

BALANCING ACT

Exploring how financially vulnerable people juggle their debt, BNPL and household finances

CLIENT SURVEY 2022



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SECTION 1

SUMMARY

Way Forward's second annual client survey explores the attitudes and lived experience of the people we support when it comes to financial stability, creditors, Buy Now Pay Later (BNPL) and how they are feeling during these turbulent times.

Financial difficulty and BNPL

BNPL products have fast become integral to how Australians shop, use credit and manage their finances. Given the ease in obtaining BNPL arrangements, for someone experiencing financial difficulty the use of BNPL as a short-term solution to a longer-term problem is a concern and consequently the focus of this whitepaper.

Whilst BNPL does not attract interest, its higher instalment amounts over a shorter period of time, taken on in conjunction with complex personal debts such as high-interest credit cards, can place sufficient pressure to tip someone into further financial difficulty.

Based on the responses, most Way Forward clients (80%) have used BNPL services. This group is attracted to its ease of access, simplicity and convenience but the full picture is more complex. In this report we drill deeper into the attitudes, behaviours and the potential side effects for the financially vulnerable who rely on BNPL to manage their complex financial situation.

Debt stress

This report explores the link between mental health and complex debt. The numbers prove what our clients tell us: how often people worry about their finances has a direct impact on their mental health – we see this link most clearly with those who worry over essentials every day.

All lenders must recognise that debt in all its forms, be it credit cards, payday loans or BNPL repayments, has the potential to create adverse mental health outcomes for individuals. These findings should be taken seriously so that people who are doing it tough can be properly supported – both financially and mentally.

Together we can do better

Our clients' lived experience of juggling financial difficulty and debts with BNPL adds crucial insights to the debate, especially as economic pressures on Australians heighten. Giving voice to their challenges, through data and in-depth analysis, strengthens the capabilities of the industry to better identify and support the financially vulnerable.

THE PRIMARY AIM OF THIS REPORT IS: TO LISTEN TO WHAT AUSTRALIANS IN FINANCIAL DIFFICULTY CAN TEACH US ABOUT HOW TO BETTER MANAGE DEBT – AS AN INDUSTRY AND SOCIETY AS A WHOLE.

We encourage ongoing sector cooperation across our members and the wider industry, as well as community organisations such as legal centres and financial counsellors to assess the trends and recommendations in this report for the benefit of our mutual clients.

INTRODUCTION

THE INSIGHTS IN THIS REPORT ARE BASED ON THE ANONYMOUS SURVEY RESPONSES OF OUR CLIENTS, INDEPENDENTLY ANALYSED BY AN ACTUARIAL CONSULTANT.

Section 1

The overview section includes the executive summary, methodology, external context and overall aims of this report.

Section 2

This section summarises client data and insights on BNPL and financial difficulty.

Section 3

Section 3 outlines how uncertainty hits the financially vulnerable the hardest with additional survey findings on young people.

Section 4

We end the report by offering recommendations for a better way forward.

The end goal is to better identify and support those in financial difficulty.

The people we support are going through long-term financial difficulty, a complex life circumstance that is often very difficult for them to talk about. Hence, it is Way Forward's duty to give voice to the challenges they face. Through the data and insights we have available, the industry can learn to better identify and support the financially vulnerable at all stages of their hardship.

The primary aim of this report and any report we deliver is to listen to what Australians in financial hardship can teach us about how to better manage debt and credit. These lessons are for our industry and society as a whole.

Way Forward's second annual client survey follows our inaugural survey, conducted in November 2020, which led to the publishing of Way Forward's first industry whitepaper, ['Way Forward: Quantifying the mental toll of debt stress'](#).

This report aims to:

01 Offer new insights

into the lives of people who are financially vulnerable, how they use and feel about BNPL and other forms of debt and what their outlook on life is.

02 Provide actionable industry recommendations

to help creditors and BNPL providers better identify and support customers in financial difficulty and educate their customers on financial literacy to better prepare them for the ups and downs of life.

03 Educate consumers

about how to avoid or manage financial difficulty by sharing insights from our clients on aspects like dealing with financial challenges, using BNPL and coping with debt stress.



METHODOLOGY

During December 2021 and January 2022, Way Forward asked our clients to answer a 15-minute survey on their current life situation, and their thoughts and attitudes on issues like BNPL, creditors, mental wellbeing and outlook on life. We received 172 full responses out of 715, giving us a response rate of 24%.

These findings reflect the lives of those in financial difficulty and do not extend to consumers in general.

ALL RESPONDENTS ARE AUSTRALIANS IN FINANCIAL DIFFICULTY, REPAYING THEIR DEBTS TO CREDITORS THROUGH REPAYMENT PLANS NEGOTIATED AND MANAGED BY WAY FORWARD.

As the focus of the survey was on BNPL users in financial difficulty, we consulted member organisations like Afterpay and Zip on the survey design. We also consulted their teams on the findings and recommendations to ensure that together we can find better ways to support BNPL users who are struggling to repay what they owe.

Although we consulted member organisations in the process, Way Forward remains 100% independent and focused on putting our clients' best interest first, which is reflected in this report and recommendations.

Although some BNPL providers don't consider themselves as debt or credit providers, we label them as such in this report. This is because for a person in financial difficulty, any money owed to a corporate entity feels like debt and not paying the repayment on time has repercussions for their life – repercussions that can cause financial stress or further extend their financial difficulty.

EXTERNAL CONTEXT

When the respondents answered the questionnaire, signs of a cost-of-living crisis were starting to emerge.

At the end of 2021, lockdowns in New South Wales and Victoria were ending and Australia was heading towards opening itself across state borders and then finally, to the world in February 2022. In December 2021, many Australians embarked on their first interstate trip in years but holiday plans were put in disarray by the omicron wave, a lack of RAT tests and long queues at COVID-19 testing clinics. The WA borders remained closed through the holiday disruption until March 2022.

In December 2021, the unemployment rate was at 4.2%, showing recovery compared to the pre-COVID-19 rate of around 5%. Inflation was mild but housing affordability was already a concern. At this time, the threat of war in Europe wasn't even considered an option.

But many of the people Way Forward support were already struggling with finances and debt repayments. Many noted unexpected expenses, showing our clients' finances remain precarious especially through periods like the holidays.

DEMOGRAPHICS

172

Respondents

all financially vulnerable Australians on a debt management plan with Way Forward

56%

Female

44%

Male

12%

Aged 18-34

27%

Aged 35-44

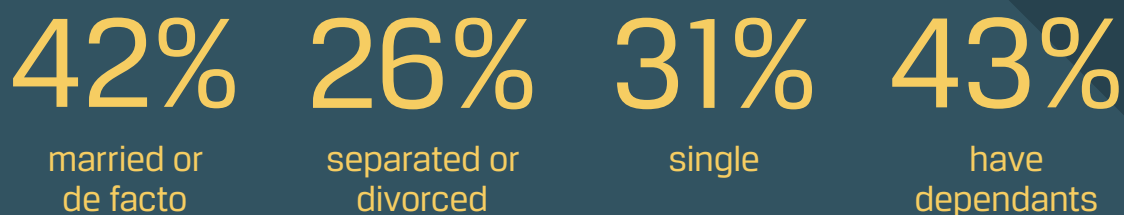
27%

Aged 45-54

34%

Aged 55+

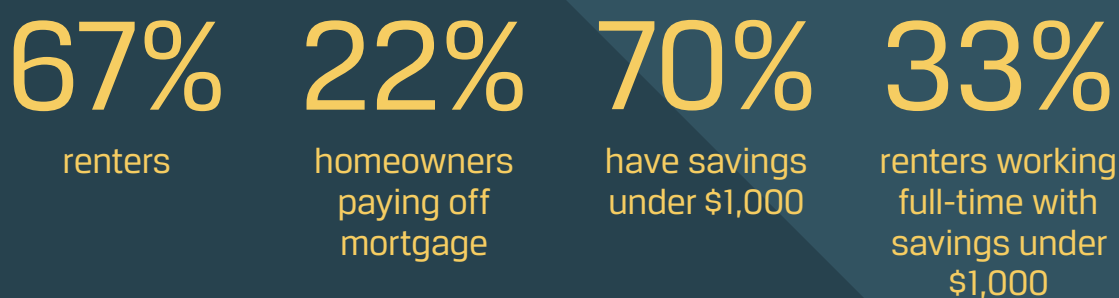
LIFE SITUATION



EMPLOYMENT AND INCOME



HOUSING AND ASSETS



KEY FINDINGS AND CONSIDERATIONS

Key finding	Evidence and considerations
Many in financial difficulty use BNPL on top of their existing debts.	<p>80% of Way Forward clients, who are people experiencing long-term financial difficulty and on a debt repayment plan, have used at least one BNPL arrangement in the last 12 months.</p> <p>Of the total number of clients who use BNPL, 63% have used BNPL when no other sources of credit were available. There needs to be greater awareness of other options to support essential living expenses for those struggling to manage.</p>
People in financial difficulty are mainly positive towards BNPL and appreciate its simplicity and ease of access.	<p>The majority of BNPL users in financial difficulty feel positive about many aspects of BNPL. For example, 93% felt they understood the terms when signing up, 51% considered BNPL helpful to how they manage credit and finances and 84% would rather use BNPL than a credit card.</p>
Most BNPL customers in financial difficulty aren't nervous about BNPL making them more financially vulnerable – but those who've never used BNPL starkly disagree.	<p>42% of BNPL users in financial difficulty feel nervous BNPL might make them more vulnerable to further difficulty, compared to 91% of non-BNPL users feeling nervous about this.</p> <p>BNPL users in financial difficulty seem to find BNPL a helpful addition to how they manage their finances but many still feel nervous about these products and continue to opt out.</p>
Worrying over essentials means poorer mental health outcomes for those in financial difficulty.	<p>85% of those who worry about everyday essentials also have their mental health impacted every day.</p> <p>In contrast, those who worry less frequently about affording essentials also state that finances impact their mental health less frequently.</p> <p>Therefore, solving the financial strain of constantly worrying over essentials significantly alleviates debt stress.</p>
Young people (18 - 34 years old) in financial difficulty feel most challenged.	<p>Young people (18 - 34 years old) in financial difficulty feel the pinch more, have more worries for their future and are more vulnerable to financial difficulty.</p> <p>The mental health of this age group is more frequently impacted by their financial situation. Most (76%) have their mental health impacted weekly – for all respondents, the corresponding figure is 44%. Poorer mental health appears to be linked to the capacity of their income to meet their expenses: 90% were negatively impacted by unexpected expenses in 2021 compared to 54% for all respondents.</p> <p>It's clear this group is struggling with unique challenges that should be addressed with unique solutions.</p>

This report provides more detail into the findings above alongside industry recommendations for a way forward.



SECTION 2

BNPL – A FRIEND OR FOE IN FINANCIAL DIFFICULTY?

THE FINANCIALLY
VULNERABLE
ARE POSITIVE
TOWARDS
BNPL BUT THE
PICTURE IS
COMPLEX.



THE BIG PICTURE



BNPL PRODUCTS HAVE QUICKLY BECOME AN INTEGRAL PART OF HOW AUSTRALIANS THINK ABOUT, MANAGE AND ACCESS FINANCE.

Approximately 30% of Australian adults (about 5.8 million customers) were using BNPL services in July 2020, according to the Australian Finance Industry Association (AFIA). The figure is likely to be higher two years later.

While many have welcomed these new ways to pay and shop, several BNPL providers aren't part of the industry code of practice aimed at protecting consumers. Regulatory gaps also risk leaving some customers vulnerable to financial difficulty.

ASIC's 'Buy now pay later: An industry update 672' issued in November 2020 identified the following themes:

- 21% of surveyed users had missed a payment in the previous 12 months (p. 12)
- Missed payment fees on BNPL transactions fluctuated between 9% and 15% each month between June 2016 and June 2019 (p. 12) and gradually reduced to a little over 2% in 2020 during the pandemic

- To make BNPL payments on time, 20% surveyed said they cut back on or went without essentials such as meals and 15% had taken an additional loan (p. 15)

Noting that one missed payment does not constitute financial difficulty, it should be considered a lead indicator of someone who either is currently, or could soon be, experiencing financial difficulty.

5.8M

customers, were using BNPL services in July 2020

21%

users had missed a payment

COMBINING BNPL WITH CREDIT CARDS AND PERSONAL LOANS

Most clients join Way Forward when they are unable to manage multiple credit cards, personal loans and the related high interest rates. Although BNPL is a fraction of the debt managed by Way Forward (currently at 0.12% of all debt), the interplay between BNPL debts and other forms of personal credit requires further investigation.

Credit cards and personal loans charge high interest rates with a smaller repayment made over a long period, which is vastly different to BNPL offerings that don't charge interest but expect larger instalments over a shorter period. For credit cards, the higher interest rate and long repayment

time means a significantly larger amount will be paid in total if only making the minimum repayment. For BNPL, interest may not be charged for BNPL facilities but the short-term impact of the larger instalment can significantly impact the budget of an individual experiencing financial difficulty.

Given the ease of obtaining multiple BNPL arrangements for someone experiencing financial difficulty, the use of BNPL as a short-term solution to a longer-term problem is a concern and one area of focus for this whitepaper.

MOST CLIENTS JOIN WAY FORWARD WHEN UNABLE TO MANAGE MULTIPLE CREDIT CARDS, PERSONAL LOANS AND THE RELATED HIGH INTEREST RATES.



ROLE OF THIS REPORT

With a rapid rise of BNPL, research into impacts on Australians consumers is limited – something this report seeks to change with insights into the relationship between BNPL and people in financial difficulty.

Importantly, Way Forward does not promote any payment or credit products, especially for anyone in financial difficulty, and sought to objectively review the following results.

This section details the responses of the 80% of the total survey respondents who have previously used BNPL products, unless otherwise specified.

**AT WAY FORWARD,
WE MANAGE
\$432,333 OF BNPL
DEBT BUT MANY
CLIENTS MANAGE IT
INDEPENDENTLY.**

Way Forward and BNPL

Among new clients (787 in total) who joined Way Forward in the past financial year, 2% of their debt amount was tied to BNPL. BNPL made up 11% of the number of debts Way Forward clients brought in during the 2021-22 financial year. Four years ago, Way Forward tracked zero BNPL debts so the rise has been significant and is expected to escalate.

As many clients have opted to manage their BNPL facilities separate to their Way Forward arrangements, these figures should be viewed as incomplete and the actual BNPL debt of Way Forward clients should be considered higher.

Other observations of Way Forward and BNPL

For the BNPL debts that become part of Way Forward repayment plans, these debts can be problematic because of their inflexibility when negotiating repayment terms. If the client wishes to keep paying BNPL payments as part of the agreement, there are few options to reduce the repayment amount. Our observation in these circumstances is that the client prioritises BNPL debt over other creditors until the BNPL debt is repaid, which, given the higher repayment amount, places pressure on an already stretched budget.

Due to these complexities, Way Forward currently recommends closing off all BNPL debt before an arrangement with Way Forward begins or handling them independently alongside the repayment plan. We also strongly recommend the people we support do not take on additional BNPL arrangements (or any type of credit) whilst they are experiencing financial difficulty.

* Based on Way Forward client data in May 2022

WAY FORWARD 2022 CLIENT SURVEY FINDINGS ON BNPL

What does a BNPL customer in financial difficulty look like?

Most Way Forward clients who responded to the survey (80%) have used BNPL services – a group we call 'BNPL users in financial difficulty' throughout this report.

From this group, 63% have used two or more providers. Most (88%) have used Afterpay, followed by Zip at 62% and Humm at 23%.

The respondents are attracted to the ease of access, simplicity and convenience. The majority (93%) claim they understood the terms when agreeing to the arrangement but have mixed views on whether sufficient checks were made (24% agree, 33% disagree, 44% unsure).

THESE CLIENTS ARE
MORE LIKELY TO BE
YOUNGER, FEMALE,
RENTING AND HAVE
SAVINGS UNDER
\$1,000

80%

of Way Forward clients have used BNPL services

BNPL PROVIDERS

88%

afterpay

62%

ZIP

23%

hummm

WHAT ARE THEY BUYING?

Among Way Forward clients who've used BNPL, 83% have owed a maximum of \$2,000 or less to BNPL providers in the past 12 months. This is significantly lower compared the average credit card debt of \$9,900 per card of a Way Forward client when joining.

Most (65%) expect to use BNPL in the next year for shopping. But one third (31%) agree they have taken on BNPL debt 'on a whim' and regretted it later.

We asked the respondents to share what they've bought with their BNPL arrangements, and the most popular items were a mix of big purchases like furniture and technology as well as gifts.

Over a quarter (30%) have used BNPL to pay for housing, utilities, telecommunications and household bills, which may be a potential indicator of a deteriorating financial situation for someone who is in financial difficulty.

Note that our numbers came from respondents self-selecting their responses so the below data is not based on actual spend.

TOP 5 BNPL SPEND CATEGORIES FOR PEOPLE IN HARDSHIP



37%

Furniture and homewares



32%

Gifts and celebrations



31%

Clothes and accessories



26%

Electronics and tech



30%

Housing, utilities, telco and bills

DEBT + BNPL = ?

When asking respondents about BNPL and debt, the answers raise a few questions.

63%

reverted to BNPL when
no other credit options
were available, yet

25%

agree they've
used BNPL to help
manage debts

76%

have used BNPL
to avoid high
interest rates

This inconsistency suggests most Way Forward clients are using BNPL in some capacity to either manage their debt situation or support their financial situation, although only 25% explicitly acknowledge this.

Although you can't use BNPL to pay debt or credit *directly*, we expect the quarter who ticked 'yes' for this question are managing their *debt situation* using BNPL. An example of this scenario is using BNPL to pay for the essentials and bills while the person's earnings go to their debt repayments.

When it comes to their debts, clients don't draw a distinction between a payment service (such as BNPL instalments) or credit. For them, any money

owed to an organisation feels like credit and has an impact on their finances. For someone in financial hardship, most lenders will not give them additional credit, making BNPL an attractive option for additional funds to balance their complicated financial situation. This is backed by 63% of respondents noting they use BNPL when no other credit options were available to them.

Complex debt is exactly that, complex. Being in financial difficulty is a stressful juggling act and the stakes are often high. We acknowledge the creativity and resilience of our clients to make ends meet in difficult circumstances – and it's clear that for many, BNPL is a part of this puzzle.

BNPL AND FINANCIAL VULNERABILITY

The results indicate that for those in financial difficulty, using BNPL (alongside other forms of credit) is linked to financial vulnerability such as worrying about affording essentials and unexpected expenses.

COMPARING USERS OF BNPL (137 PEOPLE) TO NON-BNPL USERS (35 PEOPLE) IN FINANCIAL DIFFICULTY, KEY FINDINGS INCLUDE:

BNPL users are more likely to worry more frequently about having enough for essentials. Among BNPL users, 41% worry at least every week compared to 26% of non-BNPL users.

They were more likely to be affected by unexpected expenses in 2021. Among BNPL users in financial difficulty, 56% experienced unexpected expenses that negatively impacted their finances compared to 46% of non-users.



WHAT DOES A FINANCIALLY VULNERABLE BNPL USER LOOK LIKE?

To delve a bit deeper into the Way Forward clients who use BNPL, we've profiled one group Way Forward expects to be most financially vulnerable during economic turbulence, rising costs and high inflation. This group consists of the 38% of BNPL users who are in financial difficulty: respondents who note they use BNPL to pay for basic living expenses.

By profiling this group, we endeavour to provide guidance to industry on what a financially vulnerable BNPL user might look like. Our motivation is to assist the industry to better identify and support clients in these circumstances.

USING BNPL FOR BASIC LIVING EXPENSES

38%

of BNPL users who are in financial difficulty are more likely to

Be younger

(55% are younger than 44 years old vs. 46% of total BNPL users)

Have under \$1,000 in savings

(80% compared to 72%)

Have at least one dependent

(53% vs. 45%)

We propose that cases of missed or late payments in users who fit this profile should trigger an increased level of care and support from the BNPL provider.

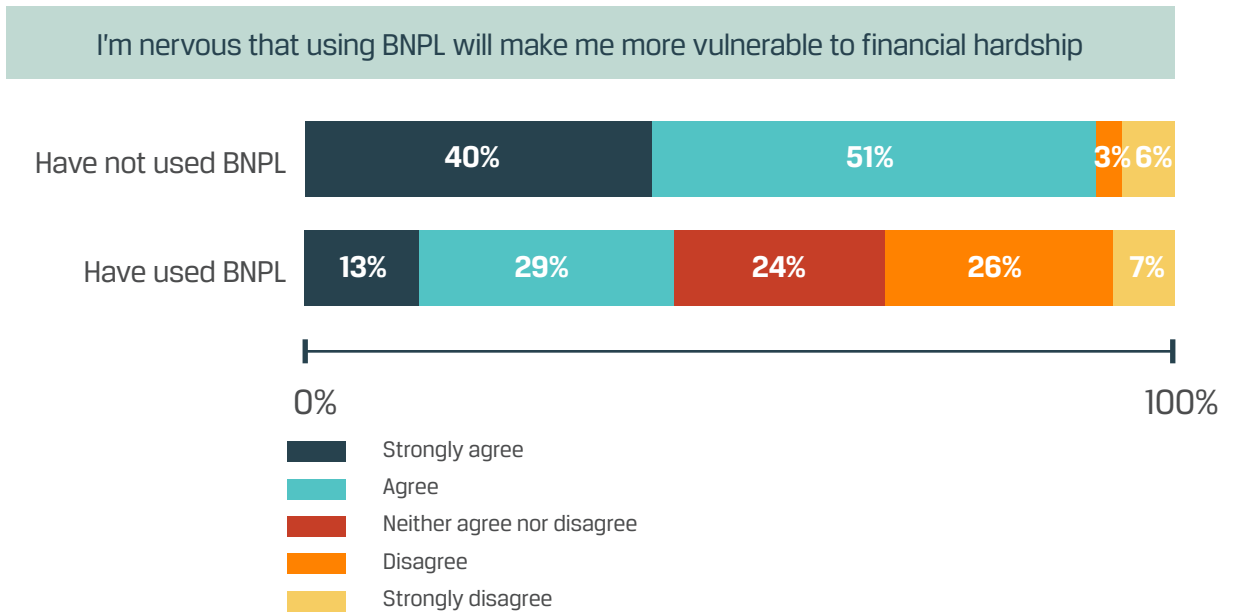
DOES BNPL LEAD TO FURTHER HARDSHIP?

USERS AND NON-USERS OF BNPL DISAGREE

When asked 'do you feel nervous using BNPL will make you more vulnerable to financial hardship', 42% of BNPL users in financial difficulty agree and 33% disagree. These results are starkly different when compared to respondents who've never

used BNPL: 91% agree BNPL would make them more vulnerable and only 9% disagree.

One thing is clear among BNPL users, most (72%) would rather use BNPL options than a credit card.





Scott is the sole breadwinner in his family of two kids, one with a disability, and a wife who is studying. The pandemic and a move to the city landed them in financial trouble as Scott could no longer afford his family's living expenses. He turned to credit cards and BNPL that landed him in more trouble, both financially and mentally.

SCOTT'S STORY

HOW ADDING BNPL ON TOP OF EXISTING DEBT CAN LAND YOU IN TROUBLE

"I started off with small personal loans and when that amount was exhausted, I got one credit card and then another credit card to pay off that credit card and so forth."

"What accelerated the personal and psychological pressure was signing up for Buy Now Pay Later (BNPL) schemes. It seemed a very good idea at that time: we could pay for groceries or put everyday expenses on gift cards, and then pay them off in regular payments fortnightly or monthly over a short period of time."

"But once there was a number of BNPL payments running on top of all the other expenses and credit cards, there was no way I could keep up. It all snowballed quickly to a stage where I had no idea how I was going to make the payments just on the credit cards and still pay school fees and other family expenses."

"The hardest part was having no idea what to do next or where to go to for assistance. I felt helpless, constantly catastrophising the situation, uncertain what was going to happen next and fearing our family would end up on the street."

Scott got in touch with Way Forward to find a solution to his debts, 25% of which were BNPL related. Since then, the team renegotiated with his creditors to get him on a manageable repayment plan.

"Now that I'm repaying my debts in an affordable way, my outlook has dramatically changed. Although this plan will last for a number of years, it's completely affordable so it doesn't further impact my family."

SECTION 3

UNCERTAINTY HITS THE FINANCIALLY VULNERABLE THE HARDEST

TODAY'S UNCERTAIN WORLD HAS MULTIFACETED EFFECTS ON THE FINANCIALLY VULNERABLE, LEADING TO NEGATIVE SHIFTS ESPECIALLY IN:



This section explores survey findings especially around the above themes and draws comparisons to last year's results and the wider population. The section ends with insights into young people in financial difficulty, whose responses indicate a higher level of distress.

FINANCIAL STAMINA

Our clients' financial standing remains shaky following the pandemic and other crises Australians have endured. Over half were impacted by unexpected expenses in 2021 (54%) and over a third (34%) note the pandemic worsened their financial situation. Not having enough money for essentials is a constant concern, with 38% worrying about it every day or week.

Although most (70%) feel confident they can meet current financial obligations, this is a significant reduction from last year's figure of 91%. Furthermore, 57% feel in control of their finances compared to 87% at the end of 2020.

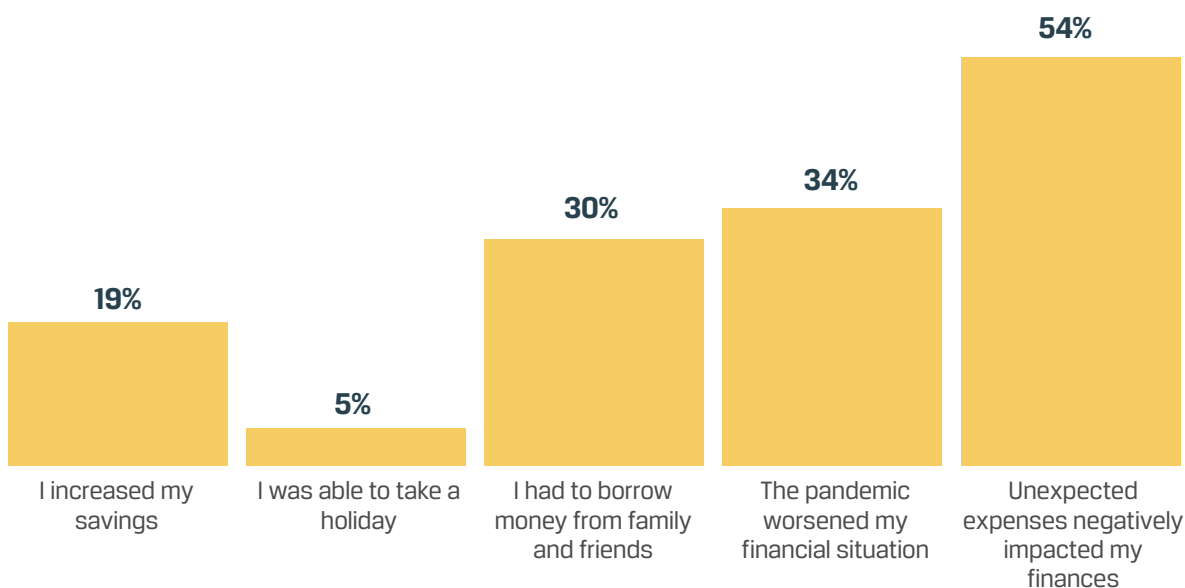
Levels of savings have remained the same year-on-year, with 67% having less than \$1,000 in their savings account, which leaves most Way Forward clients financially vulnerable when big expenses land.





Only a fraction (5%) got to enjoy a well-needed break in 2021, demonstrating how tough last year was for our clients.

Thinking about last year, which of the below statements are true to your situation during 2021?



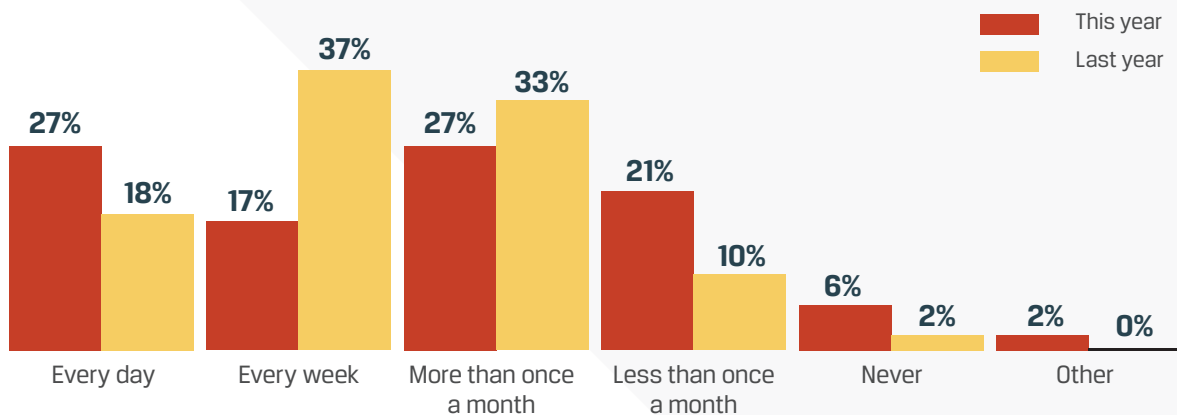
DEBT STRESS AND FINANCIAL WORRY

There has been a significant rise in respondents stating their financial situation negatively impacts their mental health every day – from 18% to 27% year-on-year. However, 27% are impacted less than once a month or never, an improvement on the 2020 result of 12%.

Similar to 2020, an individual's mental health is more affected by their financial situation if they have savings under \$1,000. For those with less than \$1,000 of savings, 49% noted their finances impact their mental health

negatively every day or every week (41% in 2020). For those with over \$5,000 in savings, 23% have this experience.

How often does your financial situation negatively impact your mental health?

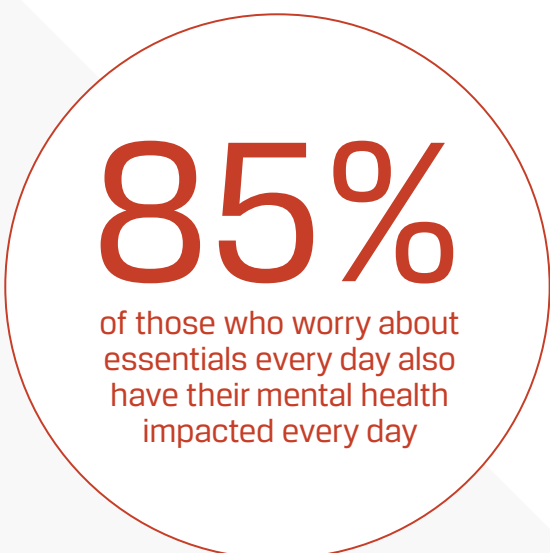


More money, more problems

Mental health appears to be a concern mostly for those with household income of under \$50,000 or \$150,000 or more. The middle-income earning bands appear the least affected.

People earning less than \$34,999 are as likely to be impacted by financial worries every day as the highest earners of \$150,000-\$250,000, at 40% and 41% respectively.

This shows that earning more doesn't make you immune to financial stress – our figures consistently show that being a high earner can increase worry over finances compared to lower earners.



Worry over essentials correlates with poorer mental health

The results demonstrate there is a relationship between being concerned about having enough for essentials and the financial situation of respondents impacting their mental health.

From the below table, we can see that of those who worry about essentials every day (20% of total), most state their mental health is impacted every day (85%). This reflects what our clients tell us: struggling to put food on the table and pay the bills every day has a detrimental impact on your mental wellbeing. Countless clients have described in conversations with our team how resolving this situation feels like a 'weight being lifted off your shoulders'.

Looking at the data, how often finances impact mental health is more evenly spread across those who worry about affording essentials every week or less.

Notably, those who are concerned about affording essentials less than once a month (28% of total) also state their financial situation affects their mental health less than once a month (52%) – again, demonstrating some correlation between the frequency of these two aspects of financial worry.

		Financial situation impacting mental health					
		Every day	Every week	More than once a month	Less than once a month	Never	Total
Worry about essentials	Every day	85%	6%	6%		3%	20%
	Every week	28%	39%	26%	10%		19%
	More than once a month	7%	18%	52%	20%		26%
	Less than once a month	9%	13%	13%	52%	11%	28%
	Never			56%		44%	5%
	Total	27%	17%	26%	22%	6%	100%

Source: Way Forward, client survey, 2022.

Comparing mental health with the wider population

In order to put the figures in wider context, in this section we compare Way Forward client data with ABS figures from The National Health Survey 2020-21 around the mental health of Australians. While the datasets can't be compared like-for-like as they measure different aspects of mental health and the sample sizes are significantly different*, we felt it was valuable to showcase our clients' lived experience in contrast to everyday Australians.

According to ABS figures, one in five (20.1%) people experience a mental or behavioural condition. Looking at Way Forward data, 43% of our respondents noted their mental health was impacted at least weekly by their financial situation.

Observations across the two datasets:

- Younger people seem to fare worse when it comes to their mental health
- Females seem to report poorer mental health compared to men although the differences between sexes appear smaller among people in financial difficulty
- Mental health impacts seem to reduce with age - although this is more apparent with male respondents

Lesson for banks and creditors

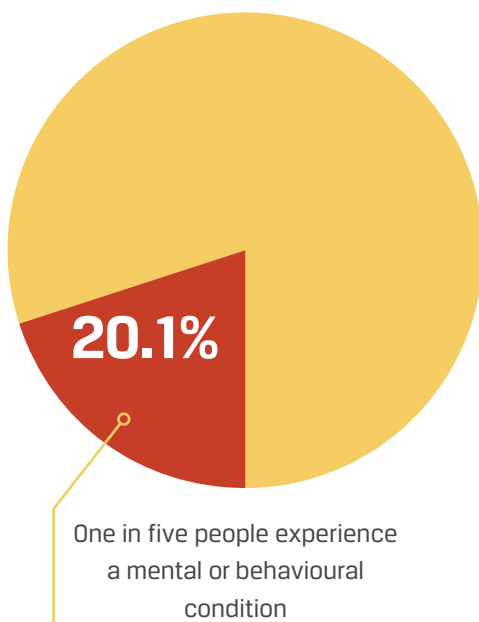
Although the datasets are measuring slightly different aspects of mental health, there is a clear indication for providers of credit and BNPL facilities that they have a significant influence on the mental health of someone experiencing financial difficulty.

Lenders and BNPL providers should recognise that:

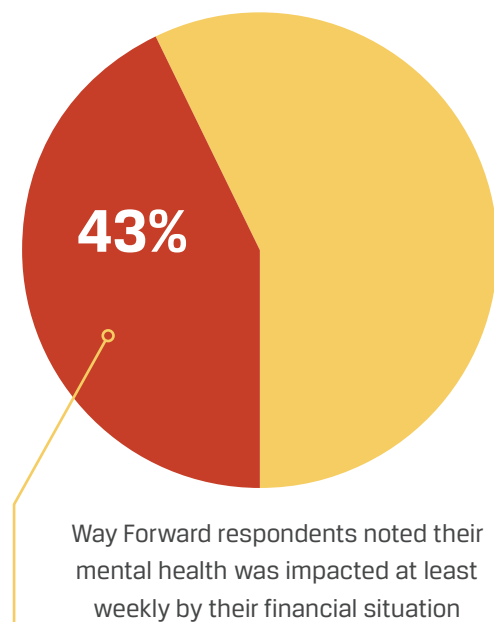
- People in financial difficulty are more likely to suffer from poor mental health due to their difficult financial situation
- Debt in all its forms, be it credit cards, payday loans or BNPL repayments, has the potential to create worse outcomes to the individual's mental health

Hence, we ask lenders and BNPL providers to carefully consider how they could better support their own customers both financially and mentally. In the final section, we offer some recommendations for a better way forward.

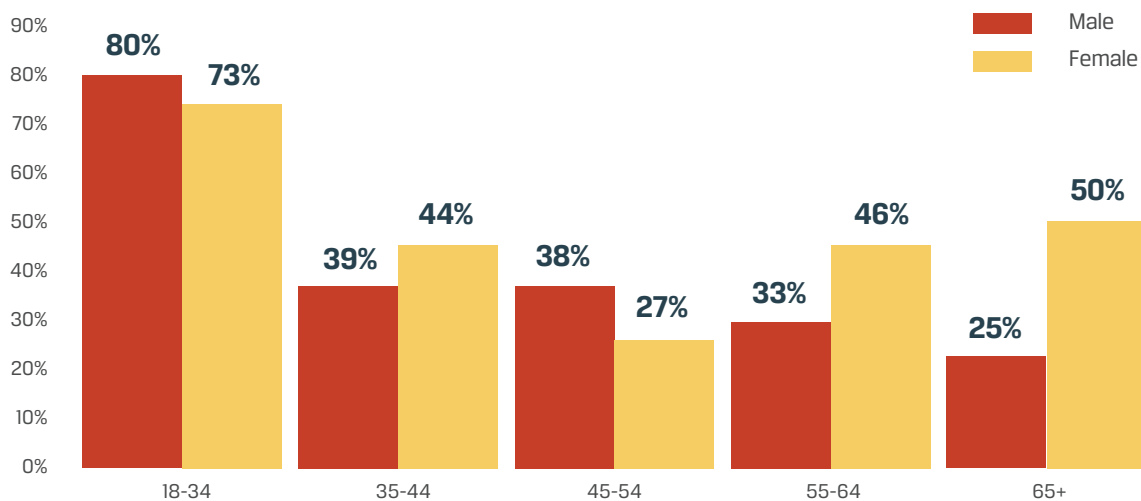
Australian Population (ABS)



People Experiencing Financial Difficulty

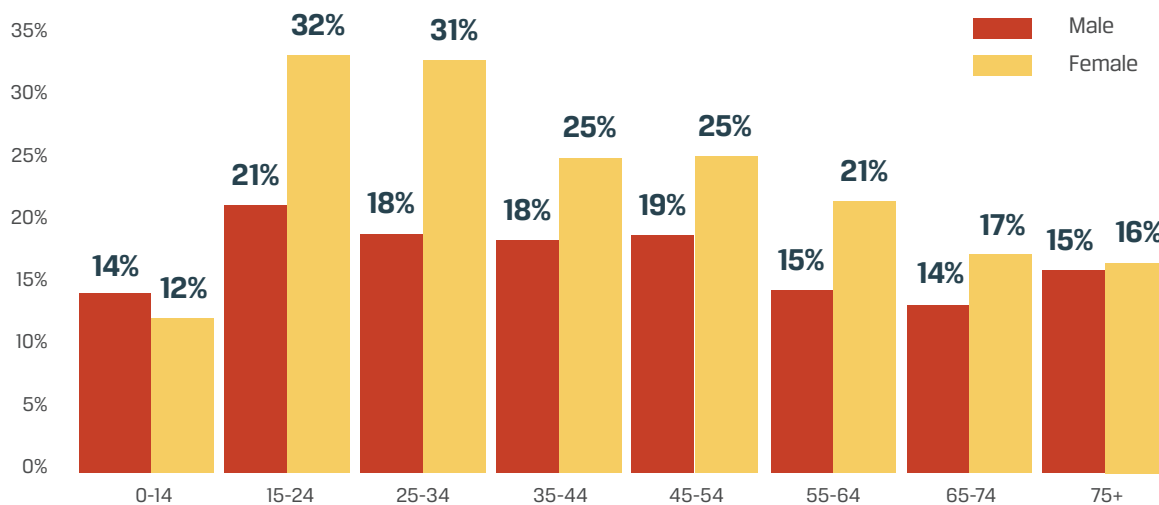


Proportion of respondents who have their mental health impacted by finances at least weekly



Source: Way Forward, client survey, 2022.

Proportion of people with mental and behavioural conditions by age and sex 2020-2021



Source: The 2020-21 National Health Survey (NHS) was conducted August 2020-June 2021. Data collected from approx. 11,000 Australian households.

FUTURE OUTLOOK

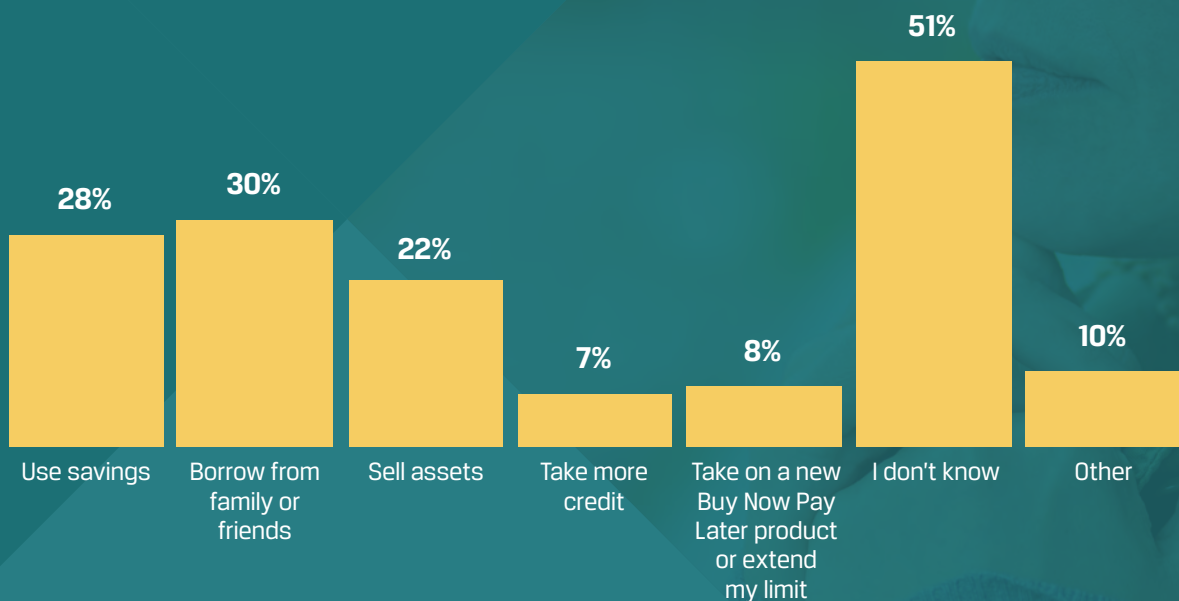
Across the board, respondents seem less optimistic about what's to come compared to last year.

If their income fell by a third in the next month, 51% wouldn't know what they'd do, 30% would be likely to borrow from friends and 22% would sell assets.

When asked, 'can you see a path to a financially stable future?', 72% answered yes compared to

88% last year. Although there has been some reduction in confidence, it's still encouraging that the vast majority trust in their financial outlook, even as they repay their debts in this turbulent socio-economic landscape.

If your income fell by one-third over the next month, how would you meet all of your expenses?



NOT SHARING THE FULL STORY WITH CREDITORS

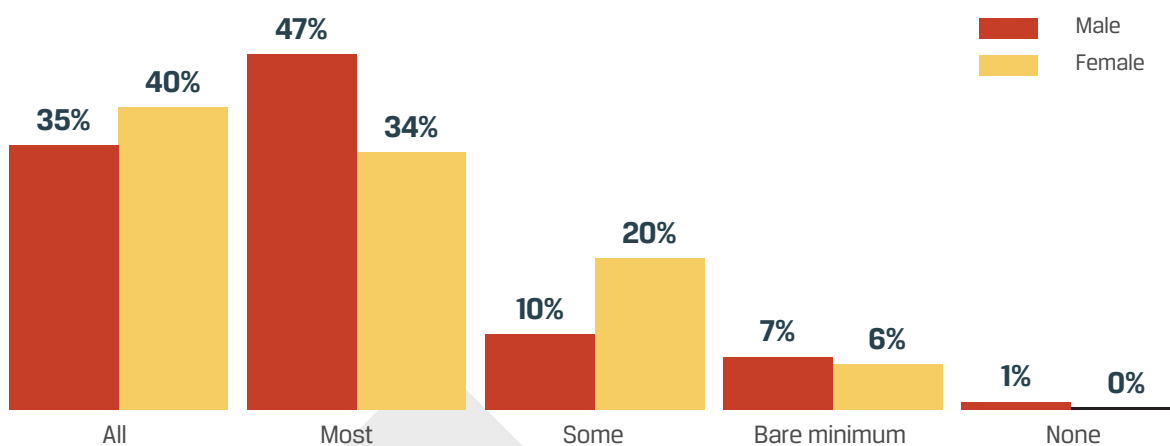
When asked how much information our respondents were willing to give creditors when resolving their financial hardship situation, 40% of women were comfortable sharing all, compared to 35% of men. This still leaves 26% of women and 18% of men sharing limited information ('some' / 'bare minimum' / 'none') about their reasons for financial difficulty.

This reluctance to share the 'full story' is a natural

reaction to a difficult circumstance. Hence, there is a need for creditors to engage in compassionate and open discussions with customers during these very difficult circumstances.

Alternatively, adding a neutral, non-partisan voice to represent clients helps creditors glean the complete story about a person's financial situation and often lessens the stress of the client.

Amount of information comfortable sharing



YOUNGER GENERATION WORSE OFF

What does a young person in hardship look like compared to other age groups?

The 18 - 34 year-olds in financial difficulty are more likely to be female (71% compared to 56%), single with no dependants (62% vs. 31%) and have savings under \$1,000 (95% compared to 70%).

The mental health of this age group is more frequently impacted by their financial situation. Most (76%) have their mental health impacted weekly or more – for all respondents, the corresponding figure is 43%. Poorer mental health appears to be linked to the capacity of their income to meet their expenses: 90% were negatively impacted by unexpected expenses in 2021 compared to 54% for

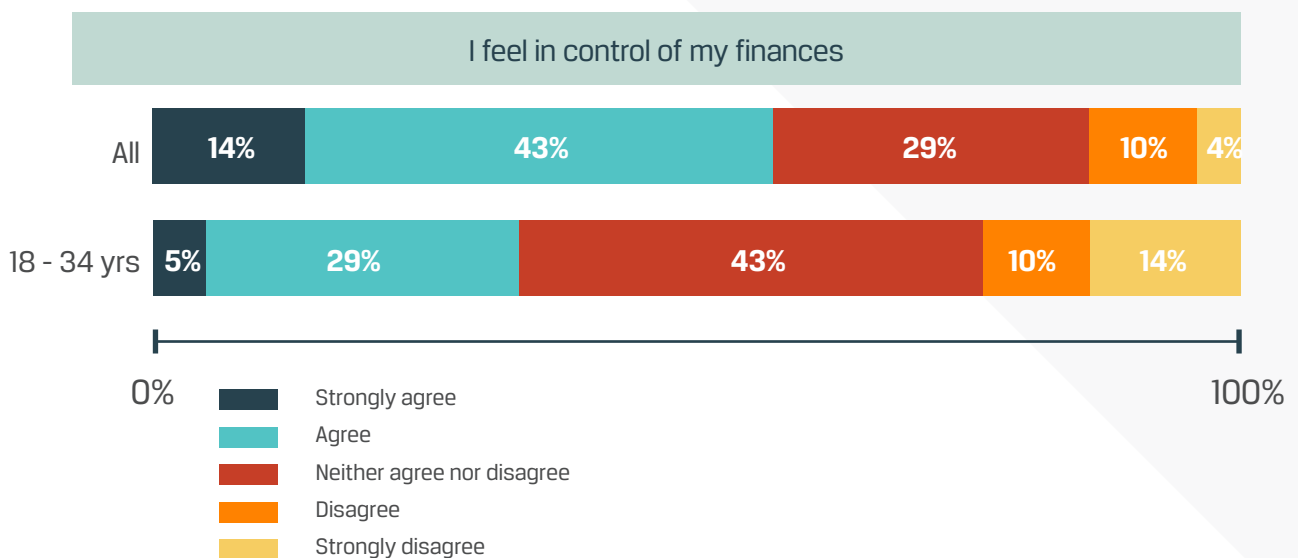
all respondents.

They are more likely to have used BNPL (95% vs 80%) and received a late payment fee or regretted it later (60% vs 29%).

Young people in financial difficulty are also less optimistic about the future, with 62% agreeing they can see a path towards a financially stable future compared to 72% for all respondents. This is a particularly disheartening considering the young should be most excited for the future.

90% were negatively impacted by unexpected expenses in 2021 (vs 54%)

5% strongly agree that they feel in control of their finances (vs 14%)



YOUNG PEOPLE IN HARDSHIP
ARE FEELING THE PINCH MORE,
HAVE MORE WORRIES FOR
THEIR FUTURE AND ARE MORE
VULNERABLE TO HARDSHIP.

SECTION 4

INDUSTRY RECOMMENDATIONS FOR A BETTER WAY FORWARD

RECOMMENDATIONS FOR THE INDUSTRY

01

Acknowledge the link between unmanageable debt and poor mental health to support customers in financial difficulty who are more likely to feel worry and stress

Based on the findings, we can conclude that there is a correlation between poor mental health combined with complex debt, low levels of savings and financial vulnerability. These factors impact how often people worry about their finances and subsequently their mental health.

This conclusion is consistent with the findings of our last client survey, 'Way Forward: Quantifying the mental toll of debt stress'.

All providers across debt types – from BNPL to loans and credit cards – must take this finding seriously so they can better support their customers doing it tough, both financially and mentally.

We invite the financial sector to take these findings into consideration when refining policies and products, and especially when dealing with customers experiencing financial difficulty.

Holistic ways to support customers in financial difficulty could include:

1. Creating tailored solutions and products
2. Using technology to identify those at potential risk of experiencing financial difficulty
3. Refining internal processes to ensure holistic customer support and resolution
4. Always ensuring compassionate, kind and personalised service to customers experiencing the stresses of financial difficulty
5. Not asking individuals to repeat or continually re-live their hardship

As further investigations into the relationship between debt and mental health are needed, we are already working with some Way Forward members on in-depth research that goes beyond our clients.

THE KEY IS TAILORED SOLUTIONS FOR THIS AGE GROUP TO ADDRESS THE UNIQUE ISSUES THEY FACE.

02

Care when extending BNPL facilities to those experiencing financial difficulty

Although those in financial difficulty feel broadly positive about using BNPL, the ability for someone already experiencing hardship to purchase things (including essentials) ahead of having the money could make a bad situation worse.

When already dealing with large unsecured debts, the addition of small amounts related to new debts (including BNPL) can have a crippling effect on someone's ability to continue to meet their repayment arrangements.

Whilst BNPL does not attract interest, the higher instalment amounts over a shorter period of time, taken on along with complex personal debts such as high-interest credit cards, can place enough pressure to tip someone into further financial vulnerability.

Hence, BNPL providers can:

1. Ensure their support services are equipped to recognise and support indicators of financial vulnerability and debt stress
2. Educate users on the pitfalls of using BNPL facilities when experiencing financial difficulty
3. Educate customers on available support services from charities, community services or financial counsellors
4. Restrict granting facilities to people already struggling to repay their bills and debts
5. For people in financial hardship, limit access to multiple facilities and work cooperatively towards a real solution
6. Clearly articulate the instalment options available to support those experiencing financial difficulty – for example, pausing facilities or making longer-term arrangements

03

Tailored support needed for young people in financial difficulty

Young people in financial difficulty seem most challenged: they have less savings and feel less optimistic about the future. Further, most (76%) have their mental health impacted at least every week and over half (57%) worry about the essentials at least weekly.

Young people have fewer financial safeguards in the form of assets, such as savings or property, so they feel less in control of their finances and are negatively impacted by big expenses.

Young people in financial difficulty are also the most avid users of BNPL, so these findings are particularly relevant to BNPL providers.

To support young people, credit providers (including BNPL) can:

1. Create tailored support programs and products that target younger customers in particular
2. Build ways to identify financial difficulty and debt stress especially among younger customers
3. Offer relevant, relatable financial literacy education to prevent young customers falling into financial difficulty

The key is tailored solutions for this age group to address their unique issues they face.

Creating programs and other proactive ways for young Australians to switch from financial difficulty to contributing customers and individuals is bound to be beneficial for creditors and society as a whole.

IN THE WORDS OF OUR CLIENTS

At the end of the survey, we gave our clients the opportunity to share their thoughts in writing, and the response was overwhelmingly positive.

Here we give voice to the people behind the numbers.

"I still have a long way to go but appreciate that help Way Forward has been able to take some of the stress off me by negotiating with the people I owe money to. While I can't see the light at the end of the tunnel at present, I know that in two to three more years I will be able to."

"Way Forward is exactly as the name suggests, and in these difficult times the burden of debt has finally become manageable."

"Way Forward alleviated a lot of stress and financial difficulty for me and gave me the opportunity to move forward when I was drowning in debt."

"I feel such a huge weight has been lifted from me and I have no debt and at 69 years of age with not long-term employment ahead it has had an incredible impact for the rest of my life."

"This service has made my financial burdens much easier to manage but has mostly been the most effective for my mental health, and that is most important to me and is integral for my family."

"We can breathe again because of Way Forward. Your organisation has been a blessing for our family."

"After years of struggling your service actually gave us a chance to have a decent future. We have \$50k of debt that we are now paying off interest free."

"I cannot thank them enough for helping me to see the light at the end of the tunnel. They have saved my sanity. I would definitely recommend them to others who are in a similar situation."

"Honestly, I don't know where I would be without them as they have allowed me to breathe again!"

"The amount of stress and anxiety that has been removed by the assistance of Way Forward is huge. I genuinely felt like bankruptcy was my only way out."

"My mental health and overall well-being has dramatically improved. Making that initial phone call was undoubtedly one of the best things I have ever, ever done!"

WAY FORWARD WOULD LIKE TO THANK EACH CLIENT WHO TOOK PART IN THE SURVEY AND ALL OUR CLIENTS FOR COURAGEOUSLY WORKING WITH US TOWARDS FINANCIAL FREEDOM.

ABOUT WAY FORWARD FREE DEBT SOLUTIONS

Way Forward is a registered charity that provides free long-term hardship arrangements to hundreds of Australians in financial difficulty, assisting them on a path towards financial stability. Way Forward is proudly backed by Australia's finance industry.

If you are earning an income but in financial difficulty due to unmanageable debts, Way Forward can negotiate with creditors on your behalf and establish a realistic repayment plan with a single regular payment, 100% of which goes towards reducing the debt.



For more updates, data and insights, subscribe to our newsletter.

LOOKING FOR HELP WITH YOUR DEBTS?

For anyone struggling with their finances and trying to understand their options, Way Forward offers comprehensive debt guides and support services available in the debt information section of our website. You can also try our free budget planner or debt repayment calculator.

Way Forward helps clients in three simple steps:

Step 1

We evaluate your circumstance and financial situation.

Step 2

We take over negotiations with creditors and act your behalf.

Step 3

We put together a manageable repayment plan and budget. You make one reoccurring payment to us that we then distribute to all creditors, 100% of which goes towards reducing the debt.

**IF YOU'RE STUCK, GET HELP.
CALL 1300 045 502 OR CONTACT
US ON OUR WEBSITE TO SEE IF
WE CAN HELP YOU GET OUT OF
DEBT FASTER.**

T 1300 045 502
E admin@wayforward.org.au
W wayforward.org.au

