

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
- ☐  Google Pay

☒ Billing address same as shipping

Shipping Address

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- ✓ Pay now or Pay in 4. Interest-free.
- ✓ Earn rewards every time you shop.
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ⓘ [Learn more](#) about your payment options

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Economic Value of BNPL: Is BNPL good or bad?

Bad?

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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
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Nathalie Thomas in Edinburgh MAY 8 2022 88

UK households struggling with surging energy costs are being

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Good?

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

BUY MORE STUFF

- Expands liquidity-constrained consumers' budgets

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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



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“Anchoring” BNPL payment is small relative to total cost

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

- Plan to spend \$100 today
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 - BNPL ↑ basket sizes
- (Berg, Burg, Keil, & Puri, 23; Di Maggio, Katz, & Williams, 22)

2. BNPL on Credit Cards

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

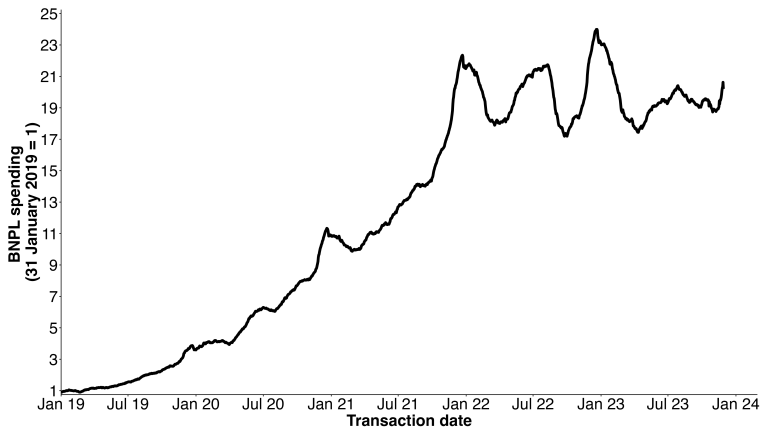
^a University of Chicago, Booth School of Business, Chicago, IL, USA

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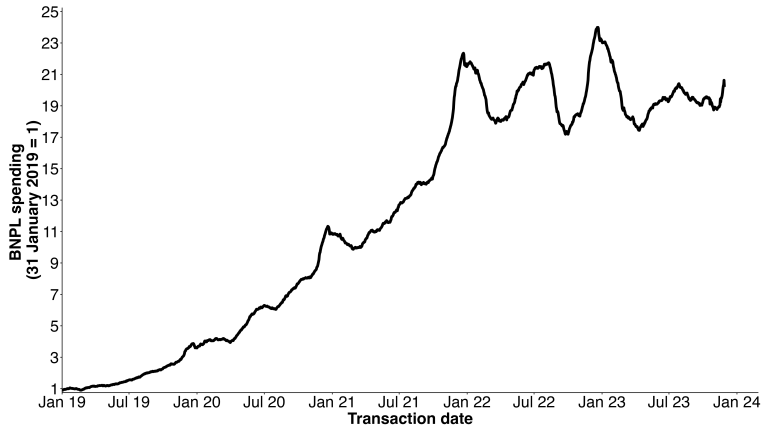
1. Provide institutional details on BNPL
2. Analyze UK real-time credit card transactions data

Growth in BNPL on credit cards in UK



≈ 2% of UK transactions by end of 2021

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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?

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Potential debt spiral:

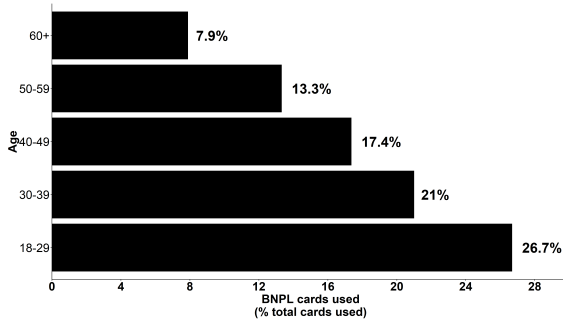
- Meeting payments for one debt by putting it on costlier debt

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?

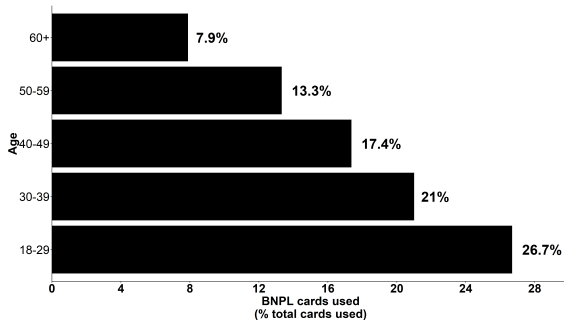
Consumers in 20s and 30s



BNPL usage by age (% credit cards)

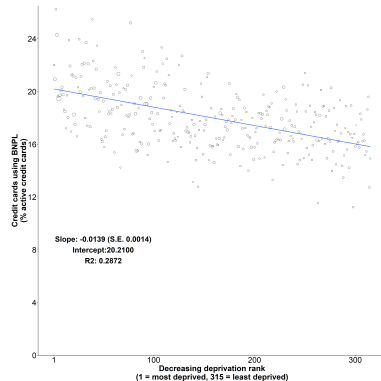
Who puts BNPL on credit cards?

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BNPL usage by age (% credit cards)

Consumers in more deprived areas



BNPL usage by deprivation (% credit cards)

3. BNPL for Financial Inclusion

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...BNPL and non-BNPL lenders may need to be mandated to share information (see my Job Market Paper!)

Thank you!

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

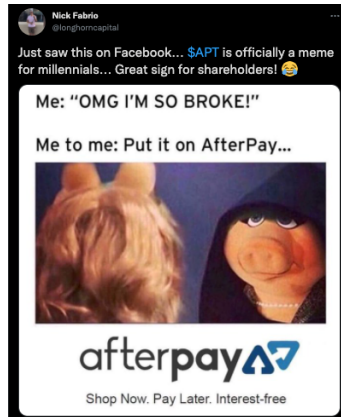
P.S. I'm on the academic job market ;)

(Lack of) BNPL Regulation

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Pay Back Over 6 Weeks... See more

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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

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Harriet Cooke JANUARY 20 2022

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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?

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3. How does using BNPL *change* consumers' circumstances?
4. *Would* regulation improve outcomes?

Research needed on effects of BNPL to inform BNPL regulation

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)?

(Berg, Burg, Keil, & Puri, 23 WP; 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 & 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)