

Buy Now, Pay Later (BNPL)...On Your Credit Card

Benedict Guttman-Kenney (Chicago Booth)

with Chris Firth & John Gathergood (University of Nottingham)

Lab for Inclusive FinTech (LIFT) and International Finance Corporation (IFC), 12 December 2023



Lab for
Inclusive
FinTech
at UC Berkeley



IFC

**International
Finance Corporation**
WORLD BANK GROUP


Creating Markets, Creating Opportunities

1. Economics & Psychology of Buy Now, Pay Later (BNPL)
2. BNPL on Credit Cards
3. BNPL for Financial Inclusion

1. Economics & Psychology of Buy Now, Pay Later (BNPL)

Buy Now, Pay Later (BNPL) is FinTech credit product enabling consumers to defer payment into 1+ interest-free installments





Payment

Billing Country/Region 

United States [Edit](#)

Do you have a gift card, product voucher, or promo code? 

Select payment method


-  Credit or Debit Card
-  **PayPal**
-  **Klarna.** 4 interest-free payments
- 

Billing address same as shipping

Shipping Address

chicago booth
5807 S Woodlawn Ave
Chicago, IL 60637, US

- ✓ Pay now or Pay in 4. Interest-free.
- ✓ Earn rewards every time you shop.
- ✓ Trusted by 25 million Americans.

 [Learn more](#) about your payment options

Buy Now, Pay Later (BNPL) is FinTech credit product enabling consumers to defer payment into 1+ interest-free installments




Payment

Billing Country/Region 📍

United States [Edit](#)

Do you have a gift card, product voucher, or promo code? 🔒

Select payment method

-  Credit or Debit Card
-  **PayPal**
- Klarna.** 4 interest-free payments
-  **Pay**

Billing address same as shipping

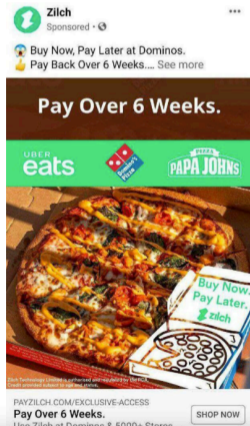
Shipping Address

chicago booth
5807 S Woodlawn Ave
Chicago, IL 60637, US

- ✓ Pay now or Pay in 4. Interest-free.
- ✓ Earn rewards every time you shop.
- ✓ Trusted by 25 million Americans.

[📘 Learn more](#) about your payment options


Posted by u/Dynd 3 months ago 🗨️
1.3k **Making interest payments on a pizza.**
[📌](#) Casual Friday



Zilch
Sponsored • 🌐

Buy Now, Pay Later at Dominos.
Pay Back Over 6 Weeks.... See more

Pay Over 6 Weeks.

UBER eats  PAPA JOHN'S

Buy Now, Pay Later. Zilch

PAYZILCH.COM/EXCLUSIVE-ACCESS
Pay Over 6 Weeks.
Use Zilch at Dominos & 500+ Stores

[SHOP NOW](#)

Bad?

FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEN

Cost of living crisis [+ Add to myFT](#)

UK households resort to 'buy now pay later' loans to cover energy bills

Consumer groups say use of finance schemes points to deepening of cost of living crisis



Debt and energy advice groups say consumers should approach their energy supplier to negotiate repayments
© Zvonko/Dreamstime

Nathalie Thomas in Edinburgh MAY 8 2022 88

UK households struggling with surging energy costs are being

Economic Value of BNPL: Is BNPL good or bad?

Bad?

FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEN

Cost of living crisis [+ Add to myFT](#)

UK households resort to 'buy now pay later' loans to cover energy bills

Consumer groups say use of finance schemes points to deepening of cost of living crisis



Debt and energy advice groups say consumers should approach their energy supplier to negotiate repayments
© Zvonko/Dreamstime

Nathalie Thomas in Edinburgh MAY 8 2022 88

UK households struggling with surging energy costs are being

Good?

- Large, temporary, unexpected negative shock
- Smoothing out shock may prevent financial distress

BUY MORE STUFF

- Expands liquidity-constrained consumers' budgets

BUY MORE STUFF

- Expands liquidity-constrained consumers' budgets

PAY LESS INTEREST

- Cheaper than credit cards, overdrafts, payday loans

BUY MORE STUFF

- Expands liquidity-constrained consumers' budgets

PAY LESS INTEREST

- Cheaper than credit cards, overdrafts, payday loans

COMMITMENT TO CLEAR DEBT

- Repayment schedule helpful if have self-control problems

BUY MORE STUFF

- Expands liquidity-constrained consumers' budgets

PAY LESS INTEREST

- Cheaper than credit cards, overdrafts, payday loans

COMMITMENT TO CLEAR DEBT

- Repayment schedule helpful if have self-control problems

INCREASE COMPETITION

- Threat to highly profitable non-BNPL incumbents

Decoupling “pain of payment” from pleasure of purchasing

(Prelec & Loewenstein, 98 MS; Soman, 01 JCR)

When buy now pay later
informs you that it's later
& the money's due for
all those fall dresses



Decoupling “pain of payment”
from pleasure of purchasing

(Prelec & Loewenstein, 98 MS; Soman, 01 JCR)

When buy now pay later
informs you that it's later
& the money's due for
all those fall dresses



“Anchoring” BNPL payment is
small relative to total cost

(Tversky & Kahneman, 74; Wilson et al., 96 JEP)

- Plan to spend \$100 today
- If only pay \$25 today,
may spend more

Decoupling “pain of payment”
from pleasure of purchasing

(Prelec & Loewenstein, 98 MS; Soman, 01 JCR)

When buy now pay later
informs you that it's later
& the money's due for
all those fall dresses



“Anchoring” BNPL payment is
small relative to total cost

(Tversky & Kahneman, 74; Wilson et al., 96 JEP)

- Plan to spend \$100 today
- If only pay \$25 today,
may spend more
- BNPL ↑ basket sizes
(Di Maggio, Katz, & Williams, 22)

2. BNPL on Credit Cards



Contents lists available at [ScienceDirect](#)

Journal of Behavioral and Experimental Finance

journal homepage: www.elsevier.com/locate/jbef



Buy now, pay later (BNPL) ...on your credit card[☆]

Benedict Guttman-Kenney^{a,*}, Chris Firth^b, John Gathergood^b

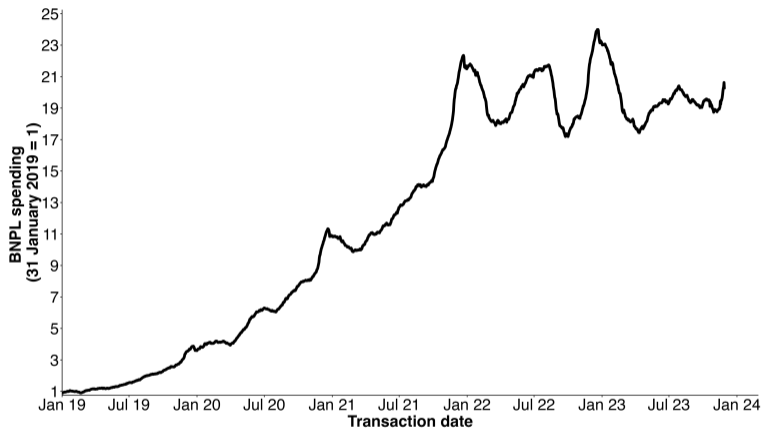
^a University of Chicago, Booth School of Business, Chicago, IL, USA

^b University of Nottingham, Department of Economics, Nottingham, UK



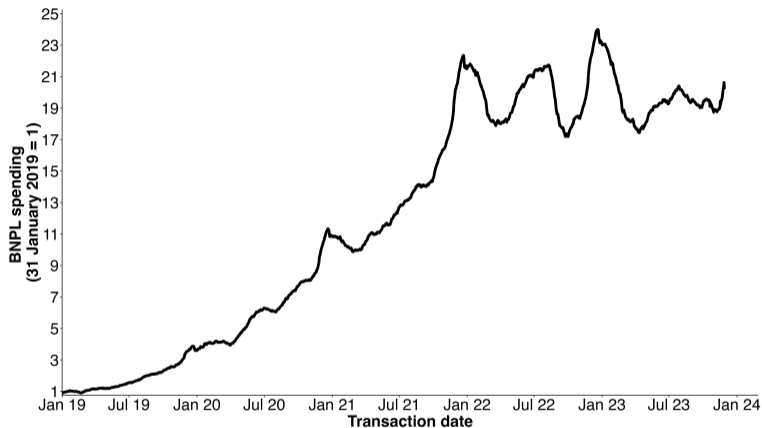
1. Provide institutional details on BNPL
2. Analyze UK real-time credit card transactions data

Growth in BNPL on credit cards in UK



≈ 2% of UK transactions by end of 2021

Growth in BNPL on credit cards in UK



≈ 2% of UK transactions by end of 2021

Repeated usage common: 17.6% of BNPL users spent £500+ (≈ \$680) in 2021

Why does putting interest-free BNPL put on interest-bearing credit cards matter?

Klarna: *“There is clearly greater risk of consumer harm from spending on credit cards” (than BNPL)*

Why does putting interest-free BNPL put on interest-bearing credit cards matter?

Klarna: *“There is clearly greater risk of consumer harm from spending on credit cards” (than BNPL)*

Credit cards:

- \approx 20% APR
- \approx 25% only pay at or near minimum

Why does putting interest-free BNPL put on interest-bearing credit cards matter?

Klarna: *“There is clearly greater risk of consumer harm from spending on credit cards” (than BNPL)*

Credit cards:

- \approx 20% APR
- \approx 25% only pay at or near minimum

Potential debt spiral:

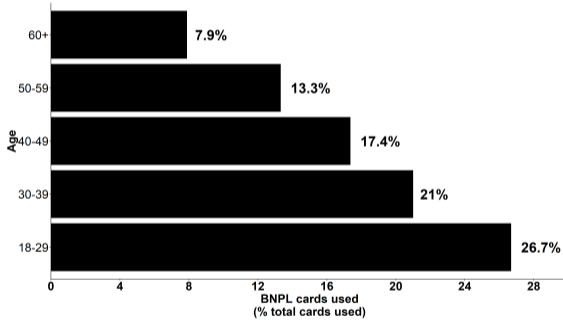
- Meeting payments for one debt by putting it on costlier debt

UK regulations: *“The firm must consider the customer’s ability to make repayments under the agreement...**without the customer having to borrow to meet the repayments**”*

(FCA CONC 5.2A.12)

Who puts BNPL on credit cards?

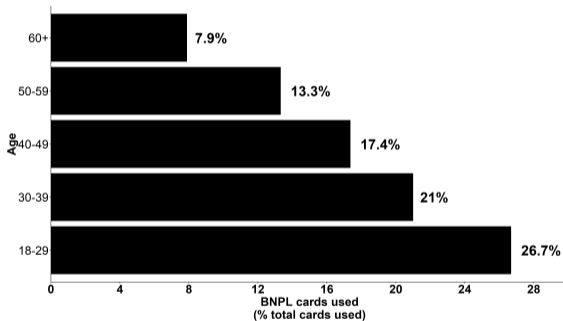
Consumers in 20s and 30s



BNPL usage by age (% credit cards)

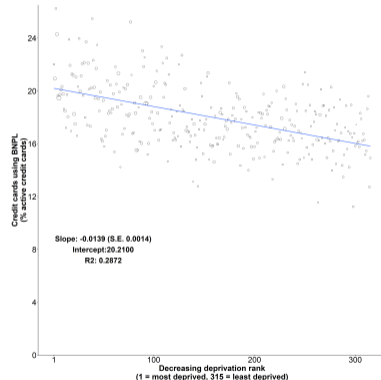
Who puts BNPL on credit cards?

Consumers in 20s and 30s



BNPL usage by age (% credit cards)

Consumers in more deprived areas



BNPL usage by deprivation (% credit cards)

3. BNPL for Financial Inclusion

1 in 5 US adults have no or thin credit files

- Especially low-income, black & hispanics, 20s or 30s

1 in 5 US adults have no or thin credit files

- Especially low-income, black & hispanics, 20s or 30s

Potential for BNPL reporting to ↑ credit access

- Thicken credit files

- ↓ reliance on credit cards for building credit history

1 in 5 US adults have no or thin credit files

- Especially low-income, black & hispanics, 20s or 30s

Potential for BNPL reporting to ↑ credit access

- Thicken credit files

- ↓ reliance on credit cards for building credit history

...but FICO update needed to prevent unintended effects

1 in 5 US adults have no or thin credit files

- Especially low-income, black & hispanics, 20s or 30s

Potential for BNPL reporting to ↑ credit access

- Thicken credit files

- ↓ reliance on credit cards for building credit history

...but FICO update needed to prevent unintended effects

...BNPL and non-BNPL lenders may need to be

mandated to share information (see my Job Market Paper!)

Thank you!

 www.benedictgk.com

 benedict@chicagobooth.edu

 [@gk_ben](https://twitter.com/gk_ben)

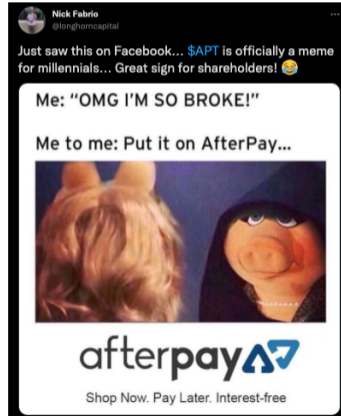
P.S. I'm on the academic job market ;)

(Lack of) BNPL Regulation

- Historic exemption from UK regulation
(fixed-sum credit, < 12 months, < 12 installments, no interest or charges)

(Lack of) BNPL Regulation

- Historic exemption from UK regulation (fixed-sum credit, < 12 months, < 12 installments, no interest or charges)
- Exclusion means most BNPL unregulated:
 - No ability-to-pay/affordability checks required



(Lack of) BNPL Regulation

- Historic exemption from UK regulation (fixed-sum credit, < 12 months, < 12 installments, no interest or charges)
- Exclusion means most BNPL unregulated:
 - No ability-to-pay/affordability checks required
 - No standardised pre-contractual disclosures

When buy now pay later
informs you that it's later
& the money's due for
all those fall dresses



(Lack of) BNPL Regulation

- Historic exemption from UK regulation (fixed-sum credit, < 12 months, < 12 installments, no interest or charges)
- Exclusion means most BNPL unregulated:
 - No ability-to-pay/affordability checks required
 - No standardised pre-contractual disclosures
 - Not subject to financial promotions rules

Posted by u/Cyod 3 months ago

3.3k Making interest payments on a pizza.

Casual Friday

Zilch Sponsored

Buy Now, Pay Later at Dominos. Play Back Over 6 Weeks... See more

Pay Over 6 Weeks.

eat PAPA JOHN'S

Buy Now, Pay Later. Zilch

PAYZILCH.COM/EXCLUSIVE-ACCESS

Play Over 6 Weeks.

SHOP NOW

FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEND IT

Personal Finance + Added

Pizza on buy now pay later raises debt concerns

Consumer lobbyists criticise Zilch marketing pitch

© FT Magazine. Entry GH Jack, Malin Haines/Story

Harriet Cooke JANUARY 20 2022

(Lack of) BNPL Regulation

- Historic exemption from Financial Conduct Authority (FCA) regulation (fixed-sum credit, < 12 months, < 12 installments, no interest or charges)
- Exclusion means most BNPL unregulated:
 - No ability-to-pay/affordability checks required
 - No standardised pre-contractual disclosures
 - Not subject to financial promotions rules
 - Ineligible for official complaints & redress systems

US, UK, EU, & Australia all considering how to regulate

(Lack of) BNPL Regulation

- Historic exemption from Financial Conduct Authority (FCA) regulation (fixed-sum credit, < 12 months, < 12 installments, no interest or charges)
- Exclusion means most BNPL unregulated:
 - No ability-to-pay/affordability checks required
 - No standardised pre-contractual disclosures
 - Not subject to financial promotions rules
 - Ineligible for official complaints & redress systems

US, UK, EU, & Australia all considering how to regulate

Limited academic research to inform regulation

To effectively regulate BNPL, regulators need to know

1. *Who* is using BNPL?
2. *Why* are consumers using BNPL?
3. How does using BNPL *change* consumers' circumstances?

To effectively regulate BNPL, regulators need to know

1. *Who* is using BNPL?
2. *Why* are consumers using BNPL?
3. How does using BNPL *change* consumers' circumstances?
4. *Would* regulation improve outcomes?

Behavioral mistakes:

- Impulsive spending that regret
- Overconfident in ability to pay

BNPL as gateway product:

- ↑ credit for financially-constrained and/or causing debt spiral (persistent debt, higher interest debt)?

(DeHaan, Kim, Lourie & Zhu, 23 MS; Di Maggio, Katz, & Williams, 22 WP; Papich 23 WP; Schomburgk & Hoffmann 23 EJM; Shupe, Li, & Fulford, 23 WP; Zeballos Doubinko & Akana, 23 WP)

Effective digital disclosures (Citizens Advice / Paul Adams & CogCo, 22)

What happens next to BNPL lenders?

1. **Macroeconomic climate** (↓ retail sales, ↑ defaults)
2. **Regulatory uncertainty**
3. ↑ **Competition** (e.g., Apple Pay Later)