

Which?

POLICY REPORT MAY 2021

Under Pressure: Who uses BNPL?

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Executive summary

Buy Now, Pay Later (BNPL) products are an increasingly popular payment method in the UK, with a third (33%) of UK consumers reporting having used them. These products allow consumers to spread the costs of goods and services interest-free, with consumers usually given the option to pay after 30 days or in instalments once they've received their purchases.

For many consumers, this new, cheap way of borrowing is beneficial. But like any form of credit, there are risks. Both the government and the Financial Conduct Authority (FCA), agree that further regulation of these products is required to manage these risks. To support and inform the development of this regulation, this research provides a profile of BNPL users, drawing on regression analysis of a new survey of 15,008 UK adults, and explores the types of harms they may be exposed to when using BNPL products.

Who uses BNPL?

Our new data challenges dominant stereotypes about who uses BNPL products. While portrayals of BNPL users in the media and BNPL brands' own marketing focus on young (often female) consumers, our research shows that BNPL users come from diverse backgrounds.

Despite this, some groups are more likely to use BNPL than others. All things being held equal, people are more likely to have used BNPL if they have:

- Dependent children;
- Higher incomes;
- Experienced a life event in the last 12 months; or
- Defaulted at least once on a household bill or repayment of another form of credit in the last 12 months,

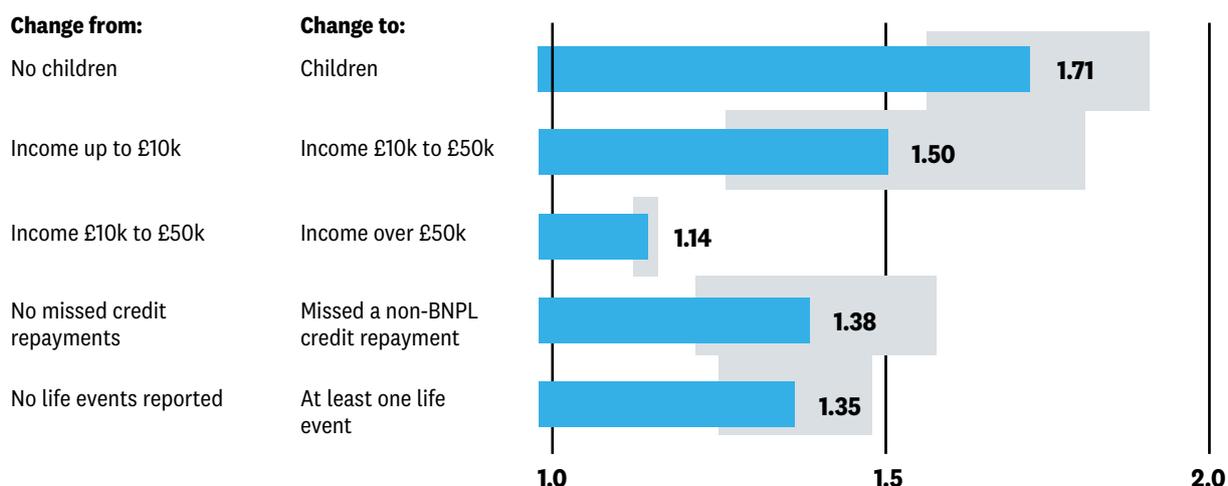
with the presence of multiple characteristics having a cumulative effect on the likelihood of BNPL use.

Consumers were less likely to have used BNPL if they had retired, are older or have A-level qualifications or higher.

Chart 1 illustrates the increase in the odds that a consumer will have used BNPL for each of these characteristics. Having dependent children increases the odds of using BNPL by 71%. Moving from having an income of less than £10,000 to over £10,000 increases the odds by 50%, with a further 14% increase as income rises above £50,000. Experiencing a life event¹ or missing a repayment on a credit arrangement or household bill increases the odds that someone will have used BNPL by about a third each (35% and 38% respectively).

¹ The life events identified by the FCA and included in our profiling were: Getting married, Receiving an inheritance, Moving house, New baby, Losing your job/ being made redundant, Reduction in working hours that you didn't want, Being made bankrupt, Relationship breakdown/ separation from your partner, Divorce, Serious accident or illness (myself), Serious accident or illness of a close family member, Death of a parent, Death of your partner, Death of a child, and Becoming the main carer for a close family member.

Chart 1: Odds ratios from regressing whether ever used BNPL on to selected demographic factors



The changes have all been selected so as to increase the odds of a respondent having used BNPL. An odds ratio of 2.0 would imply a doubling of the odds.

The shaded grey bands show the extent of a 95% confidence interval around each estimate. None of the confidence intervals extend down to 1.0, indicating that each of these changes has a significant effect.

Overall, this profile suggests that while BNPL users are on average more affluent, they are more likely to be experiencing other challenges, including the expenses associated with raising a family and other life events. BNPL products can play a valuable role in helping people smooth costs in these circumstances, but the stress that can accompany these challenges may also increase the risk that these products cause harm to consumers.

BNPL usage has grown rapidly over the last year. Two in five (42%) of our survey respondents who have ever used BNPL have done so in the last year as consumers turned to online shopping during lockdowns. The relative increase in odds of using BNPL having experienced a life event or missed a repayment on another form of credit or household bill is concerning in the context of the pandemic, when many people have experienced bereavement, the serious illness of a family member, or financial difficulty. While BNPL may be a useful tool for those juggling financial obligations in these difficult circumstances, these consumers may also be at greater risk of harm.

What’s the potential harm?

BNPL users also report different attitudes and behaviours to non-users. Survey respondents who have used BNPL in the last 12 months are more likely than non-users to consider themselves to be time poor, present oriented, open to risk and trusting of financial services providers in general. They also rate their own confidence in their money management skills as lower than non-users. This may mean they are less likely to engage with BNPL brands’ terms and conditions, to shop around for the best credit option or explore the potential risks of these products, and more likely to trust marketing claims.

We also found that a sizable minority of the survey respondents who were BNPL users didn’t think they could access other forms of credit at short notice. This may suggest BNPL users are financially overextended, or that these consumers are using BNPL because they perceive themselves to have few alternatives. Ensuring BNPL use is affordable should be a priority to ensure this group is adequately protected from harm.

The minority of BNPL users in the survey who reported having missed a repayment are more likely to be young and three quarters (76%) have experienced a life event in the last 12 months.

This strengthens our concern that people may be using BNPL to access credit quickly in challenging situations, and experiencing harm as a result.

Respondents who had missed payments reported brands taking a range of actions against them in response, ranging from the freezing of their accounts through to being reported to debt collection agencies. This lack of consistency would make it harder for consumers to make an informed choice when deciding whether to use BNPL, or which provider to use where a retailer offers multiple options.

Policy implications

Our research indicates that people in challenging circumstances – raising children, missing debt payments, or experiencing other life events – are more likely to use BNPL. BNPL users are also more likely to believe they lack access to other forms of credit, and to report attitudes that suggest they may be more vulnerable to impulsive and unaffordable borrowing. Proportionate regulation should ensure that these products are affordable, that users understand the risks involved, and they are offered appropriate support if things go wrong. We suggest two key principles should inform this regulation:

1. Transparency

One of the benefits of BNPL credit is that it enables consumers to budget and manage their money more effectively than traditional credit products without incurring interest.

Future regulation could build on existing transparency by requiring the prominent display on potential charges and late fees and the standardisation of ways of presenting this information

2. Friction

Currently, BNPL products provide consumers with a seamless, largely frictionless way of accessing credit. Our research suggests that adding adequate friction to the borrowing process to ensure consumers understand the nature of the product and that it is affordable to them could help reduce potential harm.

These two principles should help regulate BNPL in a way which will support innovation while protecting consumers from harm.

Introduction

A new generation of Buy Now Pay Later (BNPL) credit products have bloomed through online retail over the last two years. These products, which allow people to delay or split payments to make them more manageable, work well for many consumers. Unlike other credit products, which typically make money from interest and late fees, BNPL firms tend to make money by charging the retailer commission for every purchase made using their service. BNPL offers a cheaper way to borrow than traditional credit cards for those who cannot repay within a single month, and in some cases allow consumers to try products at home before parting with their cash. But, like any credit product, borrowing creates risks that people are unable to afford repayments, or miss them and face serious consequences. While the growth of these products signals their consumer appeal, concerns are mounting that some consumers may be harmed by using these products.

BNPL products currently sit outside the FCA's regulatory perimeter, with providers such as Klarna, Clearpay and Laybuy relying on an exemption under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. This allows providers to offer unregulated credit, so long as no interest is charged and repayments are made in no more than 12 instalments over a period of 12 months. This exemption was originally designed to allow businesses offering ongoing services, like gym membership or season tickets, to help customers smooth payments without the need for disproportionate regulation. The rapid growth of BNPL lending relying on this exemption raised concerns that the risk of harm to consumers in this market was growing. In February 2021, the Woolard Review recommended that this exemption should be closed;² a view that was immediately accepted by the government.³ A consultation exploring the best way to regulate BNPL products is expected later this year. Our shared task now is to ensure this regulation gets the balance right, allowing consumers to benefit from innovative forms of credit, while ensuring their rights are protected. To succeed, we need a clear understanding of who BNPL users are and the risks they face.

As the UK's Consumer Champion, Which? is committed to supporting this conversation and working to ensure consumers are protected from harm. In this report, we present rigorous new research setting out who is using BNPL products, allowing us to better understand the specific risks consumers using these products face and design proportionate regulations.

This report

Our new research and analysis provides a robust and detailed profile of BNPL users, identifying the factors more or less likely to mean an individual has used a BNPL product. It allows us to gain an understanding of the type of people who use BNPL products, and to a certain extent the circumstances or life situations which are more likely to lead to a person using BNPL.

² Woolard Review: A Review of Change and Innovation in the Unsecured Credit Market, 2021. Available at: <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>

³ Letter from John Glen MP, Economic Secretary to the Treasury, to Chis Woolard, 28th January 2021. Available at: <https://www.fca.org.uk/publication/correspondence/woolard-review-est-letter-to-christopher-woolard.pdf>

By understanding who uses BNPL we can provide a solid platform to conduct further research among a representative sample of users, which will provide robust and valid insight into consumer harms, allowing us to make tailored, proportionate, evidence driven policy calls to address these problems.

Methodology

This research's core aims were to derive a robust profile of BNPL users and to begin exploring the nature and distribution of harm associated with BNPL use.

We conducted a large-scale and detailed profiling survey of 15,008 respondents, collecting demographic characteristics as well as data on respondents' financial attitudes, personal circumstances, use of other forms of credit and experience of certain life-events. Additionally, we included questions on experiences of specific outcomes from having used BNPL credit to give us an early indication of emerging harms.

To mitigate the risk of respondents over- or under-reporting their BNPL use we gave the following definition of BNPL credit:

[Buy Now Pay Later (BNPL) credit] lets you buy goods and services interest-free for a relatively short period of time (usually 30 days) or over a few instalments (typically between 3 and 6). You never pay interest but if you miss a payment you may have to pay a fee. Klarna, Clearpay Laybuy, OpenPay, Flava, and Payl8r are examples of "Buy Now, Pay Later" credit providers

A copy of the full survey questionnaire is available at <https://www.which.co.uk/buynowpaylater>.

Fieldwork took place between 21st December 2020 and 15th January 2021 and was conducted by Opinium through their online panel. Data was weighted to be representative of the UK adult population (18+) by age, gender, region, social grade and working status.

The size of our survey enabled us to capture a large sample of 4,697 BNPL users. Within this sample, it also enabled us to capture a substantial number of respondents (1,978) who have used a BNPL product in the last 12 months (42% of the BNPL users in the survey). This allowed our subsequent analysis of these data to be statistically robust.

Our profiling of BNPL users was carried out in three stages. First, the demographics of the respondents who had used BNPL were tabulated to create a user profile. Then, a regression model was fitted using the demographic data, enabling us to look for relationships between these fixed characteristics and BNPL use in our model. Finally, the survey data was re-weighted to better reflect the consumer characteristics that had been found to have the most impact on their likelihood to have used BNPL products.

Our sample size, use of regression analysis and inclusion of only fixed demographic characteristics in our model mean our findings are robust. We can make causal inferences about the relationships between these demographics, the context of the pandemic and BNPL use.

For those interested in applying this user profile in their own research, a separate technical report is available <https://www.which.co.uk/buynowpaylater> which provides the specification of the model and its results.

Report structure

- **Chapter 1: Who is using Buy Now Pay Later products?**

This chapter describes the profile of BNPL users, how it has shifted during the pandemic and the implications of this profile for understanding potential harm.

- **Chapter 2: What are the emerging and potential harms of BNPL use?**

This chapter considers BNPL's place in respondents' wider financial lives and their experience of negative consequences having used BNPL.

- **Chapter 3: Conclusions**

Summarising the implications of our findings for Which?, regulators and providers of BNPL credit.

Chapter 1 – Who is using Buy Now Pay Later products?

BNPL is not a niche issue - around a third (33%) of people in the UK have ever used BNPL, with 2 in 5 of these (42%) using it during the pandemic

BNPL is perceived as a novel credit product used by Gen-Z and Millennials. The popular stereotype of the typical BNPL user built from BNPL brands' marketing and media coverage is that they are a young woman (with no children) who uses BNPL to keep up with the latest online fashions by spreading the cost of their purchases interest-free (see box 1). Our data tells a much more nuanced story.

Payment firm Klarna messed up my credit score, says student

By Lora Jones
BBC News

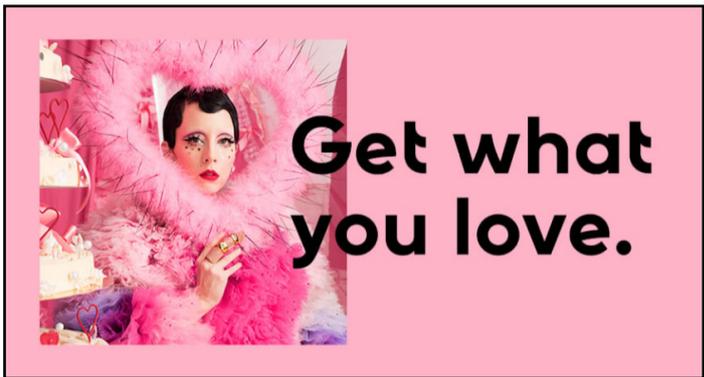
11 November 2019



Box 1: A picture tells a thousand words

Media representations of BNPL users and marketing from BNPL brands builds the impression that BNPL is a product used and targeted towards younger consumers. Images and case studies overwhelmingly draw on images of young people, and typically young women.

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M 3am Celebrity News Sunday People

Love Island stars 'promoting buy now, pay later firms that lure young into debt'

EXCLUSIVE: Love Island stars Amy Hart, Olivia Bowen, India Reynolds, Lucie Donlan and Belle Hassan using social media to promote 'buy now, pay later' firms accused of luring young people into debt

SHARE 6 COMMENTS By Alan Selby 20:18, 6 FEB 2021 | UPDATED 22:39, 6 FEB 2021 CELEBS

6

Opinion Borrowing & debt

'Buy now, pay later services' are helping to create a new generation of debtors

Kitty Drake

Easy payment schemes such as Klarna make accruing debt from online shopping seem like a form of self-care

Wed 12 May 2021 08.00 BST

7

5 <https://www.yourmoney.com/credit-cards-loans/buy-now-pay-later-users-struggling-to-pay-back-debts>
6 <https://www.mirror.co.uk/3am/celebrity-news/love-island-stars-promoting-buy-23455626>
7 <https://www.theguardian.com/commentisfree/2021/may/12/buy-now-pay-later-new-generation-debtors>

We estimate that one in three (33%) people in the UK have used a BNPL product. This equates to approximately 17.4 million people.⁸ Although some types of consumers are more likely to use BNPL than others, people from all types of backgrounds use these products (see table 1). Similar proportions of men (49%) and women (51%) have ever used BNPL credit and while BNPL users are most commonly young, we find BNPL users in all age groups.

Table 1: Demographics of all survey respondents and those who had ever used BNPL

	All respondents	All respondents who have ever used BNPL
Base	15,008	4,697
Gender	Male	48%
	Female	52%
Age	18-24	8%
	25-39	28%
	40-54	24%
	55-64	20%
	65+	20%
Ethnicity	White	87%
	BAME	8%
	Other	5%
Education Level	GCSE or no formal qualifications	28%
	A-Level or higher	71%
Dependent children in home	Yes	27%
	No/Did not specify	73%
Working status	Employed full-time	46%
	Employed part-time	12%
	Self-employed full-time	4%
	Self-employed part-time	3%
	Retired	20%
	Other	16%
Income⁹	Up to £10,000	7%
	£10,000-£50,000	58%
	Over £50,000	26%

Base: All survey respondents; All those who have ever used BNPL data (unweighted)

⁸ There were 52.67 million people aged 18+ in the UK as of mid 2019 <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>

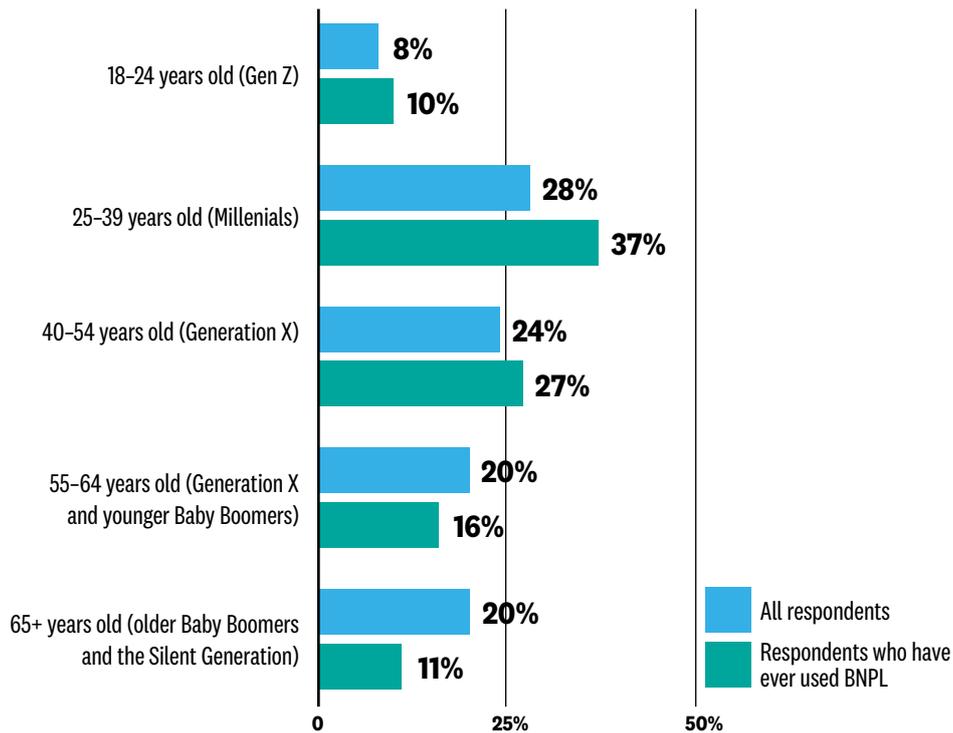
⁹ In the “All respondents” column, respondents with no data recorded for a demographic have not been reported; in the used BNPL column, they have been excluded from the base.

BNPL credit products clearly have a wide and growing user base. As such, where these products are available, what protections exist for consumers, and how they are regulated is an issue relevant for a wide range of consumers and not a niche subgroup.

Age is a key driver of BNPL usage – but the typical BNPL user in our survey is a Millennial, not Gen Z.

The popular image of a typical BNPL user is that of a youthful shopper. However, the bulk (64%) of the BNPL users in our survey are Millennials (those aged 25–39 years old) or Gen Xers (40–54 years old). Just one in ten are part of Gen-Z (aged 18–24 years old).

Chart 2: Distribution of BNPL users in the survey by age



Base: All survey respondents; All those who have ever used BNPL data (unweighted)

Our modelling shows that, all other things being equal, our survey respondents are less likely to use BNPL products if they are older, or if they are retired from work.

BNPL users in our survey are more likely than non-users to have dependent children and there is a small effect by income too

Our modelling shows gender has little bearing on respondents’ likelihood to have ever used BNPL products, something which challenges dominant media stereotypes.

When holding all other factors constant, the respondents are most likely to have used a BNPL product if they:

- have dependent children at home; and/or
- have a household income of over £50,000; and/or
- are less than 55 years old.

Crucially, both household income and likelihood to have dependent children tend to increase until middle age, which is the key reason we do not see the highest use of BNPL among the youngest cohort.

What could this look like?

Imagine that you have a set of identical twins, Barry and Carl. They've had similar upbringings and followed a similar path in life.

- Both went to university, both are on salaries of over £50,000.
- The one difference between them? Kids. Barry has 2 children living at home, while Carl and his partner are child-free.
- Our model shows this makes a big difference for their likelihood to have used a BNPL product.

While Carl has just a **31%** probability of having used BNPL



father Barry has about a **43%** probability of having done so



Income has a slightly lower effect

- Twentysomethings Nisha and Monique both studied IT at uni and are colleagues in a tech start-up.
- While they are the same age, have similar educational qualifications and personal lives (both single, no kids), Monique is earning considerably more money. She brought home £60,000 last year, compared with Nisha's £35,000.
- As Monique's income increases, however, so does the probability that she will be a BNPL user.

While lower earner Nisha's probability of using BNPL is **28%**



Monique's is **31%**



Our profile suggests the typical BNPL user is relatively financially secure but has demands on their income (represented by dependent children). One explanation for how these two factors interact may be that these demands may require BNPL users to manage their finances and use credit in a variety of innovative ways. While this group may not currently be vulnerable to harm from using these products, their circumstances may mean they could more rapidly experience financial difficulties if something unexpected occurs.

Defaulting on another form of credit or bill is associated with using BNPL, as is, the experience of certain life-events

Our modeling analysis also shows that respondents were more likely to have used a BNPL product if they:

- reported having missed repayments on other (non-BNPL) credit products; and/or
- had experienced recent, stressful life events.

We asked whether respondents had experienced certain life events in the last 12 months that are known to make consumers more vulnerable to harm.¹⁰ These life events range from getting married or having a baby, to being bereaved, becoming unemployed or experiencing a serious accident or illness (see box 2 for a full list). We also asked whether respondents had fallen behind on, or missed, any payments for credit commitments or domestic bills for any 3 or more months out of the last 12.

Box 2: Life events and consumer vulnerability

Protecting vulnerable consumers is a key priority for the FCA, who have conducted extensive research on the drivers of vulnerability. While these drivers include certain demographic characteristics (e.g. health conditions and illnesses), consumers' financial capability and resilience, they also include experiencing certain life events.¹¹

Building on the FCA's work, we asked respondents which, if any, of the following life events they had experienced in the last 12 months.

- Getting married
- Receiving an inheritance
- Moving house
- New baby
- Losing your job/ being made redundant
- Reduction in working hours that you didn't want
- Being made bankrupt
- Relationship breakdown/ separation from your partner
- Divorce
- Serious accident or illness (myself)
- Serious accident or illness of a close family member
- Death of a parent
- Death of your partner
- Death of a child
- Becoming the main carer for a close family member

10 <https://www.fca.org.uk/publication/guidance-consultation/gc19-03.pdf>

11 <https://www.fca.org.uk/publication/guidance-consultation/gc19-03.pdf>

What would this look like?

Imagine three houses on a terraced street each owned by a different family.

- The Abbots have a household income of £45,000 and two primary school aged children.
- The Patels also have two children and have a similar income to the Abbots.
- The Jacksons are similar in their household composition and income too.

However, despite on paper appearing to be very similar households, they've had very different circumstances and life experiences during the last year.



In comparison to these two households, the likelihood the Abbots (who have not experienced a life event or defaulted on a bill/repayment but who do have dependent children) will have used BNPL is

47%

The Patels have needed to take out a loan to pay for some household repairs and missed three repayments. The probability that someone like the Patels who have defaulted in this way had used BNPL is 55%.

55%

At the start of the year the Jacksons had a baby - a 'life event'. They went from having one dependent child at home to two and needed to spend more money and time getting ready for baby Jackson's arrival. The arrival of a new baby means the probability that the Jacksons used BNPL was

54%

Further weight may be given to the suggestion that BNPL use is associated with stressful circumstances by the fact that usage is not habitual. We found that most BNPL users who took part in our survey have only used BNPL once or use it less frequently than once every six months (range 47%~67% depending on the provider).

These findings suggest that, although BNPL users are, on average, more affluent, these products are being used by consumers whose circumstances make them more vulnerable to harm if adequate protections are not in place. The cognitive strain associated with life events may make it harder to fully assess the risks and benefits of BNPL products, while the fact that those who have defaulted on other credit products are more likely to use BNPL suggests affordability may also be an issue for some users.

During the last 12 months of covid restrictions more people have used BNPL

There has been an acceleration in BNPL use in the last 12 months. Two-fifths (42%) of our survey respondents who have ever used a BNPL product had done so in the last year. Notably, the largest growth in BNPL users over the last 12 months has been among those aged 25 to 35 years old.

The growth of online shopping during the pandemic has likely contributed to the growth of BNPL. Although BNPL credit can be used in-store, BNPL products are most typically used online with some retailers using them as their default payment mechanism.

However our research suggests that the other challenges people have faced during the last year may also have contributed to the growth of BNPL. Given the association we find between BNPL use and experience of a major life event and defaulting on another form of credit or bill, it is fair to speculate that the challenges of life under lockdown, and the number of people who have been placed on furlough, have had their working hours reduced, been sick or been bereaved (all considered life events by the FCA), may have contributed to the growth in BNPL use.

Chapter Summary:

Our profile shows that our survey respondents were more likely to have used BNPL if:

- they have dependent children;
- have missed repayments on other forms of credit/household bills;
- had experienced a life event in the last 12 months; and, to a lesser extent,
- have a higher income.

They were less likely to have used BNPL if they were:

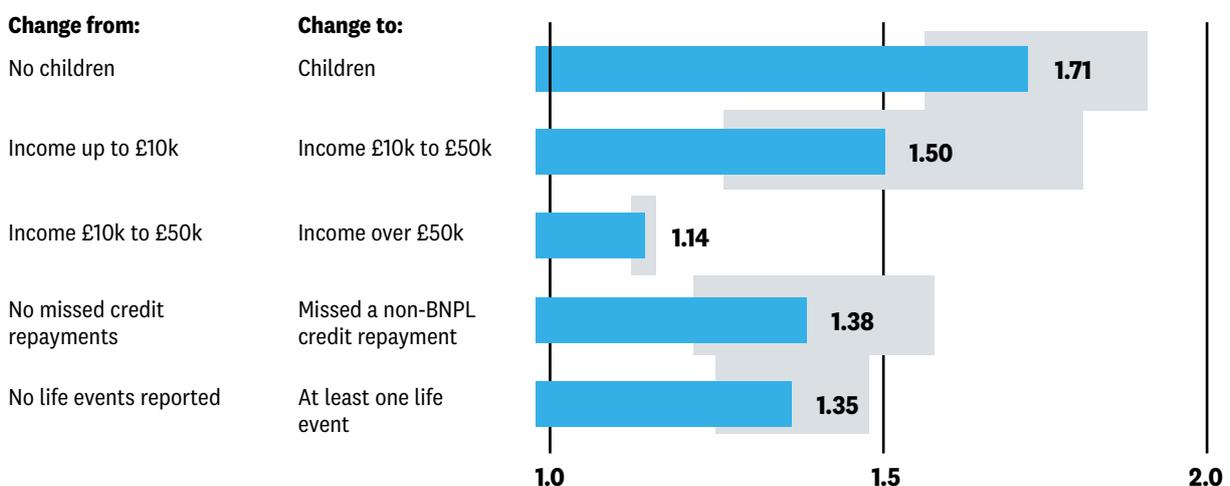
- Older;
- Retired; and
- Educated to A-Level standard or above.

These factors make different contributions to our model. As the chart below shows, the presence of dependent children in the home makes the largest positive impact on the odds that a person will have used a BNPL product, with the odds increasing by 71%.

Income makes a more modest, but no less significant, contribution. While having an income of between £10,000 and £50,000 increases the odds someone will have used BNPL by a half (50%) when compared with someone earning less than £10,000, further increases in income also have a modest positive effect on the odds of BNPL use (14%).

Missing a non-BNPL credit repayment or bill and experiencing a life event increase the odds of using BNPL by 38% and 35% respectively.

Chart 3: Odds ratios from regressing whether ever used BNPL on to selected demographic factors



The changes have all been selected so as to increase the odds of a respondent having used BNPL.

An odds ratio of 2.0 would imply a doubling of the odds.

The shaded grey bands show the extent of a 95% confidence interval around each estimate.

None of the confidence intervals extend down to 1.0, indicating that each of these changes has a significant effect.

Importantly, these factors have a cumulative effect. The more of these factors individual consumers experience the greater the odds become that they will use a BNPL product.

This profile information may come as a surprise to many as it does not conform to the images used to market BNPL or portrayals in the media.

Although our profile gives a view of the typical BNPL user, it is important to remember our data shows that users of BNPL are diverse. It also necessitates that we be mindful of the effect of experiencing a life event, such as a change in personal circumstance, on BNPL use. These changes in circumstance can happen to anyone and ultimately makes us all potential BNPL users.

Our profile suggests that those in stressful life circumstances are more likely to be BNPL users is not to say BNPL users are inherently vulnerable or being harmed due to BNPL use. It may be that BNPL credit represents a useful resource for people to respond to their immediate predicaments in a way that does not result in them being charged interest or needing to make potentially complex credit applications. What it does suggest, however, is that some BNPL brands may be offering credit to those who may otherwise not be eligible or who have limited capacity to shop around.

In the next chapter we consider what our survey can tell us about this risk and who may be harmed having used a BNPL product. While the respondents are not representative of BNPL users or users of individual brands, our sample size means they are statistically powerful.

Chapter 2 - Understanding the potential for harm associated with BNPL

In addition to profiling BNPL users, this survey aimed to explore the potential for harm associated with BNPL. To build our understanding of harm we asked a series of questions relating to respondents' financial attitudes, explored their use of credit other than BNPL, and, for those who have used BNPL in the last 12 months, and whether they had missed a BNPL payment. For those who had missed a payment, we explored what consequences they had experienced.

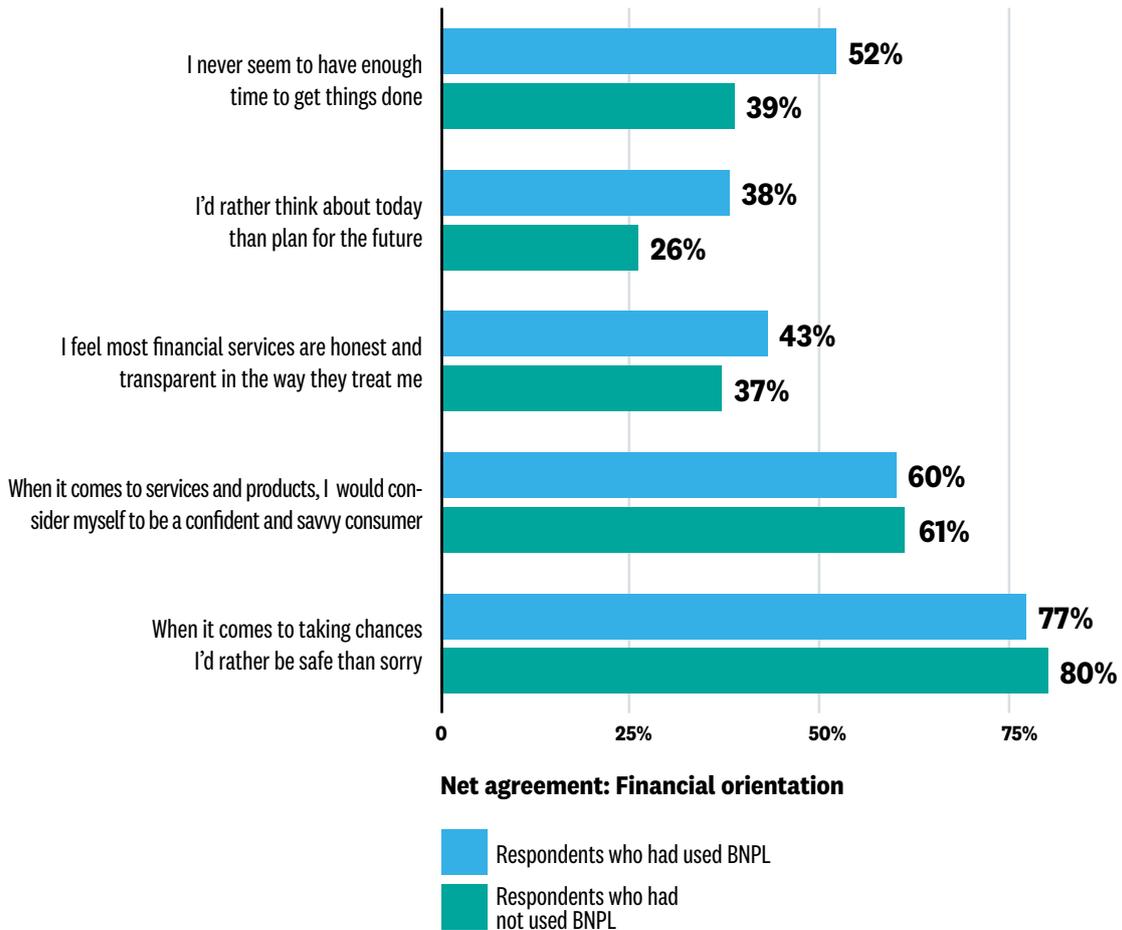
In this chapter we describe what our data tells us about who may be experiencing harm having used BNPL. While these data are not representative of BNPL users as a whole, the sample size for those who have used BNPL in the last 12 months (n = 1,978) means findings can be considered indicative of potential harm.

BNPL users' attitudes towards risk, financial services and their own money management abilities may place them at greater risk of harm

We have already established that certain fixed characteristics and personal circumstances contribute to consumers' likelihood of using BNPL. Certain attitudes and approaches to financial risk and money management also appear to be associated with use and together these various factors help us understand who might be more exposed to harm through using BNPL.

We found that respondents who had used BNPL were more likely than those who were non-users to consider themselves to be time poor, present oriented, open to risk and trusting of financial services providers in general (see chart 4).

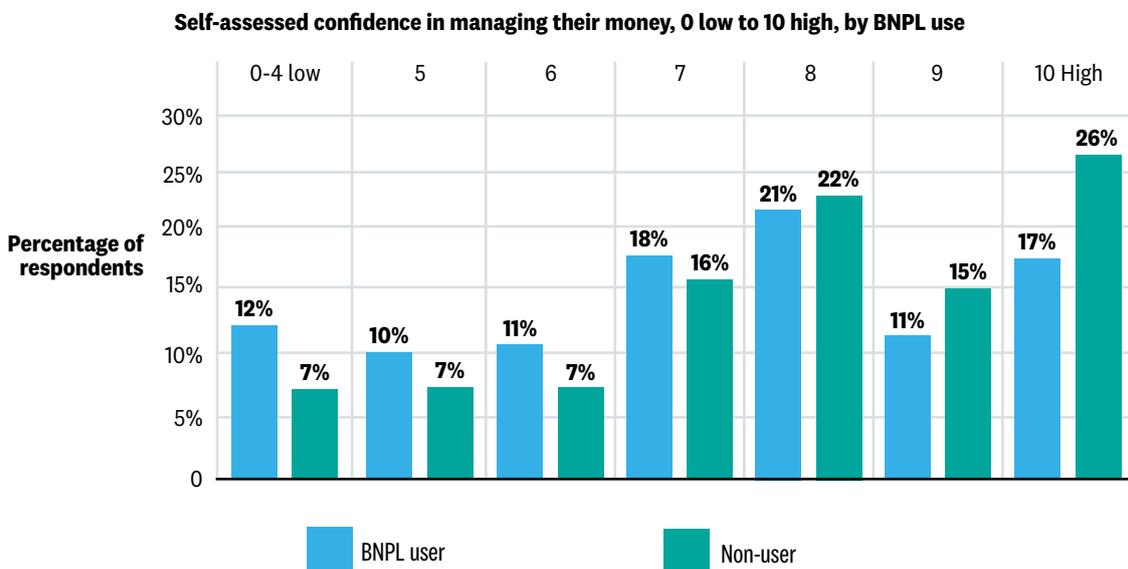
Chart 4: Respondent agreement with attitudinal statements by BNPL use.



Base: 4,697 respondents who had used BNPL; 10,311 who had not

Additionally, on average, BNPL-using respondents assessed their own confidence in their money management skills as lower than non-users (see chart 5).

Chart 5: Respondents' self assessed confidence in managing their money by BNPL use



Base: 4,697 respondents who had used BNPL; 10,311 who had not

Overall, 12% of the respondents who had used BNPL rated their confidence between 0 (the lowest rating) and 4 inclusive; only 7% of the respondents who were non-users chose ratings this low.

The reasons for these differences in attitudes are unclear but we do know that these attitudes are more pronounced among younger respondents, and respondents with dependent children.

Regardless of their underlying causes, these differences give us food for thought. Being time-poor may mean BNPL users are less able to shop around for the best credit product for their needs and may be more susceptible to behavioural nudges and product or website features designed to encourage BNPL use (e.g. BNPL as the default payment option). When combined with having greater trust in financial firms, it may also mean BNPL users take communications at face value or do not engage with terms and conditions as critically as they should.

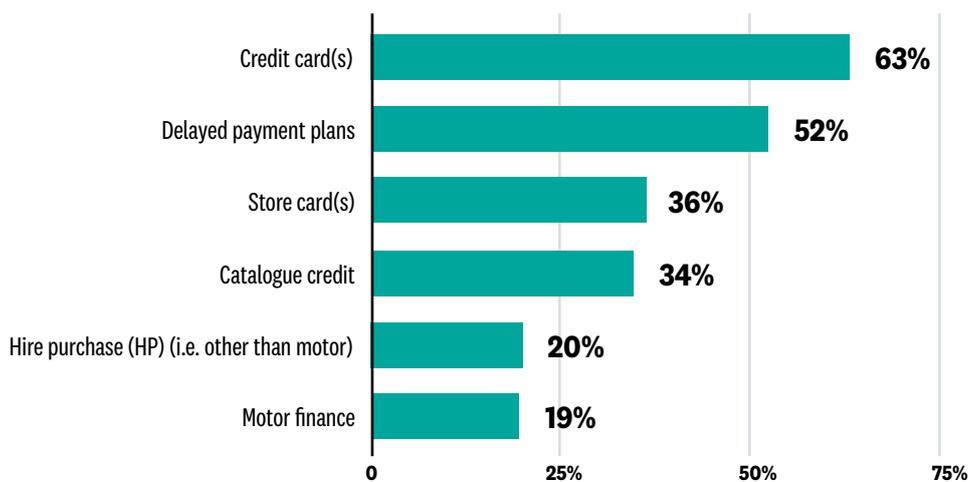
Being open to risk, signalled by lower agreement with the statement ‘When it comes to taking chances, I’d rather be safe than sorry’, and more present oriented, signalled by higher agreement with the statement ‘I’d rather think about today than plan for the future’, may also suggest BNPL users may be more impulsive or less concerned about the potential risks associated with BNPL use. Ultimately, this may leave them more open to harms associated with inappropriate credit usage.

While respondents who have used BNPL in the last 12 months have accessed and used other forms of credit in the same time period, a sizable minority don’t think they could access credit at short notice

Whether BNPL users’ self-assessed confidence in their money management abilities reflects the reality of their financial circumstances is unclear. We did not collect data on respondents’ overall debt or the affordability of their debt as a part of our survey, and data on the amount of outstanding debt held by individual BNPL users suggests it is relatively low.

Despite using other forms of credit in the last 12 months (chart 6), a sizable minority (26%) of respondents who have used BNPL credit in the last 12 months have a pessimistic view of being able to cover an unexpected expense of about £500 using credit. This compares with just a fifth (18%) of the general population.

Chart 6: Recent BNPL users use of other forms of credit in the last 12 months



Base: all who have used BNPL in the last 12 months; 1,978

Whether or not this belief about not being able to access credit at short notice is accurate is unclear. In the absence of more detailed evidence, we are using this figure as a proxy for people who believe they might have trouble accessing even relatively small amounts of other forms of credit. This may indicate that they are financially overextended and using credit, including BNPL, in a way which could lead them into financial difficulties.

This draws attention to how rigorous BNPL providers might be in running credit checks and assessing the suitability of BNPL for their consumers. It also raises fresh concerns over the impact of being offered credit when already in tight financial circumstances. We are concerned that consumers may be lulled into a false sense of security about their financial circumstances and engage in unsustainable consumption by being inappropriately offered BNPL.

Although most BNPL users have never missed a payment, defaulting appears to be higher among users of smaller BNPL brands

Four-fifths (81%) of the respondents to our survey who had ever used a BNPL product had never missed a repayment. The mean reported outstanding debt to all of the BNPL providers respondents reported using was just over £300, with two-fifths (42%) of respondents owing less than £100 in total.

The two largest UK providers (Klarna and Clearpay) were associated with lower reported rates of missed repayments and smaller reported outstanding debts than their smaller competitors. In our survey, 13% of Klarna customers and 16% of Clearpay customers reported having missed repayments to these providers. Similar proportions of Klarna and Clearpay customers (62% and 59% respectively) reported owing their provider less than £100. In contrast, between 29% and 33% of respondents who were customers of the smaller named BNPL providers included in our survey (Laybuy, Openpay, Payl8r and Flava) reported having missed a repayment. The proportions of these respondents owing less than £100 to each individual provider in this group ranged from 43% to 55%.

While these levels of outstanding balances could indicate that most BNPL users have firm financial footings and are using BNPL products in a manageable, sustainable way, there is an absence of data on how BNPL users pay off their balances. Further research is needed to understand where BNPL fits into users' wider financial lives and particularly whether they are using other forms of credit, such as credit cards or overdrafts, to pay their BNPL debt.

Furthermore, there are considerable variations in default rates and average outstanding debt between BNPL brands, which may point to problems within specific parts of the BNPL market:

- Up to a third (31%) of respondents to our survey who had used a smaller BNPL provider reported having missed a payment.
- Those who have used smaller BNPL providers also report higher amounts of outstanding debt, on average, than those who have used one of the market leaders.

Although our sample is not representative of BNPL users or individual brands' user bases, we can speculate that this variation may be connected with the types of retailers BNPL brands partner with, the products they sell, the profile of users they attract and the systems and processes brands have in place to assess the suitability of their products for different consumers.

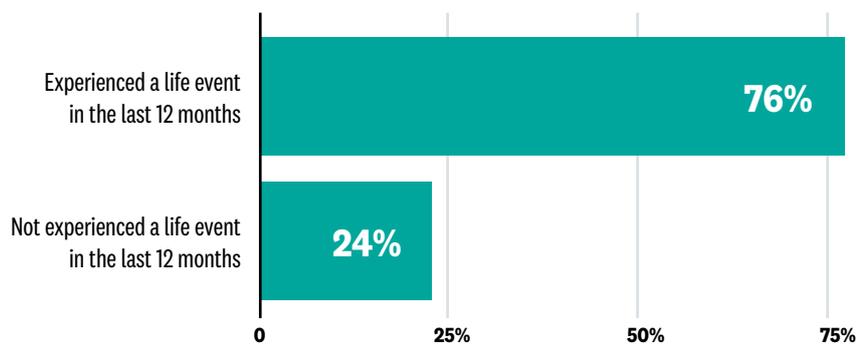
BNPL users who missed a payment were disproportionately younger and experiencing some form of stress

Our data suggests younger consumers aged 39 and under are more likely to report having ever missed a BNPL payment than those in any other age cohort. Although more people in this age group missing payments may not be surprising given they make up the biggest proportion of BNPL users (see profile in chapter 1), when one considers that these age groups are also likely to have the

lowest self-assessed confidence in their ability to manage their money, to be more open to risk, more trusting of financial services providers and more likely to live for the present than other age groups, it may indicate that more support should be made available to these consumers to manage their BNPL use. This could include greater transparency over the costs of missed payments, use of credit checks and communication between BNPL firms.

It is also noteworthy that people who have missed a BNPL payment were also more likely to have experienced a life event in the last 12 months (Chart 6). Of those who had missed a BNPL payment, three quarters (76%) had experienced one or more life events in the last 12 months. This strengthens our concern that people may be using BNPL because it is an easy and quick way to access credit when there is an immediate need.

Chart 7: Proportion of BNPL users in the last 12 months who have missed a BNPL repayment by experience of life events



Base: all who have used BNPL in the last 12 months; 1,978

While BNPL providers take definitive action against those who miss payments, the extent to which consumers are harmed by this is unclear

For each BNPL provider used, we asked respondents who had missed a payment whether they had experienced specific negative outcomes as a result such as having their account blocked or being charged a late fee, depending on whether or not the brands state they take these steps in response to missed payments. The actions respondents claimed brands took in response to their missed payments are reported in table 2.

We found that depending on the BNPL brand 37-65% of BNPL users in our survey who reported having missed a payment said they experienced at least one negative outcome as a result.

Table 2: Breakdown of consequences BNPL users who had missed a payment claimed to have experienced, by brand

	Klarna	ClearPay	Laybuy	OpenPay	Payl8r	Flava
Base	138	100	74	86	64	65
I have had my account blocked and/or suspended	37%	39%	47%	51%	48%	49%
I was charged a late fee	Not applicable	54%	57%	58%	53%	Not applicable
I received a letter from a debt collection agency	51%	39%	51%	49%	64%	Not applicable
I was visited by debt collectors	39%	34%	43%	55%*	55%	Not applicable
My credit rating was damaged	Not applicable	42%	54%	Not applicable	55%	Not applicable

Base: BNPL Credit users who missed a payment for a specific brand in the last 12 months (unweighted)

Each respondent that reported having missed a payment with a BNPL brand was asked on a brand by brand basis “As a result of having missed a payment with [BRAND] have you experienced any of the following: I have had my account blocked and/or suspended; I was charged a late fee; I received a letter from a debt collection agency; I was visited by debt collectors; My credit rating was damaged.” Options shown were tailored based on the brands’ terms and conditions.

* OpenPay have told us that the debt collection agency they use do not conduct physical visits to consumers.

The survey results suggest that BNPL brands are prepared to take action against those who miss payments, which might damage users’ finances (e.g., incursion of fees, damage to credit rating), confidence and mental and emotional well being. While having an account blocked may be frustrating, bailiffs at the door can be frightening. A poor credit rating or thin credit file may make it more difficult for consumers to access other financial products and damage their future prospects.

The survey findings also suggest BNPL brands have different practices when engaging with users who miss payments. Ultimately, consumers would be better protected if they knew what to expect if they miss a payment with a BNPL provider, something which requires transparency on the part of BNPL brands around communicating these consequences and the potential costs of using BNPL credit.

Chapter Summary:

The fact that our data is drawn from a non-representative sample of BNPL users and are also not representative of these BNPL brands user bases means we should take the above insights with caution. That said, the data indicates that there may be harms within the BNPL market which regulators and BNPL brands need to be mindful of.

Firstly, our data suggests BNPL users hold attitudes about their ability to manage their money which may lead them to make quick decisions about how to make payments without exploring the ins and outs of particular products. Believing themselves to lack time and being more open to risk, younger consumers may be more likely to use BNPL products without considering the consequences or interrogating marketing.

Secondly, some BNPL users may use this type of credit because they believe they cannot access alternative forms of credit at short notice (with younger people and those with dependent children more likely to hold these views). This may indicate people are turning to BNPL as a convenient and expedient solution to their immediate circumstances. It may also be that BNPL brands make credit available to people for whom other forms of credit are not affordable.

Finally, our data indicates that BNPL brands take different approaches to enforcing their terms and conditions and that the users of smaller BNPL brands with more niche offerings are more likely to miss payments and to have a higher amounts of outstanding debt. It is worth exploring through further research what is driving this and whether policy changes would help in this area.

Chapter 3 - Conclusions

Which? conducted this research with two simple questions in mind:

- Who uses BNPL credit?,
- Who might be most at risk of harm in the BNPL credit market?

Having a definitive answer to these questions was felt to be important for developing policy recommendations that are appropriately targeted and proportionate to the potential harms in the BNPL market, without stifling competition and innovation.

Our modelling shows that the typical BNPL user has more complex personal circumstances and is more financially established than suggested by mainstream media and BNPL brands' marketing materials.

While the typical BNPL user is younger, our profile shows they are more likely to be a Millennial or Gen X, than Gen Z. Once age has been controlled for, our model shows that the typical BNPL user is more likely to have:

- dependent children;
- experienced a significant life event in the last 12 months;
- missed 3 or more re-payments on household bills or credit in the last 12 months; and
- higher than average income;

They are less likely to be:

- older
- retired
- educated to A-level standard or higher.

This profile is telling. Firstly, it suggests that the typical BNPL user is on a relatively firm financial footing, but that their life circumstances are placing them under some form of stress - financially or otherwise. This is not to suggest that the typical user is vulnerable. Rather, it means we all are potential users of BNPL when we are put in a vulnerable situation. The issue is that a portion of the BNPL user population may suddenly lack the resources (be this good credit scores or cash flow, time or mental headspace) to fully consider the implications of using BNPL credit.

Secondly, and most importantly, this profile indicates that all consumers have the potential to become BNPL users. Although the model shows there are typical BNPL users, our descriptive statistics show consumers from all walks of life make use of BNPL. The effect of having a life event, such as having your work hour reduced or becoming unemployed (both common during the pandemic) and missing a household bill on the likelihood of a consumer using BNPL tells us that there is the potential for any consumer, regardless of their age and background to be drawn to BNPL.

But what about harm?

Our survey of 15,008 UK consumers provided a sample of 4,697 people who had ever used BNPL, of whom 1,978 had used BNPL in the last 12 months. While these respondents are not representative of BNPL users as a whole or of individual brands, the survey power means they can provide a powerful indication of where harm in the BNPL market may exist.

We have identified the potential for harm in four areas within the BNPL market.

1. **BNPL users hold attitudes about their finances, financial services providers and lives which may predispose them to trust BNPL brands marketing**, not interrogate firms' terms and conditions and make snap decisions when it comes to making payments. These attitudes and beliefs were more concentrated among consumers under 40.
2. **Some BNPL users believe they could not access alternative forms of credit at short notice** with younger people and those with dependent children more likely to hold these views. This may suggest BNPL is providing an effective solution to households who are financially stretched, but could also mean that BNPL brands make credit available to people for whom other forms of credit are not affordable.
3. **The proportion of BNPL users who have missed payments and the amount of debt held differs across brands used** by the BNPL users who have responded to our survey. Those who have used market leaders were less likely to have missed a payment and were less likely to have higher outstanding balances than users of more niche BNPL brands. This suggests BNPL brands that service particular parts of the BNPL market may need to do more to support their users.
4. BNPL brands were **prepared to take action against users who have missed payments**. There is also evidence to indicate brands are taking different approaches in applying or enforcing these terms, and it will be important to ensure that consumers are fully aware of these differences and the implications of them when they are choosing to use BNPL over other forms of payments or when choosing a specific BNPL provider when multiple providers are offered by the retailer.

Policy implications

Broadly speaking, our findings point to two major approaches to BNPL regulation: increased transparency and greater frictions at checkout. Whilst there are a number of options within each of these buckets, we still need to assess further the implications of these and identify the specific areas of consumer harms these would solve before we can produce detailed and granular policy calls.

Transparency

Our approach to transparency involves consolidating a preexisting area of strength for BNPL; that its users are able to budget effectively, knowing exactly how much money will be repaid and on which date, with no interest charged. However, we believe that this transparency can be taken further by displaying important information like late fees, more prominently for consumers. A possible approach is to ensure that customers are shown information about the proportion of customers who pay late fees, along with the average late fee paid back (in pounds and pence). This would follow a similar approach to certain investment products and certain loans, whereby the annualised rate of interest is now displayed. We will explore the harm of late fees, and potential solutions, in the second stage of our research.

Firms could also be required to adopt a similar approach to that recently introduced in Australia, whereby companies must consider the suitability of their product to different segments of the market and make efforts to ensure that their marketing and advertising is directed to a suitable demographic. This would address our finding that the biggest increase in usage of BNPL over the past year has been in younger people, which also speaks to some of the more high profile regulatory skirmishes with BNPL companies and the Advertising Standards Authority.

Frictions

Adding frictions to the payment process is another possible answer to two further areas of potential consumer harm: that BNPL can lead to customers spending more than they intended to because they believe spreading repayments out makes something more ‘affordable’ and secondly that consumers often pay using BNPL at checkout merely because it is the default option, without fully considering the implications of such a decision. More research is needed to gain a better understanding of consumer attitudes to this topic, but policy options include mandating either soft or hard credit checks before a user is approved or ensuring that providers communicate with each other so that an individual is not able to miss payments with one firm and then take out an agreement with another company. This may be particularly important in light of our evidence that people using BNPL are more likely to have missed payments on other credit products, or experienced a recent life event.

However, any approach to policy designed to increase friction in order to reduce harm must ensure that such regulations do not remove the benefit that BNPL users can derive from the product. Striking such a balance is a challenge in any legislation and one that we believe our detailed, thorough and robust research can help address.

Next Steps

The next step for our research and policy development will be to further our understanding of how and why individuals use BNPL products. With our findings showing that an individual has a greater chance of using BNPL if they have reported missing repayments on other (non-BNPL) credit products, we now need to understand where BNPL fits into a consumer’s credit ‘wallet’ and how they perceive the role of BNPL within the various credit products available to them. Our second stage research will be able to take a more qualitative approach to this question, illuminating this issue further and helping shape our policy.

By combining the two research pieces together we will have a thorough understanding of where the real and potential harms for consumers exist from BNPL. This will allow us to shape our policy recommendations accordingly, grounding them in data and insight to strike a balance between standing up for consumers and addressing harms from BNPL products whilst also ensuring our policy asks are proportionate and don’t undermine the benefits of BNPL products.

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