It's always a deep concern for us when we see people using BNPL or any kind of loan to cover the cost of essential services. ...they're not that good, but there are financial hardships protections built into codes and laws that relate to provision of essential services and when people are not engaging with those provisions, and instead are borrowing money elsewhere, they're missing out on some of the support that we've tried to codify into some of the utilities laws.” – Lawyer, VIC.

⁹ See: <https://piac.asn.au/>

¹⁰ See: <https://accan.org.au/accans-work/research/2121-direct-debit-in-telecommunications>

¹¹ Financial Counselling Australia, 'It's credit, it's causing harm and it needs better safeguards' (2021) 5.

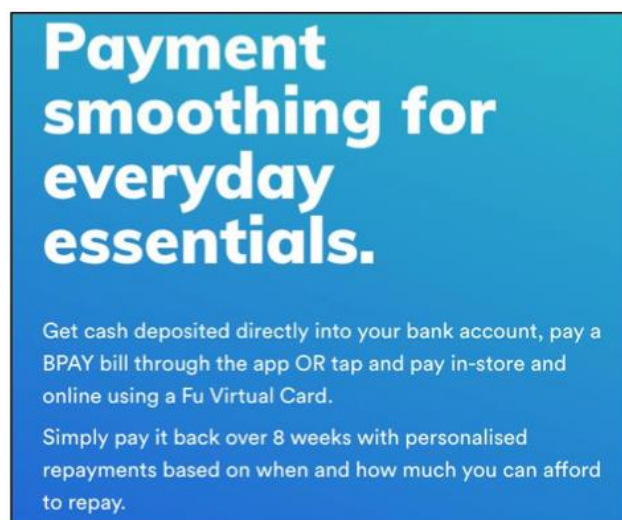
¹² Ibid 9; CHOICE Consumer Pulse survey September 2022 found 1 in 4 BNPL users used this credit product to pay for essential products or services.

As energy is an essential service, energy debt should be a shared problem between consumers, energy retailers and governments. When people use credit products to pay for energy, the liability shifts from a shared debt (or risk) and to one borne only by the consumer.

In addition to making energy bills more expensive, research shows that credit products can lead to a debt spiral, where consumers take out subsequent loans to service or pay back earlier loans,¹³ because these products do not address (and often intensify) an underlying affordability issue.

Research also shows that people more vulnerable to financial difficulty, such as people who live in lower socio-economic areas and people in receipt of government payments, are more likely to have more than one credit product account. They are more likely to already be in debt, with a higher credit card utilisation rate and personal loans.¹⁴

BNPL providers use their marketing and advertising to encourage use of their products to pay for essentials, including energy, for example:



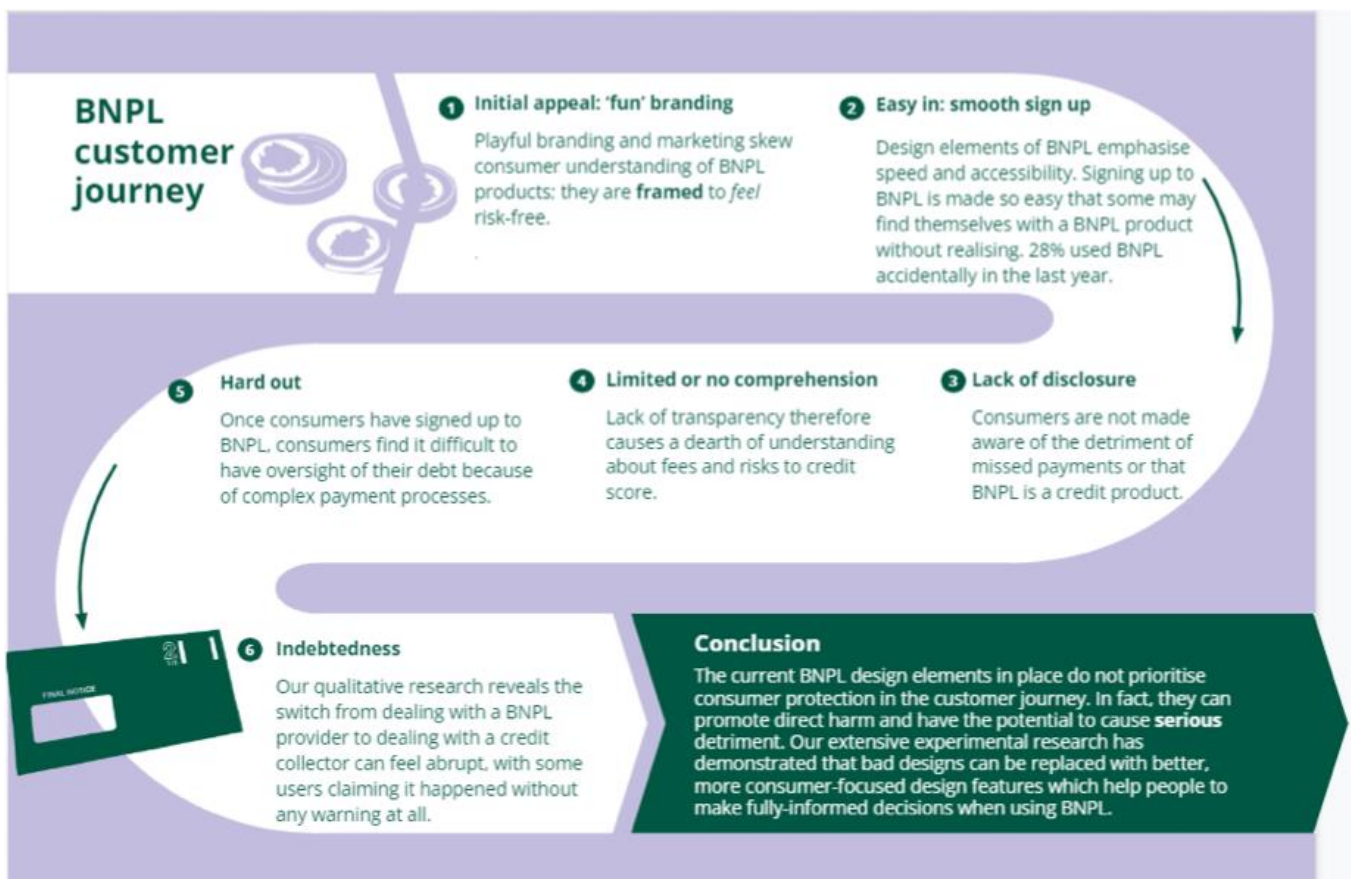
Citizens Advice in the United Kingdom has documented how BNPL products are designed to be positively perceived by consumers— they are fun, aspirational, look risk free and are frictionless, making it easy to act on impulse. However, marketing is not transparent about the possible detriment, can be hard to understand and does not explain it might be hard for users to manage the debt and repayments.¹⁵ Citizens Advice developed the following graphic to explain the BNPL experience:

¹³ For example, The Debt Trap Alliance found that over 5 years, 15% of people who take out payday loans fall into a debt spiral ('The Debt Trap: How Payday lending is costing Australians' (2019) 6); CHOICE Consumer Pulse surveys from June to September 2022 found:

- 1 in 7 BNPL users were sold more than 20 BNPL loans in the past year.
- 1 in 5 BNPL users missed or had been late with a payment for a BNPL service.
- Of those users with late payments, 2 in 5 have taken out another loan to pay for BNPL fees or debts.

¹⁴ Grant, Andrew, '[Buy Now Pay Later regulation needed to protect vulnerable borrowers](#)' *The University of Sydney website* (2022).

¹⁵ Citizens Advice, 'Tricks of the trade: How online customer journeys create consumer harm and what to do about it. Annex 1 Buy Now Pay Later' (2022) 5.



BNPL customer journey by Citizens Advice. ¹⁶

Citizens Advice and others have also explored how BNPL and other online credit products exploit our psychological biases such as ‘present bias’ where we place greater value on current benefits than on future costs and ‘optimism bias’ where we materially overestimate the likelihood of positive outcomes.¹⁷

Through this research, we were interested in exploring the extent to which people are using BNPL and other credit products (particularly unregulated and lightly regulated products) to either directly pay for their energy bills or to pay for other expenses to enable them to afford to pay their energy bills. We were also interested in understanding why these products are becoming so popular and how supports within the energy system can be improved so they are better at providing affordable access to essential energy.

Research methodology

The research included an Ipsos omnibus online survey (‘Ipsos survey’) of 1,000 nationally representative consumers to find out how they pay for energy and telecommunications. From there, Action Market Research was engaged and undertook:

¹⁶ Ibid 9.

¹⁷ Citizens Advice, ‘Tricks of the trade: How online customer journeys create consumer harm and what to do about it.’ (2022) 51; Hobbs, Joshua, ‘The Klarna conundrum: why treating buy-now-pay-later apps like banks will not protect consumers,’ *The Conversation* (2021).

- Desktop research into available energy and telecommunications offers.
- Interviews with 10 service providers – frontline workers such as financial counsellors who help people experiencing payment difficulties.
- Interviews with 30 consumers (referred to in this report as ‘consumers’ or ‘people’) who are from the cohorts identified in the Ipsos survey as more adversely affected by payment harms, and who indicated they experience payment issues. These groups were:
 - First Nations people experiencing payment issues;
 - people from culturally and linguistically diverse (CALD) backgrounds experiencing payment issues;
 - people on low incomes experiencing payment issues;
 - seniors on lower incomes (i.e. pensioners);
 - people living with a disability experiencing payment issues; and
 - 18-29 year olds in precarious employment and experiencing payment issues.
- An online questionnaire of 1,026 consumers (‘AMR survey’) who have a household income of \$50,000 or less, or, if their income was higher, report some difficulty affording their household bills. At PIAC’s request, the survey was weighted towards NSW consumers, particularly for specific energy questions.

Terminology used when describing survey respondents

- When referring to all respondents (ie the 1,026 respondents), we use the term ‘people’ or ‘respondents’ in this report.
- 978 of the respondents were responsible for paying their energy bill and in this report are referred to as ‘energy consumers’.
- To keep the survey at a manageable length, approximately half of respondents (514) were asked some questions specifically about energy (while the other half were asked questions about telecommunications). The people who answered the questions specific to energy are referred to in this report as ‘energy respondents’.

More details about the research methodology can be found in our document, ‘Paying to pay: Background and methodology’.

3. Increased use of unregulated and lightly regulated credit products

Unregulated and lightly regulated credit products are increasingly being used for essentials

Service providers - financial counsellors and other frontline community support service providers - are increasingly seeing people turn to credit products to delay payment issues and make ends meet, exacerbating their precarious financial situation. In particular, unregulated and lightly regulated credit products such as BNPL are being used more, and increasingly being used for essentials, including energy. These products end up costing consumers more for the service due to fees and/or interest. It also means that energy retailers, who are required to offer assistance to consumers with payment difficulties do not see there is a problem until it has become a significant (and potentially insurmountable) debt problem.

What service providers are seeing

“The 20s-40s – there’s none of them that don’t have these, they all have them. Whenever we deal with this age group, we ask them about what debts they’re concerned about, usually we’d get ‘oh I have a credit card’, we don’t get that, we get ‘I have AfterPay, ZipPay...’” – Financial Counsellor, WA.

“So, now they want to get off Deferit, and to get off Deferit they’ve got to go get a payday loan to pay the bill in whole for the energy bill. Let’s say it costs \$500, now on top of the Defer-It fee, now on top of the payday lender fee, the bill is now twice the cost. So, if there was a much clearer path of “this is what it costs” or “this is what you’re affording or paying fortnightly”. – Financial Counsellor, NSW.

“I’m not sure if they’re checking their drivers’ license or whatever. I had one lady who had three accounts and one of them was in her cat’s name. Can you believe it?”- Financial Counsellor, WA

“Yes [I see people experiencing problems with payday loans]. People are accessing these things because they don’t have the money. It makes things seem cheaper than what they actually are...BNPL... Two issues [with BNPL]. One, they’re expanding into food, Woolworths and all that sort of thing, which they’re now using BNPL for essential living expense. Beforehand, you could pretty much say that BNPL was for wants and so it was an incentive for people to buy something they couldn’t afford. If the amounts are small and they’re kept small and they’re getting larger and larger now with their limits, at least there’s a forced repayment for a small amount over every 2 weeks.” – Financial Counsellor, NSW.

“Probably not so much in mob [do we see problems with credit cards], probably because they don’t qualify. I see them turning to BNPL to cope. Or getting payday loans or wage advance to get through to the next month because of the unaffordable energy bill. I see they have an accumulative effect that happens. They know they have to pay the energy bill but they can’t afford the energy bill so they’ll get some BNPL food or BNPL something else or they’ll go get a wage advance, just to get through the month because maybe next month it’ll be better. Or they’ll get a payday loan... it’s unregulated credit products to get around the debts – and that

means the credit is so unregulated people are using them to survive by it... rather than reflecting on the core problem which is the cost of living for basic essentials.”

– Financial Counsellor, NSW.

“Correct [people buying food using BNPL]. People will purchase pre-paid VISA cards on BNPL and use them for their essential living costs.” – Financial Counsellor, SA.

“I see a lot [of BNPL], unfortunately, I have to say because I work in the gambling areas as well now... [These] unscrupulous credit companies that offer anything from \$100 to \$50,000 loans or money upfront and all you have to do is go online, they forward you 10 grand or 5 grand or whatever... They need to tighten down in those areas, the accessibility of these loans. I think more and more of them are coming online because there’s cracks in the legislation from the government to restrict it... You don’t even have to talk to the company they don’t even know who you are... The faceless way of loaning money I think is going to open up a lot of problems like you said, paying for phone, gas, power, they’re going to use it and its going to be compounding effect where they owe so much because they’ve been accessing so much credit and it all comes to a grinding halt at the end of the day.” – Financial Counsellor, WA.

“I think BNPL is quite harmful because it is a form of credit. It’s not as bad as a credit card because they’re not paying quite as high interest, which is 20% per year. But they are heavily marketed and not regulated under the credit code so people aren’t really checked if they can afford repayments by a credit provider. It is a form of instant gratification where people can buy things that they don’t really think too much about whether they can afford the repayments down the line... when those full payments are \$75 per week, that’s a big chunk of Job Seeker payment... multiple BNPL can be accessed because they are not proper checks in place and people can already have defaulted on AfterPay and hop on another payment, for example. I would say 80% of the clients we see have some sort of BNPL debt.” – Financial Counsellor, WA.

“And especially, AfterPay. ZipPay... those, they’re not regulated, so there’s no credit checks. You can have one, you can have two, you can have five. They go “it’s only going to cost me \$10 a fortnight, I can do that”, but then they go and get another one and another and then all of a sudden \$10 a fortnight becomes \$60 a fortnight and it becomes an issue.”

– Financial Counsellor, WA.

“Yes [I see people experiencing problems with payday loans]. People are accessing these things because they don’t have the money. It makes things seem cheaper than what they actually are.” – Financial Counsellor, NSW.

“The reality is a lot of our clients will have low credit scores so they won’t get a personal loan, they won’t get a credit card from mainstream banks, basically. And because income is so low, going back to my earlier point, about the costs of housing, income being so low and casualisation, they can’t... if there’s an emergency, they use them as a buffer to even out their expenditure.” – Financial Counsellor, QLD.

“We’re starting to see a bit of the BNPL [Buy Now Pay Later] being used, which is a further problem and starts to mix it around other places. And that’s going to be a problem – they

haven't seen that quite yet, but I think that's going to be a problem." – Financial Counsellor, NSW

What consumers are experiencing

- Previous use of BNPL was more common with people on low incomes.
- Attitudes towards using credit products such as BNPL were mixed, but many people, across all cohorts, indicated they were open to using it.
- Spreading payments into smaller amounts was seen as valuable in budgeting, particularly for First Nations people and people from CALD communities.
- Some people don't see any problem with credit products, even though the fee (or interest) means the bill is more expensive.
- Some people like using credit products like BNPL, or they like the idea of using credit products, for essentials including groceries and utilities, whilst others see value in using credit products for non-essential or un-budgeted for purchases.

"I'm not sure if I can do that [use BNPL], depending. I probably would with Telstra and Dodo. It's cut into 4 smaller payments instead of one bulk payment; I like that. It makes it a lot less stressful when I am trying to budget everything. I have been using it for a while and have never had any issue. I've never missed a payment. You can change a payment if you need an extension. You can also manually pay which is what I do." – First Nations, Female, 18-24 years, NSW

"Not on energy bills, but I might consider using it on gas; it's too high... BNPL for energy would be good." – CALD, Female, 35-39 years, QLD

"Yes [I have considered using it]; AfterPay and ZipPay and I have a layby but don't use it. I quite often use it for Telstra. It's set up for just your bills; take a photo of your bill, say how much you want them to pay and then they will pay it in 4 instalments and it is a \$6 monthly fee to use it." – Living with Disability, Female, 18-24 years, QLD.

"I would use AfterPay on bills if it was a particularly large bill. I haven't had to pay a full summer's worth of cooling/heating so then I would consider a similar service." – Low Income, Female, 25-29 years, VIC.

"I'd probably consider BNPL." – Low Income, Female, 25-29 years, VIC.

"I've used BNPL once, but don't want to use them again. I don't want to spend. It would be good for telco/energy bills, rather than shopping. Those bills are the more expensive things I'm paying for, it would be great to have it all spread out." – Young & Precariously Employed, Female, 18-24 years, NSW.

"When you need a spare \$100 for groceries, it really comes in handy." – Low Income, Female, 65-69 years, QLD.

"I mainly use it for online shopping. I don't usually buy something that I wouldn't be able to afford; I just prefer to have it spaced out over a number of weeks rather than have it taken out

in one chunk. it helps with pay cheques and Centrelink payments.” – Low Income, Female, 25-29 years, VIC.

“Introducing BNPL for energy would be helpful to manage my budgets. I’ve never missed a payment on these schemes.” – CALD, Female, 35-39 years, QLD.

“BNPL is a good option if I am falling short but not if I had to do.” – CALD, Female, 35-39 years, VIC.

Many people see credit products as appealing and there seems to be little awareness of the pitfalls, for example, considering a monthly fee reasonable, despite payment arrangements being free for energy retailers to provide, and subject to regulations that repayments must be affordable. As discussed in the Introduction, these products are designed to exploit people’s biases and because they are becoming more common in all aspects of people’s lives, the ability to identify problematic circumstances or moments of ‘crisis’ is diminished.

Concern about debt spirals and the lack of regulation of credit products

As explored in the Introduction, it is not uncommon for people to take out subsequent credit products to pay off existing loans and for this to lead to debt spirals. Our research also showed this tendency, with service providers explaining:

“[Payday loans, wage advancements] yeah, same thing [as BNPL]. So, you can access part of your pay a few days before you get paid, or a week before you get paid, and it’s going to cost you \$50 but then they get their pay and they’re down a few hundred, so then they can’t pay it and then they do it again, it’s just a spiral.” – Financial Counsellor, WA.

“That’s the other thing we see, that people have multiple debts, either that they didn’t realise, or they’re using BNPL or other small payday loans or other companies to pay off a bigger debt...certainly, the number of loans that are being used and regulated and people can access them easily, is a massive issue we see in our clinics.” – Legal Advisor, NSW.

Some consumers shared the concerns service providers have about the debt spiral. This concern was particularly expressed by older people.

“I don’t use these. I know some people who have been bitten really bad with them so I don’t use them. If you don’t pay on time then you get hit with big extra charges.” – Senior on Aged Pension, Male, 70-74 years, NSW.

“No, but in the old days that used to be call Laybuy. I think it’s a trap because - not for me, but for young ones - it’s the new trap type thing. I’ve got nephews and nieces that use it but got caught out.” – Senior on Aged Pension, Female, 65-69 years, QLD.

“No [I haven’t used BNPL]. Once you start that, you get behind and then you are really bugged. They get the money and pay from wherever it comes from and by the time they get the pay it’s gone again.” – Senior on Aged Pension, Female, 65-69 years, WA.

“No [I haven't used BNPL] because if I can't afford it now, then I can't afford it.” – Young & Precariously Employed, Female, 18-24 years, NSW.

“No, I haven't needed to. I don't use these products. I have a credit card [that's been] maxed out and I don't need more credit.” – First Nations, Female, 35-39 years, SA.

One person shared her experience being pressured to take out a credit product for someone else, even though she could not afford it:¹⁸

“I think those credit companies, there was one time, I was in a horrible situation with this guy that I met and he convinced me to get a cash stop loans, I know it's really silly... I had no money to live off. I think that these credit companies really need to be held accountable. They don't follow lending laws.” – Female, 40-44 years, NSW

Some people prioritise repaying credit products above essential expenses

The quantitative survey indicated that overall, people consider paying their electricity bill a high priority.¹⁹ The survey indicated some people prioritise repaying credit products to ensure they are not charged a fee/interest or lose the account. This trend came out more clearly in the interviews with consumers, for example:

“BNPL is a staple. First is rent, and second is pay Klarna.” – First Nations, Female, 18-24 years, NSW

“ZipPay comes out the day before I get paid. I have set it up that way to make sure it gets paid. You don't want to stuff up.” – Low Income, Female, 65-69 years, QLD

“It doesn't matter when they're due, on pay day I pay them all. I have not made a payment late; I've always been on time. I had an issue a couple of years ago when someone had my debit card numbers and I couldn't pay my AfterPay bill. I rang them and they were very good.” – Senior on Aged Pension, Female, 75-79 years, SA

Many people value the convenience of credit products but the cost for some is that repaying them is prioritised over essential expenses.

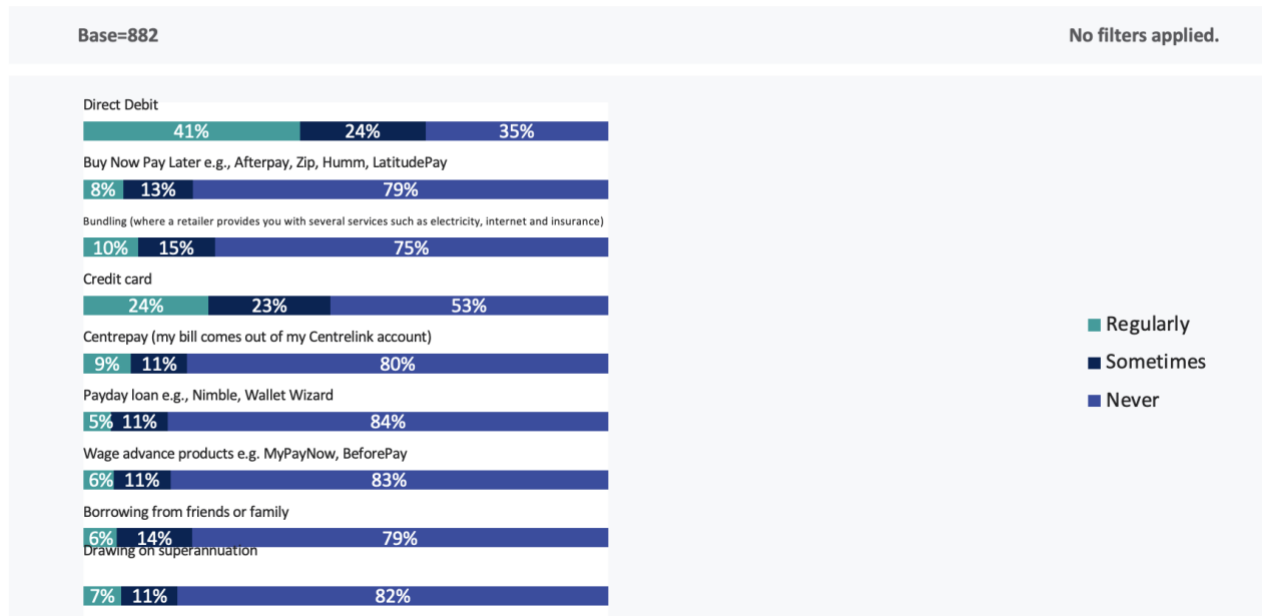
¹⁸ There is a link between BNPL and family violence. For example, Good Shepherd reported that: ‘one in four [of our] Financial Counselling and Capability practitioners are seeing coercive debt in at least half of their clients with BNPL debts, and 69% are seeing it in at least one client using BNPL. This abuse can include creating multiple BNPL accounts in a partner's name, to accumulate debt. Rates of coercive BNPL debts appear to be increasing, with 53% of practitioners reporting that they are seeing it more than a year ago.’ Good Shepherd Australia New Zealand ‘Safety net for sale: The role of Buy Now Pay Later in exploiting financial vulnerability’ (2022) 12.

¹⁹ More information about these findings can be found in our report, ‘Paying to pay: The hidden cost of managing energy bills’.

Prevalence of use of credit products



In the last 2 years, which of the following have you used to help you pay for your electricity and/or gas products & services?



The Ipsos survey indicated in the last two years consumers had used a range of credit products to pay their energy bill:

- almost half (47%) had used a credit card;
- 21% had used a BNPL product;
- 21% had borrowed from family/friends;
- 16% had used a payday loan; and
- 17% had used a wage advance product.

Breaking this down into ‘regularly’ and ‘sometimes’, people currently use these credit products ‘sometimes’ more often than ‘regularly’:

- BNPL is used by 13% of people sometimes and 8% regularly;
- wage advance products are used 11% sometimes and 6% regularly; and
- payday loans are used 11% sometimes and 5% regularly.

The following table further delineates how vulnerable communities are paying for their essential bills.

Base:	873	265	200	309	63	174	147	365	228
Q5. Used to pay Electricity and/or gas bills last 2 years	TOTAL	Low Income	Seniors	Not employed	First Nations	CALD	Disability	Non-Capital City	High School Or Less
Direct Debit	65%	60%	57%	60%	73%	79%	67%	66%	59%
Buy Now Pay Later	21%	17%	4%	8%	58%	41%	29%	18%	14%
Bundling	25%	23%	11%	14%	68%	43%	35%	21%	17%
Credit Card	47%	36%	34%	31%	72%	64%	40%	40%	39%
Centrepay	20%	24%	5%	13%	63%	35%	32%	20%	18%
Payday loan	16%	14%	2%	5%	64%	30%	28%	15%	11%
Wage advance products	17%	12%	2%	5%	60%	39%	23%	15%	11%
Borrowing from friends/family	21%	19%	2%	10%	69%	38%	39%	20%	15%
Drawing on superannuation	18%	15%	12%	11%	58%	32%	26%	17%	11%

Use of unregulated and lightly regulated credit products was much higher amongst people from First Nations communities:

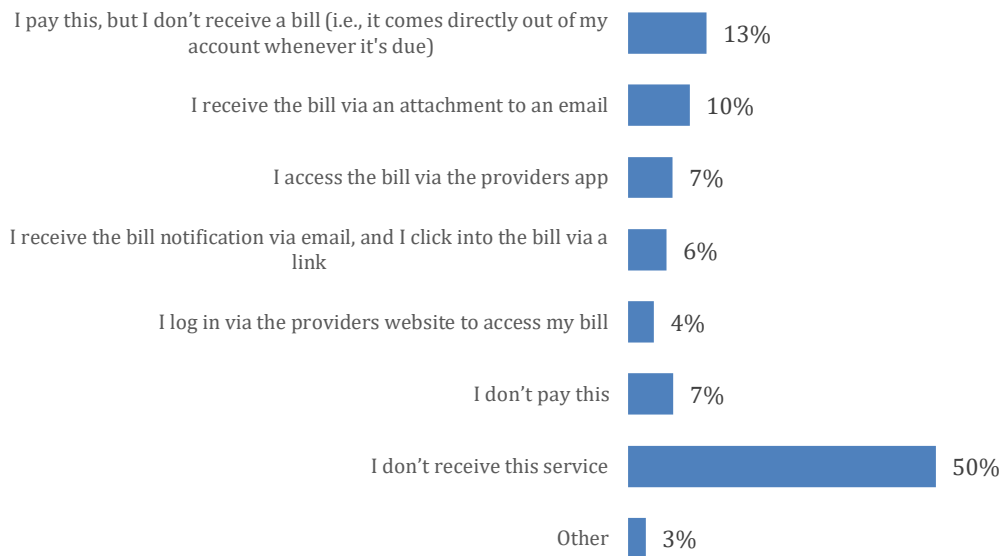
- 58% have used a BNPL product;
- 64% had used a payday loan; and
- 60% had used a wage advance product.

Usage of unregulated and lightly regulated credit products was also quite high for people from CALD backgrounds:

- 41% had used a BNPL product;
- 39% had used a wage advance product; and
- 30% had used a payday loan.

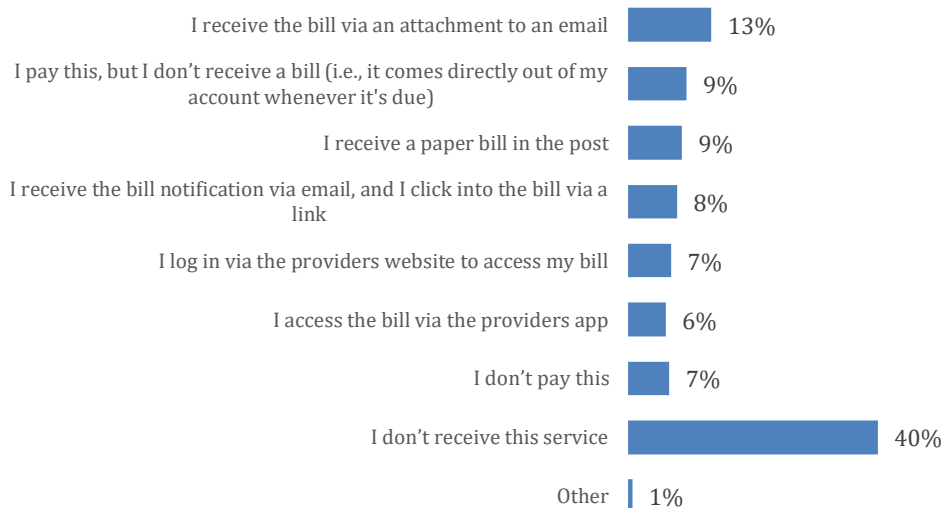
The AMR survey further corroborated these results, finding high levels of usage of BNPL and similar credit products, but (current, at the time the research was conducted) low levels of people using these products to pay directly for their energy bills. Concerningly, similar to the interviews, survey respondents indicated a high level of interest in using BNPL to pay for their energy bills in the future. With rapidly escalating cost of living issues since this research was conducted, the prevalence of credit product use is likely to be much higher.

B1i. Receive Bill - Buy Now Pay Later Loans (n=1026)



Forty-three percent of people surveyed reported repaying BNPL loans when asked about the bills they pay.

B1j. Receive Bill - Other loans, or credit card payments (n=1026)



Fifty-three percent of consumers surveyed reported they have other loans or credit cards they are repaying when asked about the bills they pay.

Further findings

- Fifteen percent of energy consumers surveyed by AMR indicated they have used credit payment methods (such as credit cards, wage advance products, payday loans or BNPL products) to pay for ongoing expenses, including paying off existing BNPL debts.
- Eight percent of energy consumers who have used credit products for ongoing expenses said they had experienced additional fees or costs using these methods; 6% had experienced debt or more financial stress; 6% forgot or were unable to make payments; and 7% said they had other issues using credit products. It is important to note that forgetting to make payments could be part of the BNPL product design. For example, Citizens Advice found 11% of BNPL customers did not understand how repayments would be set up; that there is inadequate disclosure and a lack of transparency which results in limited or no comprehension of users; and that it can be difficult to have oversight of debt because of complex payment processes.²⁰

Some of the open responses regarding harms included:

“Harder to pay off in the long run but less stressful in the current time.”

“It compounded the next bill.”

“It just delays the problem. It's like a quick fix.”

“It just got me further behind in the end, so it really wasn't worth it. It became an extra bill which I couldn't afford!!”

“It makes the cost involved higher, by accruing interest on top of the original, if not paid in full on time.”

“It took a while to pay off the debt and when it was deferred, I paid interest.”

“Sometimes a late fee is charged for BNPL and account keeping fee and it goes onto credit check that I have had late payments on my credit record or bank has charged 8 percent interest on top of my direct debit or overdraft to pay bills.”

“You are still out of pocket more than usual for a longer period of time. But it does get the bill covered for the short term.”

- Eight percent of energy consumers use a credit card as their main payment for paying their energy bills. This figure is much lower than the Ipsos figure for credit card being used to pay for energy in the past 2 years (47%). This may indicate that for many consumers, credit cards are being used as a payment strategy, but not something they use, (or need to use or can use) all the time. People indicated they used this method because:
 - Ease/Convenience;
 - I have control/flexibility (incl. extensions); and
 - Keep tab/keep track (incl. the bill varies each time, can check for issues, can make sure money in the account.
- One percent of energy consumers indicated BNPL is their main method for making energy bill payments. People indicated they used this method because:

²⁰ Citizens Advice, ‘Tricks of the trade: How online customer journeys create consumer harm and what to do about it. Annex 1 Buy Now Pay Later’ (2022) 5 and 9.

- I feel more in control;
 - It's easier to keep track of payments;
 - Set amount each month; and
 - I can't afford it.
- Sixty-four percent of energy consumers reported that in the last two years they have used other methods of paying their energy bills besides their main payment method. This included use of the following credit products:
 - 14% have used their credit card;
 - 3% have used BNPL;
 - 1% have used a Payday loan; and
 - 1% have used a wage advance product.

Concerningly, 31% of energy consumers say they are likely to use BNPL in the future to pay for their energy bill.

4. Safer alternatives to credit products to afford energy bills

Credit products cause harms, but they fill a need

Credit products do fill practical payment needs which should be available, and safely and easily accessible, within the energy sector as part of the regulated assistance requirement.

Our research demonstrates:

1. Energy bills are expensive and often far exceed any available income or savings.²¹
2. Energy bill amounts are uneven which makes them difficult to pay, especially on time.²²
3. Many people value how credit products enable them to make smaller, regular repayments.
4. The process to get credit products is quick and easy ('frictionless') and repayment amounts are easily altered.
5. Credit products are used to help people manage cashflow issues and unexpected expenses.
6. Accessing a credit product feels like a 'positive' experience for some and can give people an immediate sense of control to manage their money (at least until they can't be paid back).

Energy is an essential service. The ability to affordably manage and pay for energy bills in a way that meets the needs identified by people in this research, should be accessible free of charge, detriment or unreasonable burden through the energy system.

The National Energy Retail Rules (NERR) contain provisions that require energy retailers to proactively identify people experiencing payment difficulty as early as possible. Energy retailers are subject to rules about how to support consumers experiencing payment difficulties, such as offering payment plans and additional support for people considered to be in hardship, including protections against disconnections. Retailer hardship programs and other retailer assistance are essential in ensuring people can use the energy they need without going into debt or getting disconnected. However, these assistance measures often come with substantial barriers, conditions, friction and restrictions which make them inaccessible, disempowering and ineffective. Access to hardship and other retailer assistance should be as easy, flexible and as empowering as accessing credit products currently are, without the serious additional costs or risks.

Government assistance is also available to help improve energy affordability. In NSW, this includes a range of rebates, the main one being the Low Income Household Rebate, as well as an energy payment available during a crisis, known as Energy Accounts Payment Assistance (EAPA). Awareness and access to these measures is often difficult, and can involve substantial inconvenience, effort, time and shame that prevents or impedes people accessing them when they are in need.

²¹ More information about these findings can be found in our report, 'Paying to pay: The hidden cost of managing energy bills'.

²² Ibid.

Energy affordability – and debt – should be a shared responsibility between energy retailers, governments and consumers, responding to consumer needs including those identified through this research.

Below we address each of the research findings regarding why people turn to credit products, including BNPL, to pay for or afford their energy bills, and how these issues can be addressed more safely.

1. Energy bills are expensive and often far exceed available income or savings.

This research was undertaken before substantial energy price and cost of living increases began to hit household bills in late 2022. However, even before these price rises, households taking part in this research found energy bills high. There are a number of actions governments are taking to address the recent energy affordability issues, such as capping the price of coal and gas and providing additional direct bill assistance to households already in receipt of rebates.²³ But this research shows that further improvements and reforms are needed.

Fair tariffs

One of the most effective ways that consumers can reduce their energy bill is to be on (and remain on) their retailer's (or another retailer's) best retail offer (tariff/plan) for their situation.

As part of this research, energy consumers were asked whether their retailer had helped them with ways to reduce their energy bill. Only 20% of energy consumers have been offered cheaper energy plans by their retailer.

PIAC supports 'best offer' information being available on energy bills as part of the Australian Energy Regulator's (AER) Better Bills Guideline. This is an important interim step while other more effective measures are pursued.

Currently, under the NSW Social Programs for Energy Code, energy retailers are required to contact rebate customers at least every 12 months and offer them the best retail offer they have for their circumstances.²⁴ However, there is consistent evidence that rebate recipients are often not on their retailer's best offer.²⁵

These 'notifications' still place the onus on the consumer to navigate the confusing energy market and ensure they are on a good offer and respond accordingly (and repeatedly). They also require the retailer to then act correctly (and consistently) on that request.

²³ <https://www.pm.gov.au/media/energy-rebates-ease-pressure-households-and-small-businesses#:~:text=These%20rebates%2C%20led%20by%20the,percentage%20point%20in%202023%2D24.>

²⁴ This requirement is A6.1.1 of the *NSW Social Programs for Energy Code*. A6.1.1(a) of the *NSW Social Programs for Energy Code* also requires energy retailers to contact rebate recipients regarding their best offer 'at, or within 40 days before, the expiry of each residential customer's contract or benefit.'

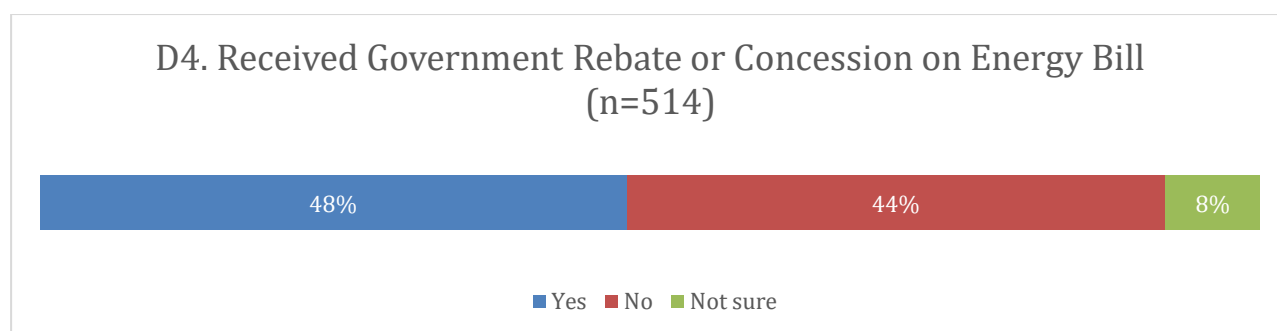
²⁵ For example, in a report written for PIAC, All Sustainable Futures (ASF) published details of 'Save4Good', an energy saving project they conducted in Port Kembla, NSW. ASF found 90% of rebate recipients were not on their energy retailer's best offer, with some rebate recipients on very high tariffs. ASF were not able to verify whether a rebate householder had been contacted by their energy retailer and offered to be put on a better plan but regardless of whether they were contacted or not, any communication did not result in the householder being put on the best available offer. (ASF, 'Save4Good: Report for the PIAC, Analysis of the Save4Good Program (2022) 19).

Whether through the AER's 'Towards energy equity' strategy, or other processes such as the AER's 'Game-changer', PIAC recommends more substantive changes to ensure people (particularly those on rebates) are never allowed to be on an inferior retail offer, or that they default to a fair and efficient offer in circumstances where they have not chosen a deal or where their deal (or its conditions) expire.

Recommendation 1

Reform retail markets and protections to ensure genuinely fair and efficient default pricing for all household consumers, with a requirement on retailers to shift people off inferior offers.

Government rebates not accessed or available to everyone who needs them



Just under half of all energy consumers (48%) mentioned they had received some kind of government rebate or concession on their energy bills.²⁶ Figures for NSW households were similar to the national figures: Out of 243 NSW energy consumers, 48% were not receiving a government rebate or concession, 42% were and 9% were not sure.

Considering the households selected to be part of the AMR survey, i.e. that they are on low incomes or report difficulties affording their bills, this is likely to be an indicator that:

- Some people are not receiving the rebates they are eligible for.
- Energy rebates are not effectively structured to reach all the people who need them.
- Rebates are not sufficient to address bill affordability issues.

Each of these issues are addressed below.

Some people are not receiving the rebates they are eligible for

PIAC is aware that the NSW Government is working to improve awareness and uptake of rebates where people are eligible. Further reform should examine ways to link Commonwealth and NSW Government systems to automatically confer rebates on people who are eligible.

Energy rebates are not targeting all the people who need them

In NSW, the criteria for the main rebate, the Low Income Household Rebate (\$285/year), is that the energy bill recipient have a Pensioner Concession Card, Health Care Card or, with certain restrictions, a DVA Gold Card. Generally, this means people who are working, but on low

²⁶ Examples were provided to the survey participants for reference.

incomes, have no government support for their energy bills. The Family Energy Rebate (FER) is designed to provide small additional assistance (\$20) to households already in receipt of the LIHR and \$180 to families that meet the criteria (have child/ren of a certain age and be in receipt of the Family Tax Benefit) but are not eligible for the LIHR. As such, it is designed to address affordability issues for working families. The NSW Government estimates that 423,000 households are eligible for the FER, but in 2020-21, only 47,000 received the FER,²⁷ with Departmental staff indicating that about half of the FER recipients received the full amount with the other half receiving the part payment. This low take up is likely due in part to the onerous application process but also it is unknown how many people are actually eligible for the full rebate amount and the remaining 89% of eligible households may only be eligible for the \$20 and may have decided that the complicated application process is not worth \$20.

Recommendation 2

Review the objective, eligibility criteria and formulation for rebates in NSW, including the Low Income Household Rebate and Family Energy Rebate to make them more effective supports for households struggling to afford the energy needed for health and wellbeing.

Rebates are not enough to address bill affordability issues

Rebates and assistance should be focussed on a clear objective and be proportional, rather than a fixed amount.²⁸ They should be provided in conjunction with ways to improve the efficiency and sustainability of energy usage, and ensure rebate recipients are on efficient retail deals so that rebate budgets are not wasted. Percentage based rebates would help households manage bills better when energy prices increase and reduce as household energy efficiency is improved and when energy becomes more affordable. This is particularly relevant during the energy system transition where costs are expected to increase in the short term but decline as renewables replace expensive fossil generation.

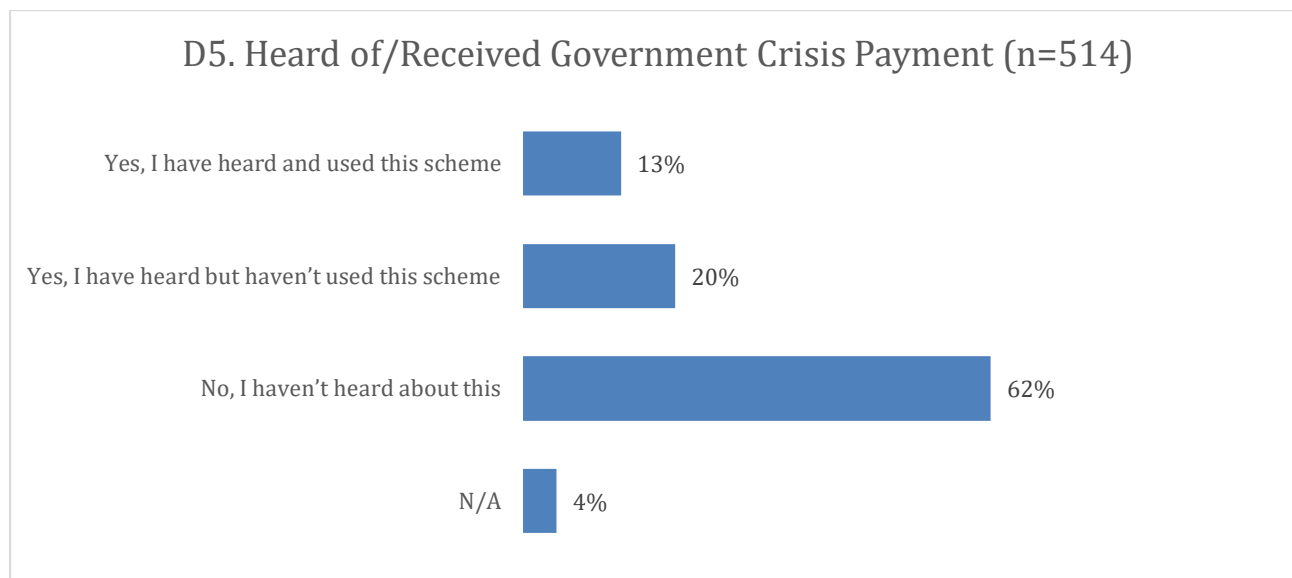
Recommendation 3

Provide NSW household energy rebates as a percentage of energy bills, instead of a fixed amount.

²⁷ NSW Government, 'NSW Energy Rebates Annual Report 2020-21', 8.

²⁸ For more information about how rebates can be designed to better meet consumer needs see Lombard, D et al, '[Reforming electricity concessions to better meet need: Summary Report](#)' (2022).

Government assistance for crisis situations



The majority of energy consumers (62%) had not heard of, or received, a state government crisis payment towards their energy bill. 20% of energy consumers had heard of these schemes but not used them, while only 13% had heard of and used these schemes previously.²⁹ These figures were similar for NSW energy consumers (n=243) where EAPA is available: 64% had not heard of them, 21% have heard of them but have not used them, 11% have heard of them and used them and 4% indicated they were N/A to them (perhaps because they live in an embedded network where they cannot, or until recently could not, access EAPA).

When people cannot afford their energy bill they should be able to access assistance through EAPA rather than turning to credit products which just make the bill more expensive. PIAC has outlined a number of ways access to EAPA and its effectiveness for NSW energy consumers can be improved in response to a review of the EAPA scheme.³⁰ These include:

- Simplifying the application process so it does not result in additional stress or shame for applicants.
- Coordinating EAPA with programs to safely reduce energy usage such as through energy efficiency.
- Allowing maximum EAPA support to be provided to households with electricity only.
- Allowing greater flexibility to apply EAPA to older debts and closed accounts.
- Ending the process of providing EAPA in \$50 increments.

Recommendation 4

Reform the Energy Accounts Payment Assistance (EAPA) scheme to improve access and effectiveness, including to help people in long term need and with debt amounts EAPA is not currently able to resolve.

²⁹ In the survey, it was explained that “these payments are usually a few hundred dollars towards your energy bills when you experience a payment difficulty caused by a job loss, illness, large unexpected expense etc.”

³⁰ Our submission can be found here: <https://piac.asn.au/2022/05/20/submission-case-studies-and-research-for-oeccs-eapa-review/>

Other ways to reduce bills but ensure people use the energy they need for health

When asked whether their energy retailer had helped them with ways to reduce their energy bill, in addition to being offered cheaper energy plans by their retailer:

- 18% of energy consumers had been provided with energy advice and tips from their provider via a website link
- 10% of energy consumers have been provided with more direct tips from their retailer over the phone
- 3% were provided with tailored information as part of a home visit.
- 42% of energy consumers had not been offered any help from their retailer to reduce their energy bill.

Using energy more efficiently can be an effective way to help households manage their energy bills, when it can be done without compromising health and wellbeing.

Energy retailers are not the only way for households to access advice and support to reduce their energy bill, but they are the most important access point given their ongoing relationship and oversight of the household's usage and payment behaviour.

To help households have more sustainable energy use, PIAC advocates for:

- Efficient electrification, beginning with social housing and households on low incomes.
- Minimum energy efficiency standards for rental housing.
- Affordable access to the benefits of renewable energy and storage.
- Energy efficiency programs which assist households who are on low incomes cover out-of-pocket expenses.

2. Energy bill amounts are uneven so difficult to pay, especially on time.

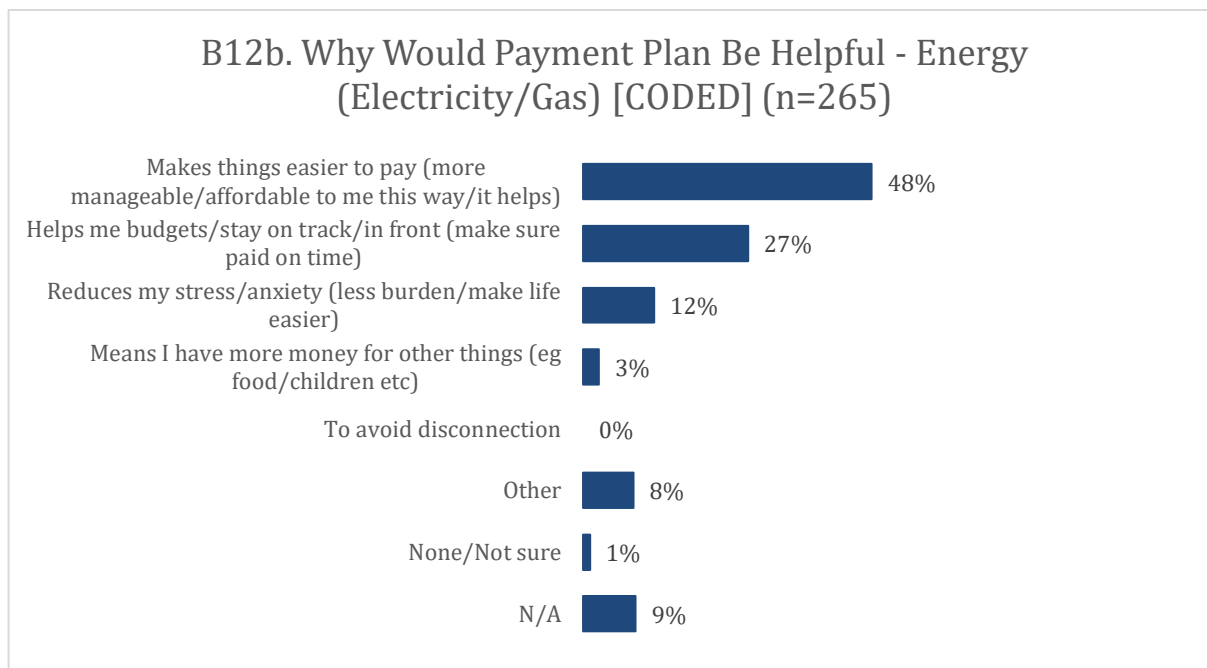
Energy bill amounts are uneven which can make them difficult to pay, especially on time. Many people value how credit products enable them to make smaller, regular, predictable repayments which more closely match their income. The process to get credit products is quick and easy and repayment amounts are easily altered.

“The quarterly bill is not a good idea. Getting that huge whack every 3 months, it always comes as some sort of shock to people and they can't afford it.” – Financial Counsellor, NSW

People value being able to pay their large and uneven energy bills off in smaller, regular, predictable and manageable amounts. They should not have to resort to credit providers and pay extra for this convenience. There are safe, regulated options available from energy retailers which can and should serve this need. For many people aware of regulated retail payment options, they work well. But for many more, they are harder to access or change than credit products, and they shouldn't be.

Under the NERR, energy retailers must offer payment plans, and many also offer bill smoothing and monthly, or even fortnightly, payment options to help address issues of large and uneven bill amounts.

- The majority of energy consumers surveyed were not currently on a payment plan or bill smoothing arrangement for energy bills, but 32% were.
- Of those consumers who were on some form of payment plan, 79% considered it helpful.
- Of those consumers who were not currently on some sort of payment plan or bill smoothing, 47% consumers indicated they would find this helpful more so than not.



The key reasons why energy consumers feel a payment plan would be useful to them was that it would make things easier to pay and be more manageable/affordable that way (48%), followed by the sense that it would help to budget and stay on track (27%). Open responses to this question included themes that energy bills are large and unpredictable and paying in smaller amounts makes this easier to manage and budget for:

“A surprise high energy bill can be a shock to the bank balance.”

“Because it is essential and increasing in cost. Hence this could be helpful if large and under pressure.”

“Because it's a large sum to pay at once, would be easier to pay it more regularly in smaller amounts.”

“Can smooth out bill payments across income pay cycles.”

“Due to the bill amount being different each bill. It makes it hard to budget for.”

“Gives a regular payment that fits into my budgeted income and expenditure.”

“Helps knowing how much to pay each week to make sure bill is paid on time.”

However, there can also be problems with bill smoothing, for example:

“I started doing bill smoothing. They just keep looking at our bill and then average it out. The payment that comes out changes slightly, rather than one really large bill. It makes you feel a little out of control. When you're in a lot of credit, you feel like you know your bill is not going to be that much, but you feel at a loss and you have other bills to pay. Apart from that its good.” – First Nations, Female, 35-39 years, SA.

“What we've found is that while that [bill smoothing] might be quite useful in helping people manage their money, often there is a breakdown in communication and the person who's received that offer believes that those direct debits are paying their bills. So, when there is a bill that later arrives because their energy usage exceeds the amount that were taken from the direct debit, there's a lot of confusion and a lot of anger.” – Financial and Legal Aid Counsellor, VIC

Bill smoothing has the potential to help people manage their energy bills, but it needs to be designed well. Ideally, consumers would have access to advanced (smart) metering enabling them to be accurately billed on a weekly or fortnightly basis (in line with their income) to minimise the impact of inaccurate payment averaging.

Some energy consumers reported that they set up their own 'payment plan' by making BPAY payments regularly towards their energy bills, for example:

“[With BPAY] I have control and it helps with the anxiety, because each fortnight I'm putting money towards the bill so I know that the bill is going to be about \$60/month. Out of my Centrelink payments I know that if I put \$30 and sometimes when I can afford it, I can put more. I'm thinking ahead. At the end of the month, I'm going to get an email saying [I'm in credit]...” – Low Income, Female, 40-44 years, NSW.

But there can also be issues with this, if the consumer goes too far in credit then they might need to contact their energy retailer to get access to their credit, and if they do not pay enough, when the bill arrives it can still be a shock and difficult to pay. These issues are ameliorated if the consumer has a smart meter and an app to help them track their usage.

Even with traditional metering, there is no need for bills to remain large, unpredictable quarterly shocks. Credit products should not be needed to make energy bills easier to manage and budget for. Payment options from energy retailers should be as “frictionless” as current access to BNPL and other unregulated and lightly regulated credit products: easy to know about, easy to access and easy to alter, all without judgement. Retailers could explore options to make their best value offers those which have a fortnightly or monthly payment as a default, to provide positive incentives for people to choose them.

Recommendation 5

Make energy retailer payment options as easy to access and alter as credit products, (such as BNPL). Consideration should be given to encouraging retailers to ensure their best deals have fortnightly or monthly payment options as a default, or an easily selected option.

3. Credit products help manage cashflow issues and unexpected expenses

It should be an easy process to delay payment of energy bills to deal with cashflow problems and unexpected expenses. Late fees and pay-on-time discounts punish the people who can least afford it. It is in energy retailers' interest that people do not take out credit products as it increases their chances of being unable to pay for their energy bills in the future, and increases the impact of that future debt.

There may also be a role for governments to provide small, interest and fee free loans, in a positive, easy to access way, to help people cover expenses without going into debt.

4. Accessing credit products can feel like a positive experience

Accessing a credit product can feel like a 'positive' experience for some and can give people an immediate sense of control and ability to manage their money (at least until they cannot be paid back)

Access to unregulated and lightly regulated credit products such as BNPL is simple and easy to get:

"[Me and my friend] tried to get Coles vouchers [using BNPL]. [I'm using both]. I've got awesome credit; I've got like \$2000 [limit] on ZipPay and \$1500 [limit] on AfterPay but the worst thing is that it doesn't even contribute to your credit rating... [I use ZipPay for] lots of things. You can use them in store now...It's dangerous. It doesn't feel like actual money." – Low Income, Female, 40-44 years, NSW.

Whereas, getting help from an energy retailer can be difficult:

"Energy providers are communicating above the average person's comprehension. They're not making it clear what it costs and they're not making it clear when you ask for help. They're not making it easy to ask for help. They're making it shameful and they're making it burdensome. Energy is a basic essential, it's not a luxury." – Financial Counsellor, NSW.

Both energy retail and government assistance schemes such as EAPA tend to operate on the basis of differentiating between those who 'genuinely' cannot pay and those who 'simply will not pay'. PIAC is aware that 'magic words' are often needed to be said to access energy retailer hardship programs³¹ and people need to 'jump through hoops' to justify they are eligible for access to energy retailer hardship programs and EAPA assistance. In addition, explaining why you cannot afford to pay your energy bill can feel shameful and traumatic for many. There are fewer barriers, fewer questions and often less stress - it can feel like a better decision to obtain credit products than to get assistance that is more helpful and safer in the longer term.

People should be able to easily adjust the amounts they pay towards their energy bills to help them stay in control of their money. Energy retail payment programs often have payment levels set too high and can even be changed without agreement with the customer. When people fail to make a payment, they are often removed from the payment program and support, sometimes

³¹ Nicholls, Larissa and Dahlgren, Kari, 'Consumer Experiences Following Energy Market Reforms in Victoria: Qualitative Research with community Support Workers, Final Report' (2021) 5, 20-21.

without their knowledge. All of these factors mean that even those people who have accessed retail payment supports in the past may feel that they are inferior to the credit products that seem much easier.

Recommendation 6

Regulate credit products to limit their availability, particularly to people on low incomes. Parallel reform should ensure energy retailer and government supports are provided in 'good faith' and made easier to access and alter to mirror the positive aspects of credit product design.

BNPL and similar products should not be able to be used to pay energy bills

Positive aspects of credit products should be available to manage payments within the energy system, without the costs and risks to consumers that come with unregulated and lightly regulated credit products.

Credit products should not be marketed as a solution to manage essentials bills, as was discussed in the Introduction, because there are safer, free, regulated options to manage many essential bills, including energy.

Recommendation 7

Prohibit advertising/marketing of BNPL and other credit products as a way to manage essential bills.

BNPL is often used at the checkout by online sellers, including being their default payment option which significantly increases uptake.³² In combination with improving knowledge of and access to energy retailer supports; and access and design of government supports, PIAC recommends that BNPL and similar credit products not be available for the payment of energy bills, and consideration should be given to prohibiting their use to pay for other essential services.

Recommendation 8

Prohibit use of BNPL and similar credit products for payment of energy bills, and consider prohibiting for other essential service payments.

BNPL and similar credit products being used outside the energy sector

It is clear from this research that BNPL and similar credit products can cause people harm.

The recommendations in this report only partially address the issues where people access BNPL and similar credit products in order to cover other expenses, such as groceries, as part of strategies to pay energy bills, and other expenses.

In December 2023, the Federal Government introduced reforms aimed at protecting customers taking out Small Amount Credit Contracts. Most of these reforms will take effect from 12 June 2023. The Federal Assistant Treasurer and Minister for Financial Services, Stephen Jones, has announced there will be reforms to regulate BNPL loans under the Credit Act.³³ Financial counsellors and consumer groups are 'cautiously optimistic' but will not know how effective the reforms will be until details are released. Concerns remain that the reforms won't do enough to

³² Hobbs (n 11).

³³ <https://www.abc.net.au/news/2023-05-21/buy-now-pay-later-regulations-credit-act-afterpay-zip-pay/102368810>

protect vulnerable consumers, as even small loan amounts can cause harm, particularly when people have multiple small loans.³⁴

PIAC supports work being undertaken by community organisations such as Financial Rights Legal Centre, Consumer Action Law Centre, Financial Counselling Australia, CHOICE and others who are proposing safe regulation of these products.³⁵

However, even if BNPL and similar credit products were to be fully regulated as credit products, that will not address the affordability of household essentials. Exploration of options to remedy this is out of scope for this research. Issues would also remain about how these credit products are marketed, designed, and interact with our psychological biases. These issues will need to be addressed to ensure good consumer outcomes.

Harms in use of credit cards are not as straight forward

It is difficult to make blanket statements about use of credit cards for paying for energy as, unlike other credit products, they are an established form of payment. Credit cards can be used to afford energy bills where they are not affordable or to fill a cashflow problem, for example:

“I think credit cards are a bit of a concern because let’s face it, we’re actually using someone else money to pay for the bill. Unless that person who has got the credit card is very good at managing their credit card for the month, because otherwise you pay it on that and then you pay it again on interest and the end of the month and it could go on that they’re still paying for the power bill 12 months later. It’s a bit of compounding way that works.”

– Financial Counsellor, WA.

“Unpredictable bills [made me choose to pay by credit card].” – CALD, Female, 35-39 years, QLD

Some service providers see credit cards as worse than credit products such as BNPL:

“At least [BNPL] gets rid of the debt instead of credit cards building up over time.” – Financial Counsellor, NSW.

“I think BNPL is quite harmful because it is a form of credit. It’s not as bad as a credit card because they’re not paying quite as high interest, which is 20% per year.” – Financial Counsellor, WA.

However, they are also commonly used by people who are not experiencing payment difficulty as a convenient way to pay bills. They are commonly used to make direct debit payments as they mean consumers do not have to ensure they have sufficient funds in their bank account to make the payment.

³⁴ <https://www.choice.com.au/money/credit-cards-and-loans/personal-loans/articles/bnpl-regulation-announcement>
³⁵ <https://financialrights.org.au/credit-debt/advocates-and-industry-agree-time-to-close-lending-loopholes-on-buy-now-pay-later/>

As such, in this report we do not make any specific recommendations around credit cards, but note that payment by credit card can increase the cost of energy bills (due to interest) and can be an indicator of payment difficulties.

5. Further 'Paying to pay' research reports

This report is one of a series of reports based on this research released by PIAC³⁶ and ACCAN,³⁷ part of our 'Paying to pay' series. These reports will be published on our websites as they are released.

³⁶ See: <https://piac.asn.au/>

³⁷ See: <https://accan.org.au/accans-work/research/2121-direct-debit-in-telecommunications>