

14 December 2022

Consumer Credit Unit  
Financial System Division  
The Treasury  
Via email: [CreditReforms@Treasury.gov.au](mailto:CreditReforms@Treasury.gov.au)

Dear Sir or Madam,

### **Submission to Regulating Buy Now, Pay Later in Australia Options paper**

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to Treasury's Regulating Buy Now, Pay Later in Australia Options paper.

PIAC is a 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.

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 that people can make meaningful choices in effective markets without experiencing detriment if they cannot participate.

### **Payment harms research into Buy Now, Pay Later and similar credit products**

In partnership with the Australian Communications Consumer Action Network (ACCAN), PIAC recently undertook research into payment harms in energy (gas and electricity) and telecommunications (phone and internet), asking the question, 'If you are experiencing disadvantage, do you pay more to receive your utilities because of the way you pay?'. The research included qualitative (interviews with consumers and frontline workers such as financial counsellors) as well as quantitative (a survey of approximately 1000 people) aspects.

As part of this research, we explored the extent to which people are using Buy Now, Pay Later (BNPL) and other credit products (particularly unregulated/lightly regulated products) to directly pay for their energy bills and if they use these products to pay for other expenses as part of strategies to manage their energy bills.

Using a credit product to either pay directly for energy or using it to pay for other expenses to manage energy bills, should be unnecessary. 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 more safely and affordably. Governments also provide supports, such as rebates and emergency payments, for energy consumers. As an essential service, management of debt related to energy should be shared

between consumers, energy retailers and governments. When people use credit products to pay for energy, the liability for the debt is shifted away from a shared debt (or risk) to one held only by the consumer.

For our submission, we attach our report, *Paying to Pay: Using credit products to afford energy*, which examines the findings from the research. This report exposes credit related issues in energy and provides valuable context for Treasury in exploring options to regulate BNPL (and other unregulated credit products).

Some key findings from the report are:

- While people prioritise energy bills, carefully budget for them and make sacrifices to afford them, many still find them difficult to pay on time (or at all).
- There is increasing use of BNPL and similar credit products and this is expanding rapidly into essentials, including energy.
- BNPL and similar credit products cause harms including making bills more expensive (because of fees or, sometimes interest), they can be difficult to pay back and can result in a debt spiral for some people. They also act to 'mask' people experiencing payment difficulty from energy retailers and others who may be able to provide more effective early assistance.
- Some people prioritise repaying their credit products above essential expenses.
- Use of BNPL and similar credit products as part of strategies to afford utility bills is very prevalent. People use them to pay for other essentials (including groceries) freeing up money for their energy bills.
- There are relatively low numbers of people using these credit products to directly pay for their energy bills at the moment, but, concerningly 31% of energy respondents indicated they are likely to use BNPL to pay for their energy bills in the future.

The research also found that:

1. Energy bills are expensive and often far exceed any available income or savings.
2. Energy bill amounts are uneven which makes them difficult to pay, especially on time.
3. Many people value how credit products enable them to make smaller, regular repayments to make larger amounts more manageable.
4. In contrast to safer forms of assistance, the process to get credit products is quick and easy and repayment amounts are easily altered.
5. Credit products can help people manage cashflow issues and unexpected expenses.
6. Accessing a credit product can feel like a 'positive' experience for some and can give people an immediate sense of control to manage their money, at least until they cannot be paid back or when multiple payments compound.

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 and detriment through the regulated supports in the energy system. People should not need to engage in risky or costly credit measures to afford energy.

PIAC recommends that BNPL and similar credit products should not be available for the payment of energy bills, and consideration should be given to prohibiting their use to pay for other essential services. In combination with this, PIAC recommends reform of the structure of energy support measures to make them as accessible and flexible as credit products. Awareness of retail energy and government support will also need to be increased as part of any measures to restrict and regulate BNPL and similar credit products.

Because people access BNPL and similar credit products to cover other expenses as part of strategies to pay energy bills, and other essentials, greater regulation of credit products is required to limit their availability to people on low incomes. PIAC supports proposals being put forward by organisations such as Financial Rights Legal Centre, Consumer Action Law Centre and CHOICE who are looking at ways to safely regulate these products.

### **BNPL in the use of solar and other distributed energy resources**

The Australian Energy Regulator's (AER) 'Review of consumer protections for future energy services' is looking at how to ensure regulation and protections appropriately cover the products and services that provide and/or impact access to essential energy, including rooftop solar and other distributed energy resources. As part this process, the AER is well placed to examine issues of BNPL and other arrangements in the purchase of rooftop solar and other distributed energy resources.

### **Continued engagement**

PIAC welcomes the opportunity to meet with Treasury and other stakeholders to discuss these issues in more depth.

Yours sincerely

**Thea Bray**  
**Senior Policy Officer, Energy and Water Consumers' Advocacy Program**

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Encl: *Paying to Pay: Using credit products to afford energy*

# Paying to pay: Using credit products to afford energy

14 December 2022

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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.

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**Recommendation 1**

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*Retail market and protection reforms are initiated to ensure genuinely fair and efficient default pricing for all household consumers.*

**Recommendation 2**

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*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 requiring support to afford the energy they need to support health and wellbeing.*

**Recommendation 3**

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*Provide NSW household energy rebates as a percentage of energy bills.*

**Recommendation 4**

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*Reform EAPA to improve access and outcomes, including helping people in long term need and with debt amounts that EAPA is not able to resolve.*

**Recommendation 5**

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*Energy retailer payment options should be as easy to access and alter as credit products currently are.*

**Recommendation 6**

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*Regulate credit products to limit their availability and place more effective conditions on their accessibility 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.*

**Recommendation 7**

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*BNPL and similar credit products should not be available for the payment of energy bills, and consideration should be given to prohibiting their use to pay for other essential services.*



# 1. Summary of research findings

## **Buy Now Pay Later (BNPL) and similar credit products cause consumers harm. The helpful aspects of credit products should be available in the energy sector and BNPL and similar credit products should not be able to be used to pay for energy**

It is clear from the research that Buy Now Pay Later (BNPL) and similar credit products cause people harm, increasing the costs of essential bills (through fees and interest), including 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, manageable, predictable payments that can be accessed in easy and ‘positive’ ways and can be easily altered. At least for a short time, people feel they help manage a lack of income, cashflow problems and/or unexpected expenses.

Increasingly, people are using these unregulated credit products as part of strategies to afford their utility bills, such as by using them to pay for other essentials (including groceries), freeing up money for their energy bills. It appears that relatively low numbers of people are using these credit products to directly pay for their energy bills at the moment, but there is a lot of consumer interest in paying for their energy bills using these products.

Energy is an essential service, which 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 payments in the energy system, without the existing downside of fees and debts that come with unregulated products.

PIAC recommends that BNPL and similar credit products should not be able to be used to pay for energy bills. This change must be made in combination with improving knowledge of and access to energy retailer supports and access and knowledge of and design of government supports,

## **Energy bills are prioritised, carefully budgeted for, and sacrifices made, but many still find them difficult to pay on time**

This research found that energy consumers prioritise paying their energy bills above most other expenses and many respondents explained the careful and detailed ways they manage their income so they can pay their bills.

65% of people reported going without social activities in order to afford telecommunications or energy bills, whilst others report going without essentials, including 39% going without groceries or food, for example:

“I go without food. I've got things coming up, so we'll buy a 10 packet of 2-minute noodles for the week. Similar for energy bills.” – Young & Precariously Employed, Female, 18-24 years, VIC.

Some people also cut back on the energy they need for their health and wellbeing to keep their energy bill low, for example:

“My family always complain to me how cold my place is. And one time my mum offered to pay to use the heater because I won't use the heater during winter [to save money].” – Low Income, Female, 40-44 years, NSW.

Despite this prioritisation, budgeting and cutting back, 38% of energy consumers find it difficult to pay their utility bills on time. Because energy bill amounts are usually a large, variable and for many unpredictable amount each quarter, they can be hard to manage.

### **Use of credit products is increasing, including for essentials**

As frontline workers explain:

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

Frontline workers and energy consumers indicate that unregulated credit products are becoming increasingly popular and increasingly commonly used for essentials, including groceries and energy bills. For energy, this means that people using these products are effectively missing the protections within the energy retail system.

“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 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.

Despite people's hard work to manage their bills, many people see credit products as appealing.

When asked 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. Many people have little awareness of the pitfalls, for example, paying a fee is seen as reasonable, even though more regulated payment plans and bill smoothing are required to be available free of charge from energy retailers. Because these products are becoming more common in all aspects of people's lives, the ability to identify problematic circumstances or moments of 'crisis' is diminished.

“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.

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

Some consumers shared frontline workers' concerned about the rise in use of unregulated credit products, 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.

### **Currently low levels of paying for energy bills directly with BNPL and other unregulated credit products but the interest in paying for energy using these products is high and circumstances are changing rapidly**

15% of energy consumers regularly pay for their energy bills by a credit payment method (including credit cards as well as unregulated credit products). 1% of energy consumers indicated BNPL is their main method for making energy bill payments. Small numbers of consumers indicated that in the past two years they have also used BNPL, payday loans and/or a wage advance product to pay for their energy bill. People cite using BNPL to pay for energy because they feel it gives them control, helps them track payments, is a set amount and because they cannot otherwise afford the bill.

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

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

8% of energy consumers who have used credit products for ongoing expenses said they had experienced additional fees or costs using these methods. Many expressed that the product helped them at the time but made the problem bigger in the long run.

“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!!”

### **Removing the need to pay more to pay for energy**

Energy retailers have a role to play to make it easier and a more positive experience to pay bills in smaller, more manageable increments and for these to be easily altered by consumers when they need to.

Governments have a role to play in making energy more affordable including as we transition to a no carbon energy system. The NSW government has a role in ensuring energy is more affordable including introducing percentage-based rebates and more accessible EAPA payments provided in conjunction with effective best retail offer requirements and energy efficiency programs to help keep bills low.

Outside of energy, BNPL and other unregulated credit products need to have credit checks and appropriate conditions and regulations for access, and we support the work of Financial Rights Legal Centre, Consumer Action Law Centre and CHOICE who are proposing ways to safely regulate these products.

## 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), asking the question, 'If you are disadvantaged, do you pay more to receive your utilities because of the way you pay?'

This report is one of a series of reports based on this research that PIAC and ACCAN are producing.

### **Why we wanted to understand how credit products, especially unregulated or lightly regulated credit products such as Buy Now Pay Later (BNPL), affect energy consumers and energy bills**

Paying energy bills using credit/deferred payment products means that some consumers are paying more for their energy bills because they are usually paying fees or interest to access the products, while delaying, and in many cases compounding, issues with arrears and debt, the costs of which are hard to quantify.

Using a credit product to either pay directly for energy, or using it to pay for other expenses in order to be able to afford to pay for energy, should be unnecessary because 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 could serve the same purpose more safely. Some consumers also set up their own payment plans by making regular smaller payments towards their energy bill via BPAY, again a response which could be more safely managed by energy retailers. Governments also provide supports, such as rebates and emergency payments, for energy consumers. As 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 for the debt is shifted away from a shared debt (or risk) to one held only by the consumer.

Using a credit product to either pay directly for energy or using it to afford to pay for energy also masks payment difficulties meaning that energy retailers cannot proactively offer payment assistance to consumers (as they are required to do) leading to larger and less manageable energy debt issues.

Financial counsellors report an increase in clients with Buy Now, Pay Later (BNPL) debt<sup>1</sup> and increasingly, people are using BNPL for essentials, including utility bills.<sup>2</sup>

In addition to making energy bills more expensive, researchers have also documented that credit products can also lead to a debt spiral, where consumers take out subsequent loans to service or pay back earlier loans.<sup>3</sup>

We were interested in exploring the extent to which people are using BNPL and other credit products (particularly unregulated/lightly regulated ones) to directly pay for their energy bills as well as where they use these products 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 that people do not need to turn to these products to afford their essential energy.

## Research methodology

The research included an Ipsos omnibus online 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:

- 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 omnibus survey as more adversely affected by payment harms, and who indicated they experience payment issues. These groups were:
  - First Nations people experiencing payment issues (identified by the acronym ATSI – Aboriginal and Torres Strait Islanders);
  - people from culturally and linguistically diverse (CALD) backgrounds experiencing payment issues;
  - people on low incomes experiencing payment issues;
  - people living with a disability experiencing payment issues; and
  - 18-29 year olds in precarious employment (i.e. casuals).
- An online questionnaire of 1,026 consumers 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.
  - 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'.

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<sup>1</sup> Financial Counselling Australia, 'It's credit, it's causing harm and it needs better safeguards' (2021) 5.

<sup>2</sup> Ibid 9.

<sup>3</sup> 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).

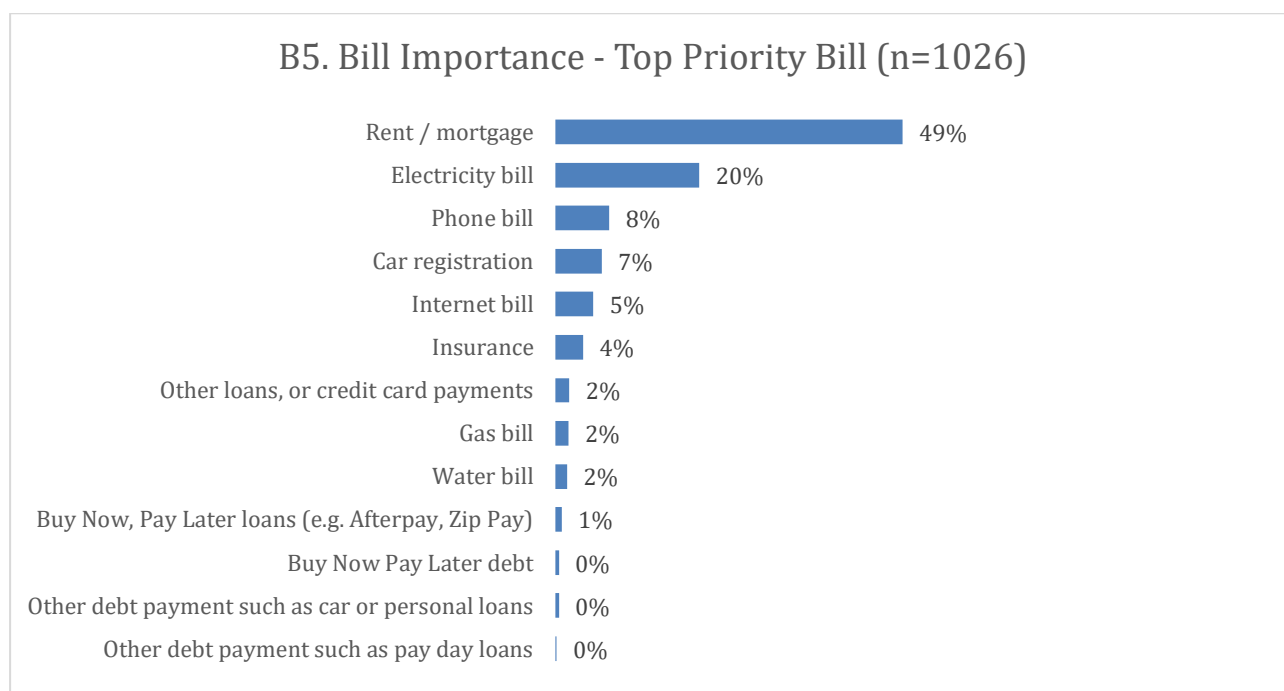
- To keep the survey at a manageable length, approximately half of respondents (514) were asked some questions specifically about energy (while the other half were asked questions about telecommunications). The people who answered the questions specific to energy are referred to in this report as ‘energy respondents’

More details about the research methodology can be obtained by contacting PIAC.

### 3. What people do to afford their energy bills

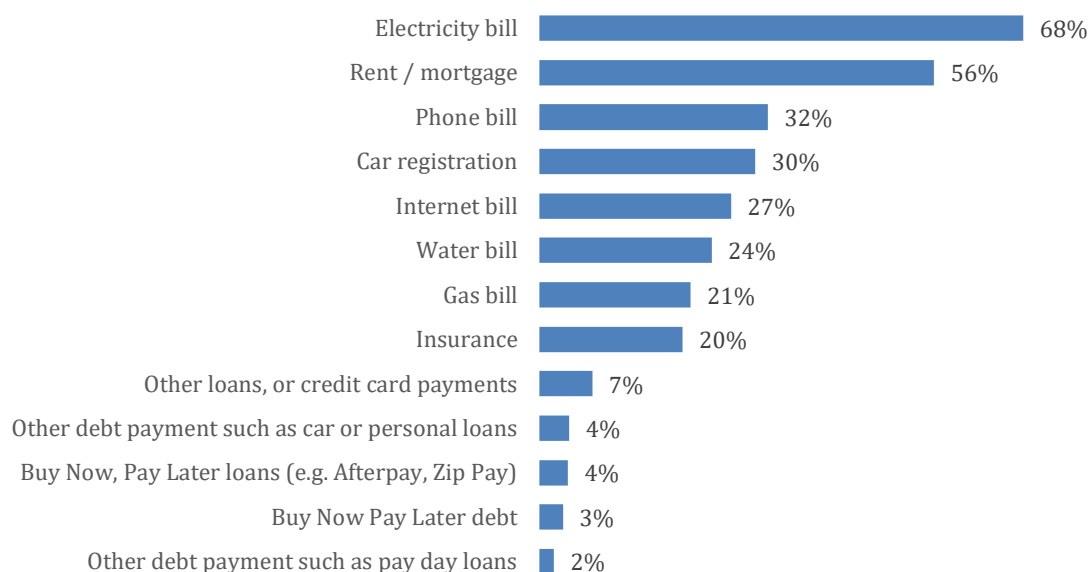
#### People prioritise paying their energy bills

In the survey, it was clear that people prioritise paying their energy bills.



Of all the bill types they receive, people were asked to rank these bills in order of priority. For all people, rent/mortgage payments are seen as the most important (49% ranked this number one) followed by electricity (20%), with gas at eighth most important (2%) (it is important to note that not all households are connected to gas).

## B5. Bill Importance - Top 3 Ranked (n=1015)



When viewing these results by top three bills ranked, electricity becomes the most important with 68% of all consumers ranking this within their top three bills to pay off as a priority. Gas is seventh with 21% ranking it as a priority bill.

### Many people carefully budget to afford bills

In interviews, many consumers explained the careful ways people across all cohorts budgeted to ensure they can afford their expenses and the challenges they have juggling income when it is not enough to cover their expenses and/or they have inadequate savings to act as a buffer between pays.

“Budget, really budget, menu plan, and stick to a shopping list. I have an adult daughter at home and work out a fortnight menu, and stick to it each week. I only shop once a fortnight, and buy bread and milk in between, and don't spend excess when I need to. I avoid going there unnecessarily. We shop together, only taking one car, and pretty much watch every dollar I've got.” – ATSI, Female, 40-44 years, NSW.

“By paying each fortnight, putting money towards it. Every Thursday morning when my pay goes in... I go into my phone and banking app and put money towards everything. Next fortnight I have to pay AfterPay \$90, I've got to get that out of the way. And then I've got a month before I have to pay them that \$90... I'll put whatever I can afford on electricity, then money I put money towards my phone and then I put money towards paying AfterPay off. It's going to be a difficult fortnight. I probably will pay AfterPay from the electricity.... I juggle it. [It takes] probably about 20 minutes.” – Low Income, Female, 40-44 years, NSW.

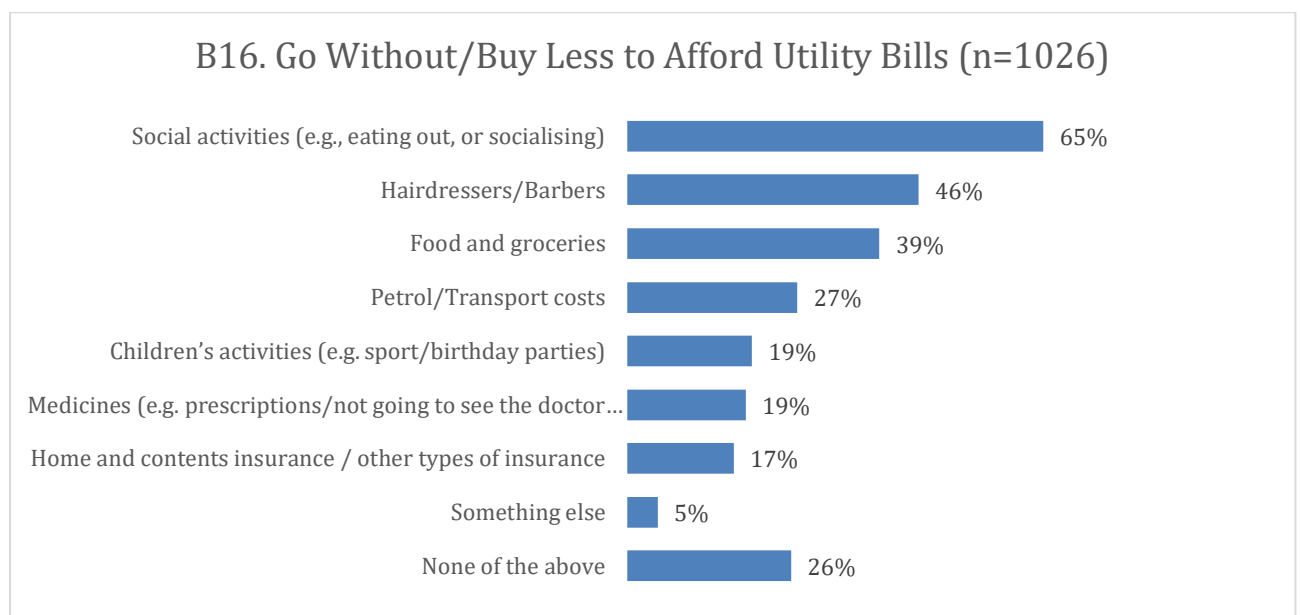
“I have a diary and have it all written down in my diary, like how much it is and when it's coming out of the account. I have an account to put money in for bill payments; sort of set-up like savings.” – Senior on Aged Pension, Female, 65-69 years, QLD.

“I’ve got a calendar, a hardcopy A6 calendar. I write them [bills] in there, shows when money is coming out on particular dates. I transfer money when needed to one of the other; I manage multiple accounts.” – Young & Precariously Employed, Female, 18-24 years, NSW.

## People go without to afford their utility bills

### People go without social activities, food, medicine and enough energy use for their health and wellbeing in order to afford their utility bills

65% of people reported going without social activities in order to afford telecommunications or energy bills, whilst others report going without essentials, including 39% going without groceries or food:



“I go without food. I’ve got things coming up, so we’ll buy a 10 packet of 2-minute noodles for the week. Similar for energy bills.” – Young & Precariously Employed, Female, 18-24 years, VIC.

“Yeah, anything really to make sure bills are paid, I don’t like getting behind on the bills. I skimp on the shopping. When I was first put on disability pension, I became really unhealthy. My daughter was fed but I wasn’t eating. I was only eating 2 or 3 nights a week.” – ATSI, Female, 40-44 years, NSW.

“Food, or medication.” – Living with Disability, Female, 45-49 years, QLD.

“Yeah, I do, I go without food. I won’t do a big grocery shop, or I’ll get a gift card on AfterPay so I can afford food. I’ll go without if I can’t afford a bill. [This is usually] once every three months.” – Senior on Aged Pension, Female, 75-79 years, SA.

Many people reported trying to keep energy use minimal to keep bills low:



“I try to be as energy efficient as I can [to afford energy bills].” – Young & Precariously Employed, Female, 18-24 years, NSW.

Some people communicated more concerning energy saving behaviours:

“My family always complain to me how cold my place is. And one time my mum offered to pay to use the heater because I won't use the heater during winter [to save money].” – Low Income, Female, 40-44 years, NSW.

Frontline workers reveal the hidden hardship people experience in order to afford to pay their energy bills. This includes going without proper food and other basics needed for their wellbeing.

“So, they're going without. Usually, in the [First Nations] community, it means the mother is going without. The parent is going without. Because they'll want the kids to survive, so they'll go without food, they'll go without basic shoes, they'll put ... in the community, the parent will put their needs last because the kids... they'll go around to food banks, they go around to get whatever assistance they can because that's how they afford it...” - Financial Counsellor, NSW

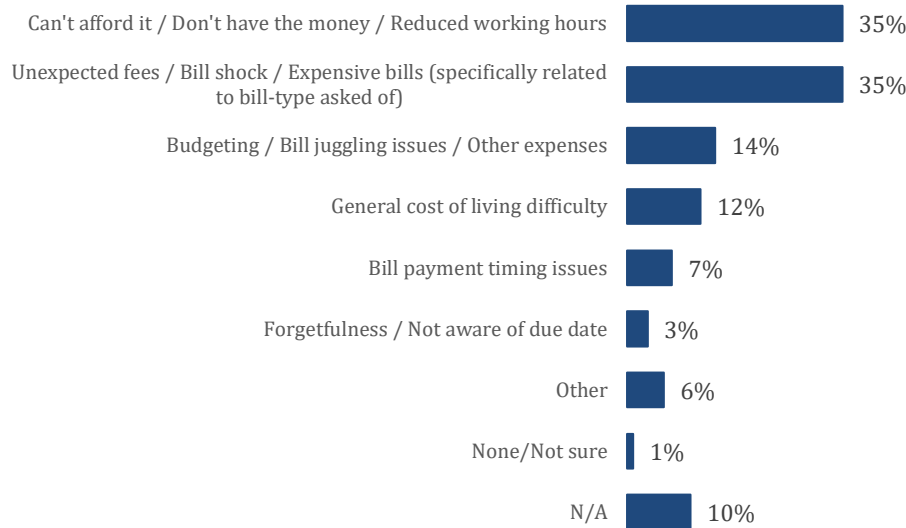
“Some clients cut down on their food, going hungry to pay for their bills. A lot of them, especially CALD clients, they might not know that there are hardship options and they might try to pay them at detriment to their other expenses.” – Financial Counsellor, WA

“Well, a lot of the time they're not eating, so we do have options to do food hampers and food cards and that. If we can't always help with the bill, we will then give them food vouchers to then say, 'Use that money onto your bill and use these vouchers for food'.” - Financial Counsellor, WA

### **Many find it difficult to pay utility bills on time**

Despite the prioritisation of energy bills, careful budgeting and going without to afford utility bills, 38% of energy consumers find it difficult to pay their utility bills on time.

## B22b. Why Find It Difficult To Pay Energy (Electricity/Gas) [CODED] (n=304)



Reasons why consumers find their energy bills hard to pay on time include not being able to afford it (35%), unexpected fees/bill shock (35%), or because of budgeting/bill juggling issues (14%).

### **Many find energy bills difficult because they can be unpredictable and large**

During consumer interviews, energy bills were found to cause stress for many consumers, due to being unpredictable (i.e. the amount differs each quarter) and generally more expensive than other bills. Seasonal differences in bills are stressful for people, and in some circumstances, is due to housing issues (i.e. poor thermal properties making homes expensive to heat and/or cool and inefficient and therefore expensive to run fixed appliances. 43% of energy respondents indicated their home is not cheap and easy to keep warm/cool). Energy stress is most common among people who are from CALD backgrounds.

“Yeah, my electricity and gas. It seems when I pay one, the other one is due and I can't keep up.” – Young & Precariously Employed, Female, 18-24 years, VIC.

“Definitely the energy bill. It is a lot more expensive and comes every 3 months. I find it harder to work out, whereas I know that my Telstra bill is \$40 a fortnight and I know that's how much it is going to be every time and because it's not the same I find it harder.” – Female, 18-24 years, QLD.

## **4. Increased use of unregulated credit products**

### **Unregulated credit products are increasingly being used for essentials**

Financial counsellors and other frontline service providers are increasingly seeing people turn to credit products to make ends meet, exacerbating their precarious financial situation. They are seeing unregulated credit products such as BNPL being used more, and increasingly being used

for essentials, including energy, which ends up costing consumers more for the service because of the fees (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

“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

“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.

“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.

“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.

In interviews, respondents indicated:

- 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 the 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, 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.” – ATSI, 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. Because these products 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**

Frontline workers see the debt spiral of using credit products, where people take out subsequent credit products to pay off other products.

“[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 front line workers 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 Layby. 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.” – ATSI, 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:

“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**

Overall, as shown in the quantitative survey, people consider paying their electricity bill a high priority. 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.” – ATSI, 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

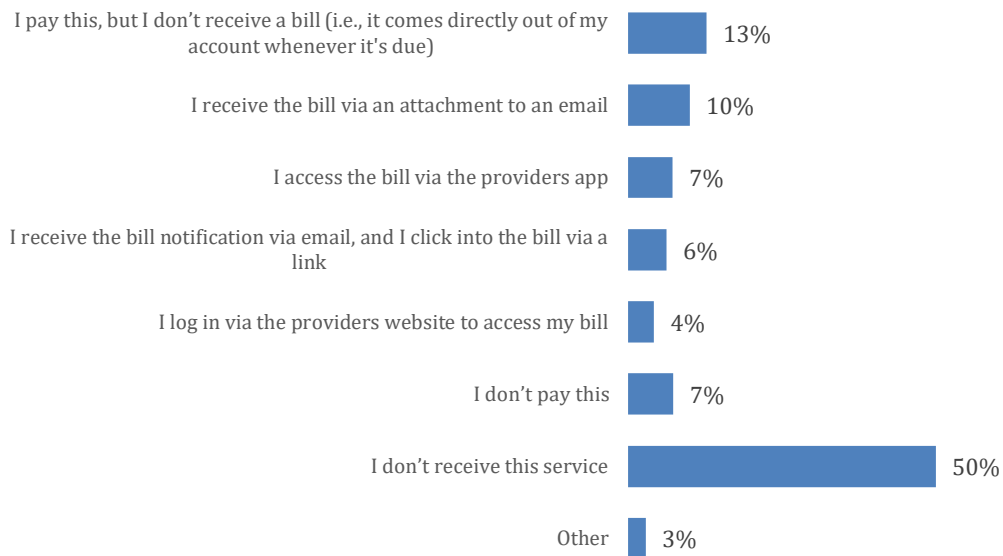
Many people value the convenience of credit products but the cost for some is that repaying them is prioritised over essential expenses.

### **Prevalence of use of credit products**

The survey indicated high levels of usage of BNPL and similar credit products, but 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.

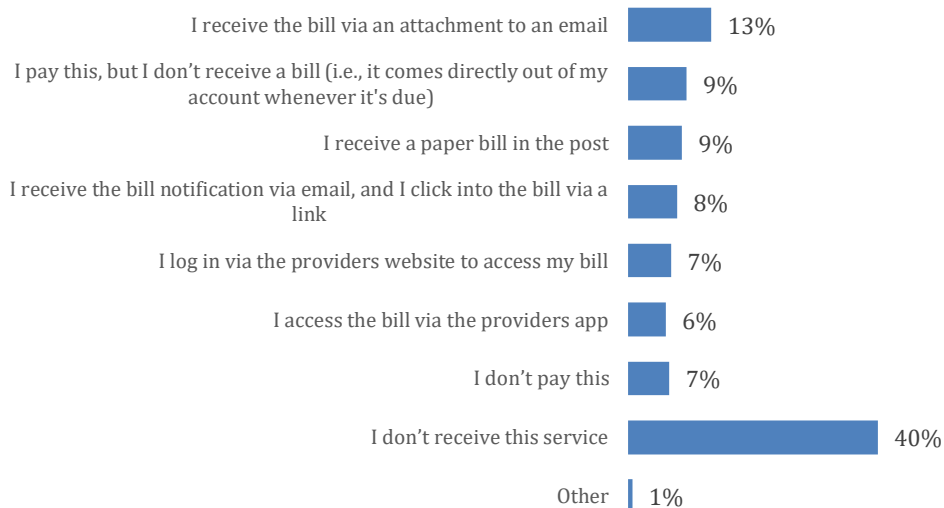
43% of people surveyed reported repaying BNPL loans when asked about the bills they pay.

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



53% of consumers surveyed reported they have other loans or credit cards they are repaying when asked about the bills they pay.

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



In addition:

- 15% of energy consumers surveyed 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.



- 8% 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. 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.”
- 8% of energy consumers use a credit card as their main payment for paying their energy bills. 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.
- 1% of energy consumers indicated BNPL is their main method for making energy bill payments. People indicated they used this method because:
  - I feel more in control;
  - It’s easier to keep track of payments;
  - Set amount each month; and
  - I can’t afford it.
- 64% 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.

## **5. 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.**

Credit products cause harms, but they fill a need. In this research, people indicated that:

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

The National Energy Retail Rules (NERR) contain provisions that require energy retailers to proactively identify people experiencing payment difficulty. 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 an essential part of 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 empowering as accessing credit products 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 also often more difficult, and can involve substantial inconvenience, effort and shame that prevents people from accessing them when they need.

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.

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

This research was undertaken before higher energy prices started to hit household winter bills in 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 options to cap prices.

### **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 that 'best offer' notification information will be available on energy bills as part of the Australian Energy Regulator's (AER) Better Bills Guideline. This is an important interim step while other measures are pursued.

Under the NSW Social Programs for Energy Code, energy retailers are required to contact their rebate recipient customers at least every 12 months and offer them the retail offer they have for their circumstances.<sup>4</sup> However, there is evidence that rebate recipients are often not on their retailer's best offer.<sup>5</sup>

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).

Whether through the AER's 'Towards energy equity' strategy, or other processes such as the AER's 'Game-changer', PIAC recommends a process be developed to provide fair and efficient default pricing for household consumers.

### ***Recommendation 1***

*Retail market and protection reforms are initiated to ensure genuinely fair and efficient default pricing for all household consumers.*

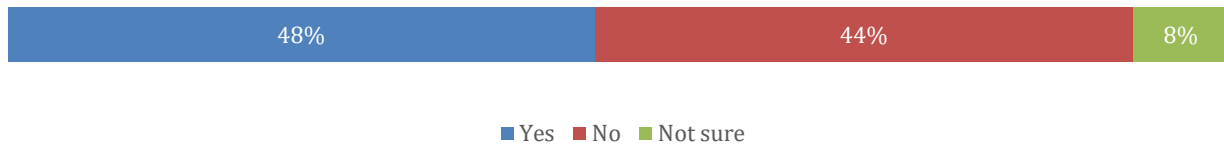
### **Government rebates not accessed or available to everyone who needs them**

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<sup>4</sup> 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.'

<sup>5</sup> 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).

#### D4. Received Government Rebate or Concession on Energy Bill (n=514)



Just under half of all energy consumers (48%) mentioned they had received some kind of government rebate or concession on their energy bills.<sup>6</sup> 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 this 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 targeting all the people who need them.
- Rebates are not enough 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.

#### ***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 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,<sup>7</sup> 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 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.

<sup>6</sup> Examples were provided to the survey participants for reference.

<sup>7</sup> NSW Government, 'NSW Energy Rebates Annual Report 2020-21', 8.

## 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 requiring support to afford the energy they need to support health and wellbeing.*

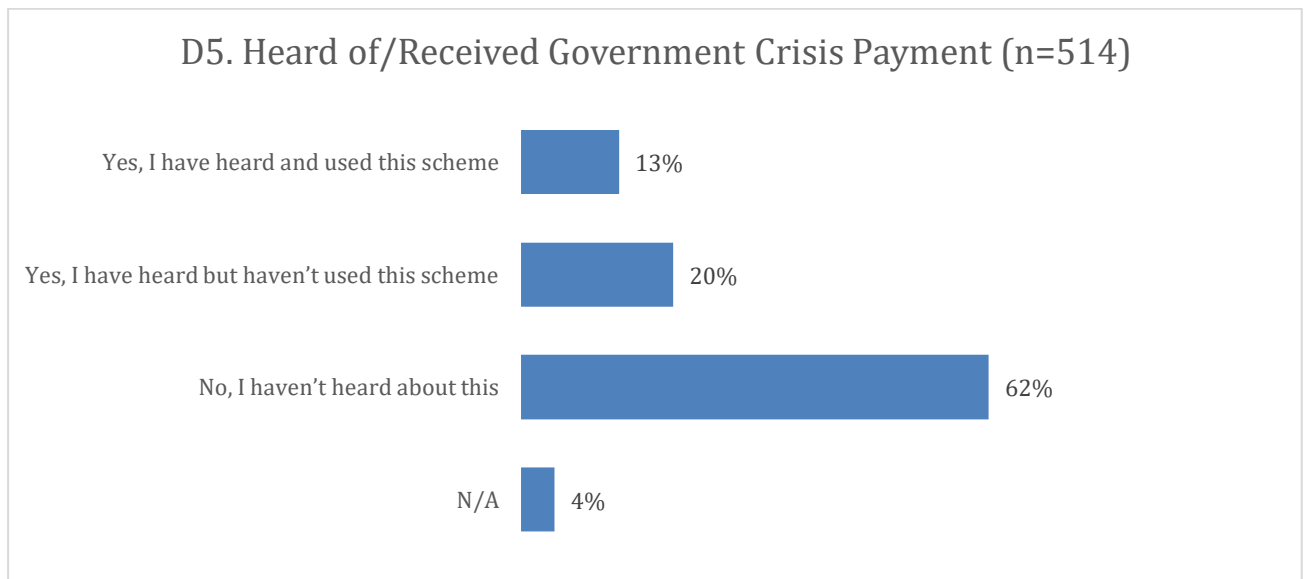
### **Rebates are not enough to address bill affordability issues**

PIAC advocates for rebates to be focussed on a clear objective and be percentage based, rather than a fixed amount. 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.*

### 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.<sup>8</sup> 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).

<sup>8</sup> 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.”

PIAC advocates that when people cannot afford their energy bill, they are 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 EAPA could be improved in terms of access and outcome for NSW energy consumers in a submission to the NSW Government's Review of the EAPA scheme. Our submission can be found here: <https://piac.asn.au/2022/05/20/submission-case-studies-and-research-for-oeccs-eapa-review/>

#### ***Recommendation 4***

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*Reform EAPA to improve access and outcomes, including helping people in long term need and with debt amounts that EAPA is not able to resolve.*

#### **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. Fewer energy consumers have been provided with more direct tips from their retailer over the phone (10%) whilst 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 efficiently is an effective way for households to safely manage their energy bill when it is able to be done without compromising their health and wellbeing.

Energy retailers are not the only way for households to access advice and support to reduce their energy bill, but they 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 public housing and assisting other households on low incomes.
- Minimum energy efficiency standards for rented housing.
- Affordable access to renewable energy and storage.
- Energy efficiency programs which assist low income households cover out-of-pocket expenses.

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

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

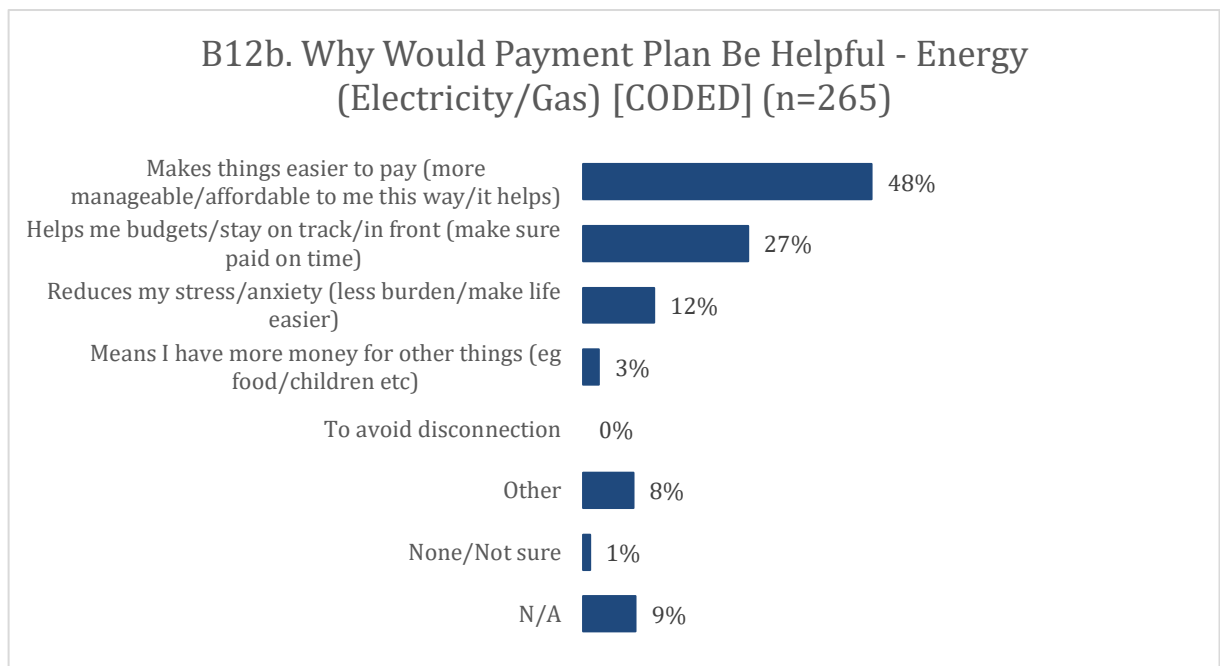
“The quarterly bill is not a good idea. Getting that huge whack every 3 months, it always comes as some sort of shock to people and they can't afford it.” – Financial Counsellor, NSW

People value being able to pay their large and uneven energy bills off in smaller, predictable and manageable amounts. They should not have to resort to credit providers and pay extra for this convenience as there are safer, regulated options available from energy retailers to do this. For

some people who are aware of these options, they work well, for others, they are not currently as easy to access or change as credit products are, but they should be.

Under NERR, energy retailers must offer payment plans, and many also offer bill smoothing and monthly, or even fortnightly, payments 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.” – ATSI, 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 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 they go 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.

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 credit products: easy to know about, easy to access and easy to alter without judgement.

### ***Recommendation 5***

*Energy retailer payment options should be as easy to access and alter as credit products currently are.*



### 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 be a positive experience

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

Access to unregulated 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 programs<sup>9</sup> 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 less barriers, less questions and often less stress and it can feel like a better decision to obtain credit products than to get assistance that might be more helpful and safer.

People should be able to easily adjust the amounts they pay towards their energy bills to help them stay in control of their money.

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<sup>9</sup> 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.

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## **Recommendation 6**

*Regulation of credit products to limit their availability and place more effective conditions on their accessibility 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.*

### **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 credit products.

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.

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## **Recommendation 7**

*BNPL and similar credit products should not be available for the payment of energy bills, and consideration should be given to prohibiting their use to pay for other essential services.*

### **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.

PIAC supports work being undertaken by community organisations such as Financial Rights Legal Centre, Consumer Action Law Centre and CHOICE who are looking at ways to safely regulate these products.

### **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 frontline staff 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.

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.

## **6. Further payment harms research**

PIAC and ACCAN will continue to publish results from our payment harms research as separate reports, part of our *Paying to Pay* series. These reports will be published on our websites as they are released.