

Cost of living crisis set to shake up BNPL for UK consumers and businesses

Article

The trend: British buy now, pay later (BNPL) firms are capitalizing on consumers and small businesses in the UK seeking out more flexible and interest-free payments during the

economic downturn.

Consumer interest remains strong: BNPL accounted for 6% of ecommerce transactions in the UK last year, per FIS. And even though total consumer spending will likely contract during a downturn, it may lead more consumers to use BNPL when they do spend to avoid interest-bearing credit products.

- Companies like **Zilch** have harnessed consumer demand to generate growth: Zilch's customer base hit 3 million in just two years.
- And its underlying sales have doubled and revenues have tripled in the last six months.
- Zilch is also making a gross profit, something that pure-play BNPL providers have historically struggled with.

Adults in Great Britain and the US Who Are Willing to Use Buy Now, Pay Later (BNPL) Credit to Make a Purchase, by Product Category, Feb 2022

% of respondents in each group

	Great Britain	US
Major appliances (e.g., refrigerators, washing machines)	44%	46%
Electronics (e.g., cellphones, laptops, televisions)	35%	43%
Home furnishings (e.g., beds, sofas, tables)	32%	34%
Cars	29%	32%
Health services (e.g., private medical care, surgery, dental work)	18%	29%
Travel and tourism (e.g., plane tickets, hotel accommodation, all-inclusive holidays)	20%	19%
Clothing and fashion items	12%	16%
Video game consoles (e.g., Xbox, PlayStation, Nintendo Switch)	14%	16%
Groceries	6%	13%
Entertainment (e.g., tickets to a live theatre show or an amusement park)	8%	12%
Cosmetic items (e.g., makeup, skincare products)	7%	8%
None	37%	23%
Don't know	3%	4%

Source: YouGov as cited in company article, Feb 23, 2022

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Small business BNPL grows: As a [recession looms in the UK](#), small firms are increasingly looking for loans to protect against a downturn and sky-high inflation.

- During Q2, 46% of brokers submitted more loan applications for small business financing month over month, per [iwoca's SME Expert Index](#).
- But [successful finance applications for small firms](#) have dropped to their lowest level on record.

That gives BNPL providers an opportunity to lure in underserved small businesses looking for more flexible credit options.

- Alt lender iwoca's B2B BNPL product iwocaPay has been successful: Transactions grew on average 15% every month over the last year, according to AltFi.
- And sellers are using the product about 75% to 100% more than a year ago.

The big takeaway: A tough climate for businesses and the cost of living crisis's effect on consumers could create a springboard for BNPL to grow in the UK. B2B BNPL could be particularly successful as businesses embrace the payment method to deal with possible cash flow problems. Some consumers will similarly use BNPL to maintain spending—though others may be more hesitant about racking up debt.

BNPL providers should also be aware of incoming [UK regulation](#) involving stronger eligibility checks, which could crimp the industry's growth. Recession fears could accelerate policymaking as the risk of consumers buckling under the financial strain of BNPL debts rises.

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