

BNPL's outsize subprime borrower share gives regulators new ammunition

Article

The news: Buy now, pay later (BNPL) users tend to be younger and higher-risk customers compared with general borrower demographics, a TransUnion survey found.

By the numbers:

- More than 70% of consumers said they have heard of BNPL, and **38% said they had used such services** in the last year.
- About **43% of point-of-sale (POS) financing applicants in the US were subprime borrowers**, compared with 15% of the broader credit-active population.
- **Gen Zers and millennials made up 61% of all POS applicants**. Only 35% of the general credit-active population belongs to those age groups.

The problem: BNPL firms are under the spotlight over concerns they introduce new financial risks by encouraging customers to take on debt to make a range of purchases—and regulators are taking notice.

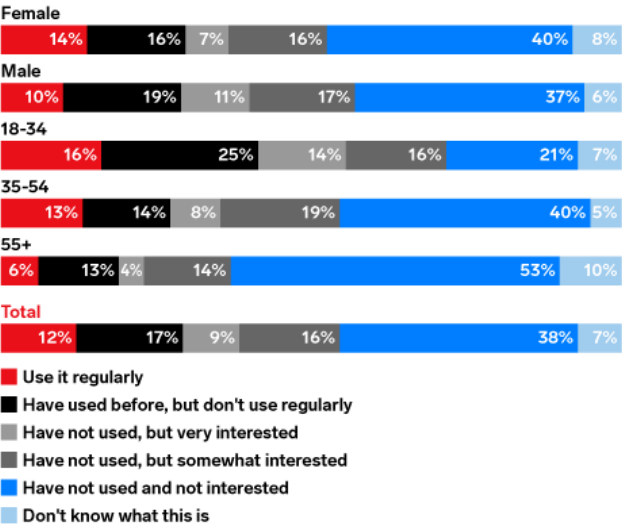
- **More than one-third (34%) of consumers** who've used BNPL have missed at least one payment, per Credit Karma research. And younger consumers are particularly at risk, with the demographic expected to make up 18.4% of US BNPL users this year, according to Insider Intelligence forecasts.
- One Harvard researcher called BNPL a “bubble” given its widespread availability across a range of discretionary spending categories and low-value purchases, arguing that “when people start buying household goods on credit, that signals a problem.”
- Regulators across the globe are stepping in: The **UK's Financial Conduct Authority (FCA)** is crafting BNPL regulation and urged firms to carry out customer eligibility checks. In the US, the **Consumer Financial Protection Bureau (CFPB)** opened an inquiry into five major BNPL providers to establish the risks and benefits of products.

The big takeaway: It seems increasingly likely that regulators will take a more hands-on approach to policing BNPL products, which are proving more attractive to customers who are vulnerable to missing payments and potentially unaware of the financial risks. Fee caps and penalties to enforce them could be likely.

Firms should prepare for tighter rules, and they can ease regulators' concerns by proactively building tools that protect customers' financial well-being. Tools could include options to let users pay installments early to help manage their debts and affordability checks to ensure customers can pay back what they owe.

How Interested Are US Adults in Using Buy Now, Pay Later (BNPL) Services* at Checkout?

% of respondents, by demographic, April 2022



Note: numbers may not add up to 100% due to rounding; *e.g., Affirm, Afterpay, Klarna, Quadpay
Source: "The Insider Intelligence Ecommerce Survey" conducted in April 2022 by Bizrate Insights, April 18, 2022
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