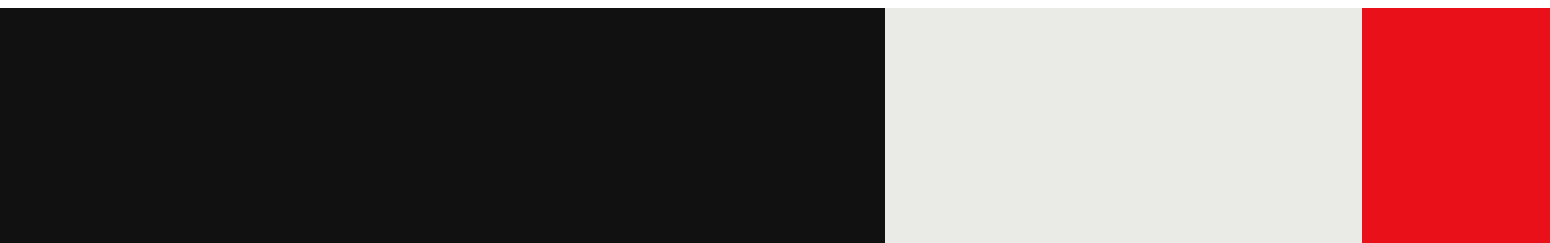


# Why BNPL firms are falling behind card-linked solutions

Article



**The news:** BNPL firms are losing their grip on Gen Z and millennial consumers as credit card issuers pivot into the sector, per a [PYMNTS study](#).

- **Just 28.1% of Gen Zers** said BNPL plans were their top choice for everyday purchases. A resounding **42.7% preferred a card-linked plan**, and 29.3% said they wouldn't use any type of
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pay later.

- Millennials favored BNPL slightly more: **34.6% said BNPL was their top choice**, versus 33.3% for card-linked solutions. The remaining 32.1% said they wouldn't use pay later.
- **Less than one-quarter of Gen Xers** and just 10% of boomers said BNPL was their top choice, but they'd rather use no installment plan than a card-linked plan.

**What went wrong:** BNPL firms are losing out to credit cards in key areas.

- While 35.6% of respondents called BNPL a “good way to pay for larger purchases,” they're still reserving their largest transactions for their cards. **The average card-linked installment purchase amount was \$2,095**—compared with \$926 for BNPL plans.
- Card-linked plans also enjoy higher satisfaction rates, according to a March JD Power study. **American Express, Chase, and Citi** landed the top three rankings for installment plan satisfaction; **Sezzle, Afterpay, and Affirm** earned the lowest scores.

This is all despite the fact that most issuers charge a flat fee to convert transactions into installments, whereas most BNPL fintechs offer plans without any fees or interest. That being said, most issuers still let you earn rewards on those transactions.

**Reasons for optimism:** BNPL has become “an established part of the financial services ecosystem,” per the PYMNTS report—and it's an indispensable tool for those who may otherwise struggle to access traditional credit.

- **Consumers with children** said they've used BNPL more often than any other demographic breakout besides millennials, at 46.7%.
- **Consumers living paycheck to paycheck** who struggled to pay bills were also far more likely to use BNPL, at 42.7%.

But that's not to say BNPL is just a tool for those in need: While consumers with incomes less than \$50K were the most likely to use BNPL out of necessity (26.9%), **their use overall was the lowest of any income bracket.**

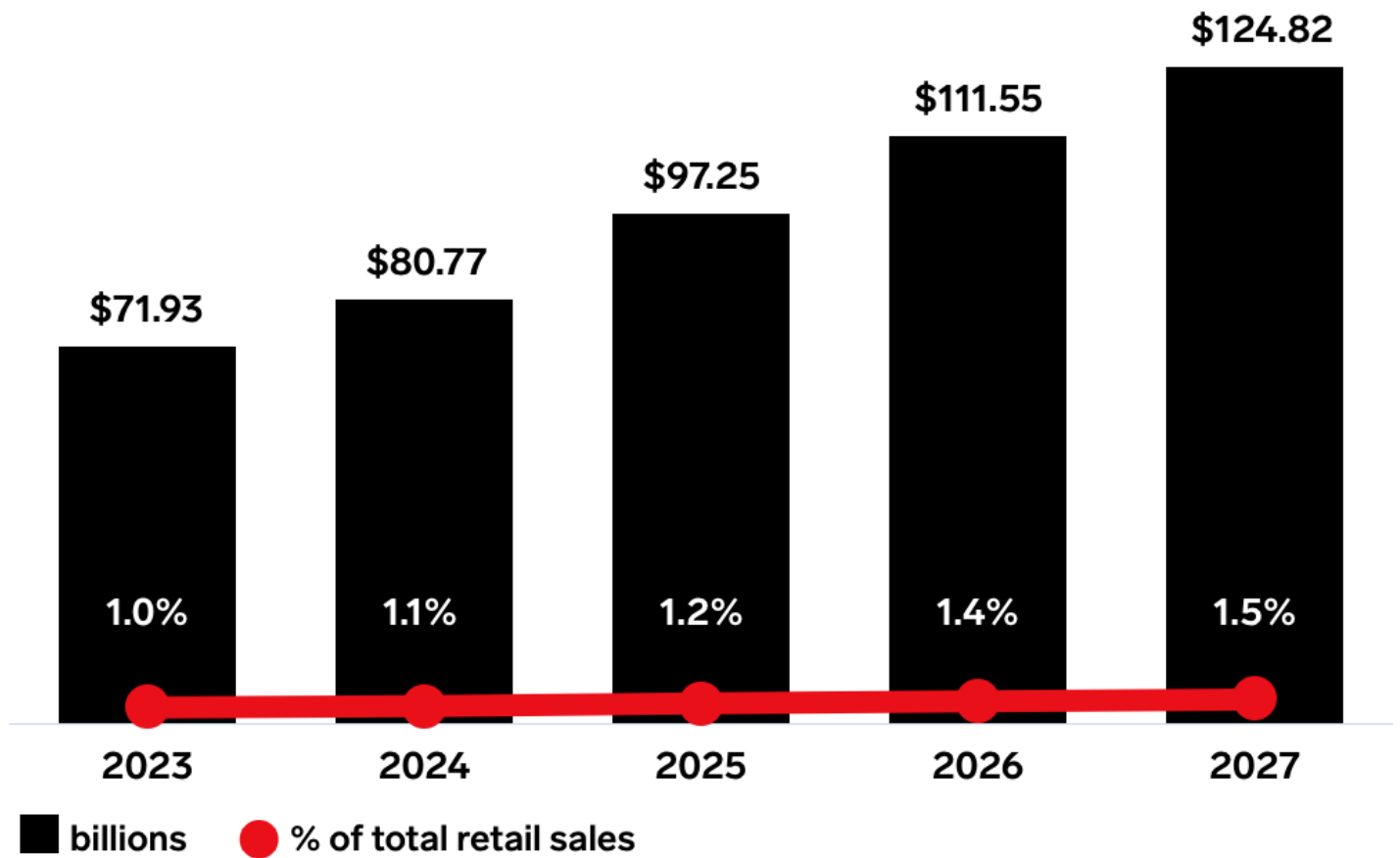
**Our take:** BNPL fintechs are no longer the only pay-in-four games in town. Apart from easy signups and light to nonexistent credit checks, BNPL needs to find a standout advantage over credit cards—and then drive it home with a strong marketing campaign.

- Subscriptions could be a differentiator—Klarna's program just crossed 100,000 members, and it relies on retailers to offer discounts rather than a cash-back program.
- Banks are experimenting with subscriptions, like the TD Clear card, but they're only attractive to chronic revolvers with low credit scores. BNPL firms have done a better job at making their programs appealing to consumers across income brackets.
- To make it work, BNPL firms would need to throw in enough perks to make consumers look past the weaker rewards—which won't do much for their profitability push.

Without a strong incentive structure, it's going to be hard for BNPL to gain a meaningful share of retail sales: We forecast **BNPL will make up just 1.1% of total US retail sales.**

# Buy Now, Pay Later Payment Value

US, 2023-2027



Note: includes products or services paid with a buy now, pay later service platform; excludes payments such as bill pay, taxes, or money transfers, gambling and other vice goods sales

Source: EMARKETER Forecast, July 2023