

BUY NOW PAY LATER: THE STORY SO FAR

Buy Now Pay Later (BNPL) is transforming the way consumers shop, spend money, and think about credit. Like the name suggests, BNPL allows customers to defer payment for a specific length of time, and in some cases to pay-off the total sum in instalments. The uptake has been positive too; over the past year more than ten million people in the UK have purchased products or services through a BNPL scheme¹. In this article, we provide an overview of this growing market.

CUSTOMER VALUE

While Buy Now Pay Later has been available in the UK for some years now, it has more recently come to public consciousness. However, in recent months, and especially since the COVID-19 pandemic and subsequent UK lockdowns, we have noticed more BNPL options at online checkouts. Our [survey](#) of over 2,000 UK-based people found that 43 percent of respondents believed their BNPL usage could have increased since the pandemic.

So, why would somebody use BNPL? Whether a purchase is in the single digits² or in thousands of pounds, BNPL has got you covered: from shopping for clothes (and thus extending 'try before you buy' to your wallet), to buying exercise equipment ('Ride now, pay over time' says Peloton) to even food and groceries (with BNPL-only supermarket Flava saying that they are 'dedicated to giving everyone a second chance, regardless of their credit score'³).

TOO GOOD TO BE TRUE?

Some believe BNPL offers consumers a superficially 'good deal' that is predicated on increasing spending at merchant (all of the UK's most well-known BNPLs offer 0% APR), which could lead them into debt. Indeed, 44 percent of Capco's respondents said BNPL had made them spend more than they typically would,

and a third had even missed a payment. Worrying still, amongst our 18 to 34-year-old respondents, as many as 50 percent had missed a payment, suggesting that younger demographics are particularly feeling the crunch.

1. <https://www.which.co.uk/news/2020/01/can-shopping-with-klarna-clearpay-or-laybuy-hurt-your-credit-score/>
2. <https://www.newstatesman.com/business/finance/2020/12/klarna-millennial-empire-started-crumble-credit-score>
3. <https://flava.co.uk/>

Concerns about BNPL debt have not gone unnoticed by the media. In September 2020, the credit broker platform Money.co.uk found that the average debt to BNPL platforms is £176.05 and takes eight months to repay⁴. Customers have complained that some BNPL provider's payment terms are opaque and misleading. Some have even taken the matter into

their own hands by launching petitions to UK parliament⁵ and enlisting support from MoneySavingExpert's Martin Lewis, who in December 2020 rallied Twitter to 'amend the fin/services regulation bill'⁶ due to BNPL's few rules and lack of regulation. However, in January 2021, the Government voted down a bill to regulate BNPL firms⁷.

THE ROLE OF THE REGULATOR

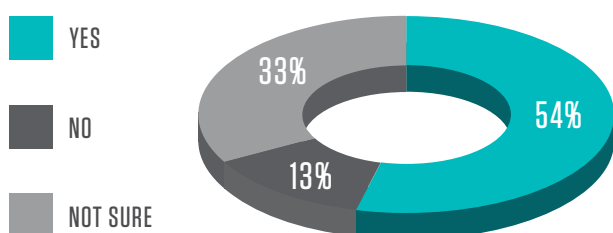
Despite being a largely unregulated market, the Financial Conduct Authority (FCA) has been monitoring the rise of BNPL over the past few years. In 2019, it published its 'final rules on Buy Now Pay Later products'⁸, outlining that:

- Firms cannot charge backdated interest on amounts of money that have been repaid by the consumer during the BNPL offer period
- Firms have to provide better information to consumers about BNPL offers. The information should be more balanced and appropriately reflect the risks as well as the benefits of the product

- Firms must give prompts to consumers, to remind them when the offer period is about to end, so that consumers are more likely to repay the credit before they incur interest.

In spite of these rules, our research suggests consumers are still unsure about the implications of using BNPL. 44 percent of respondents were unsure whether BNPL means 'taking on debt' or 'deferring a payment'; and among younger respondents (18 – 34 years) this rises to 57 percent.

DO YOU THINK BNPL PROVIDERS SHOULD BE REGULATED?



Results from Capco's UK consumer-research survey of over 2,000 people in September and October 2020.

DO YOU THINK OF 'BUY NOW PAY LATER' (BNPL) AS TAKING ON DEBT OR DEFERRING A PAYMENT



4. <https://www.money.co.uk/guides/generation-debt-trap>
 5. <https://www.change.org/p/uk-parliament-protect-consumers-from-dangerous-buy-now-pay-later-schemes>
 6. <https://www.moneysavingexpert.com/loans/buy-now-pay-later/>
 7. <https://www.finextra.com/newsarticle/37282/uk-government-votes-down-bill-to-regulate-bnpl-firms>
 8. <https://www.fca.org.uk/news/press-releases/fca-publishes-final-rules-buy-now-pay-later-products>

We also found that over half of those surveyed wanted BNPL products to be regulated and for providers to consider their credit history before financing is approved, which suggests there's still more work to be done. Indeed, according to a Compare the Market survey of 2,096 people in January 2020, one in five said BNPL negatively impacted their credit score.⁹

REGULATORY HORIZON FOR BNPL

In July 2020, the FCA issued temporary guidance for BNPL providers on customers financially impacted by COVID-19 and have latterly proposed extended leniency measures due to the second UK lockdown. Unsecured credit providers have also been told to expect further updates from the FCA in 2021, with an outcome to the Woolard Review.¹⁰

Subsequently, in December 2020, Klarna, a BNPL provider with more than 90 million shoppers worldwide,¹¹ revealed

plans to report missed and failed payments to credit reference agencies¹². It is clear that the BNPL market is ripe for change.

In our next article, we'll be sharing what we might expect to see from the upcoming Woolard Review, and any other important updates on BNPL. In the meantime, read our full [survey](#) findings and discover the implication of BNPL for banks in our [whitepaper](#).

9. <https://www.which.co.uk/news/2020/01/can-shopping-with-klarna-clearpay-or-laybuy-hurt-your-credit-score/>

10. <https://www.fca.org.uk/news/press-releases/christopher-woolard-chair-review-unsecured-credit-market-regulation>

11. <https://www.finextra.com/pressarticle/85124/klarna-goes-for-growth-in-the-u>

12. <https://www.bbc.co.uk/news/business-55278927>

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