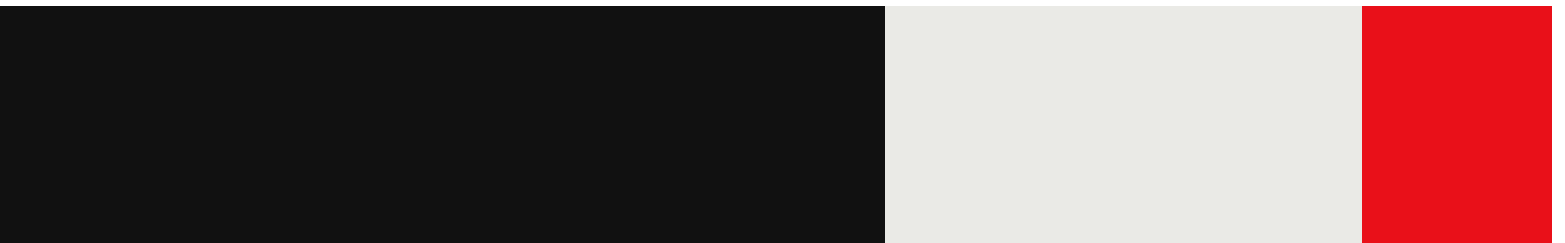


# The Banking & Payments Show: BNPL—A look ahead in 2024

Audio



On the first podcast episode of the new year, we discuss what buy now, pay later's (BNPL's) prospects will look like in 2024.

- In our “Story by Numbers” segment, we focus on the outlook for BNPL by looking at growth by generation.

- In “Headlines,” we examine data from Adobe Analytics that states BNPL purchases were up 43% on Cyber Monday compared with the previous year, and how the rise of BNPL use over the holidays has increased consumers' debt burden.
- In “For Argument’s Sake,” we debate whether BNPL promotes good or bad behavior. Listen to the podcast with host Rob Rubin and our analysts Grace Broadbent and David Morris.



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Episode Transcript:

David Morris:

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Rob Rubin:

Hello everyone and welcome to the Banking and Payment Show, a Behind the Numbers podcast from eMarketer. Today is January 9th, 2024. I'm Rob Rubin, head of business development at Insider Intelligence and your host today. This is our first episode of 2024 and we're really excited for growing this podcast even more this year. Along those lines, please give us a five star rating and a review. The title of today's episode, BNPL, a look ahead in 2024 and we're going to have a chat about what we think BNPL's prospects will look like this year. For this episode, I've brought back senior analyst, Grace Broadbent and principal analyst David Morris. Hi guys, how are you doing?

David Morris:

Hey Rob, how are you?

Rob Rubin:

I'm doing great. Hi Grace.

Grace Broadbent:

Hello. Happy New Year.

David Morris:

Happy New Year.

Rob Rubin:

Yeah, happy New Year to you guys. I asked you guys to watch a movie over the break so that we could talk about it. It was the 2009 classic, Confessions of a Shopaholic, about someone who can't stop shopping and has run up her credit card balances. Did you guys watch that?

Grace Broadbent:



I have of course watched it. I've seen it many times throughout my life. It is a classic indeed.

Rob Rubin:

There you go.

David Morris:

Grace, is there a bit of identification with the lead character, perhaps?

Grace Broadbent:

Only slightly, a little less problematic.

Rob Rubin:

For those listening, you can watch it, you could probably watch it and fast forward if you're not a Millennial or Gen Z or just watch it at a higher speed rate so that it goes faster, but it was a good movie in that it really showed us what a shopaholic is about and how it was pretty entertaining how she racked up all those credit card balances and she had a predatory bill collector coming after her, but how do you think BNPL would've fit into the main character's credit portfolio?

Grace Broadbent:

I think it would've made her trouble so much worse.

Rob Rubin:

Right?

Grace Broadbent:

Yeah, absolutely. She was not going to stop shopping for anything, whether it's credit card bills or BNPL fees or anything, and I think it just very much would've added to her troubles.

Rob Rubin:

I want to say that what I thought was kind of interesting about it also, and I want to jump to our topic, she got out of that debt mess by thrifting all the clothes that she bought when she shouldn't have been buying them, and I thought that was interesting. Because it was 2009 and

now thrifting is a real thing, and in fact, we're projecting it to be a \$14 billion business this year in the US, so she was a real sort of leader, front runner.

David Morris:

She's part of that nascent growth.

Rob Rubin:

Yeah, for sure.

Grace Broadbent:

I do think she made it look a little easier than it is these days though. I wish I could make thousands of dollars in one day.

Rob Rubin:

And have thousands of people waiting to clamor to grab your stuff.

Grace Broadbent:

Yeah, exactly.

Rob Rubin:

Well, that was fun. We have a lot to cover. We're going to mix it up and do Story by Numbers first. So let's get right to the heart of the topic in Story by Numbers, we pick a number or two that helps us take a deep dive into the episodes' topic. Today for Story by Numbers, let's focus on the outlook for BNPL by looking at the growth by generation. We're projecting that 93 million people will buy \$81 billion worth of goods and services using BNPL in 2024, and that compares to 82 million buyers spending about 72 billion in 2023. Importantly, nearly two thirds of the users will be Millennials and Gen Z. Just so you all know, 81 billion was about 1% of total retail sales in 2024. So I guess my questions are, we're showing these growths of 11 million new consumers and why will 11 million new consumers opt to make BNPL purchases in 2024? Where's it going to come from?

Grace Broadbent:

I think there's a few different drivers. Acceptance is growing. There's new use cases. More demographics are getting involved. Despite two thirds of users being Millennials and Gen Z, I

do think we are seeing a lot more older users begin to use BNPL. Gen X was a little under 29% of the population using BNPL in 2023, but that's going to shoot up to over 40% in 2027 and Baby Boomers is going to see a smaller, but still a large jump going from 13% in 2023 to almost 18% in 2027.

Rob Rubin:

David, are you buying all that?

David Morris:

No, I buy it. Yeah, I'm with Grace on this. I think there's definitely a generational use case expansion and Baby Boomers, the growth is smaller there, but I think that's almost more notable because there's so far removed from this digital age when you're comparing them to Gen Z and I think it says a lot about how the buy now pay later providers are looking to capture a wider audience.

Rob Rubin:

But what are the headlines going to be this year? Okay, so we have some new users. Perhaps that's a headline, but are there any other good headlines that we can look for this year?

David Morris:

I think the first headline I would put out there, and this is relative to the need for buy now pay later providers to capture more of the in-store purchases, is that it's debit that's going to make that in-store case, and you have all of these buy now pay later providers now that have debit card offerings and they're trying to get those in the hands of users. And that's ultimately so that a buy now pay later prospect can go into a store pay with a debit card, and then you can flip the switch on the purchase and choose to frame that as a buy now pay later loan.

Rob Rubin:

So it's pay now or pay later. It's not really buy now, pay later, it's pay now or later.

David Morris:

It's pay a little bit now and pay most of it later, especially if you're thinking about the pay and for model where the first payment is actually made. There's no loan there, there's a payment that's made, and then it's the subsequent payments that are framed as a loan.

Rob Rubin:

It seems though that the people that are going to get this debit card are people that are already use buy now pay later because they've established relationships with those companies.

Grace Broadbent:

That would be correct. Also though, I do want to point out another part that's going to grow BNPL in-store volume is there is in addition to debit cards, even more ways to use BNPL in-store just during, I think the week of Christmas at the end of December, Walmart and Affirm expanded their partnership, so now at Walmart's self-checkout kiosk, you can press basically a button for Affirm and use that as buy now pay later on any of your Walmart purchases, and that makes it easier than ever before. If you wanted to use it in-store, you either needed a debit card or to go to a customer service desk or something, so debit card's making it easier. But also there's all these new partnerships that are really expanding in-store.

Rob Rubin:

One of the things that we can talk about, and I'll bring back Confessions of a Shopaholic, is that it creates a debt problem for some people. In other words, people that might be at Walmart and see that Affirm option, maybe they can't use their credit card or they don't have money, and it gives them the ability to make that purchase, and that could be good, but it could also be bad. I mean, if you look at Walmart, Walmart users tend to not be super prime FICO scores. Walmart users tend to be more mass market.

David Morris:

Yeah, Rob, I think that hits. What I see is one last Achilles heel that buy now pay later needs to be able to address, and that's the whole credit reporting issue. That's a problem when you're not reporting buy now pay later usage is a part of the core credit reports that lenders may sign up for and they're not a part of the FICO score. I mean, there's been some movement in this direction. TransUnion, they're out in front. They've been gathering hoards of data to be able to start to enable this on core credit reporting, but they don't do it yet. There's kind of an option that a lender can opt into so that they can get some information about buy now pay later usage of behavior, but it's not a part of the mainstream core reporting yet. That's actually as far as headline goes, something that I think we're going to see in 2024. We're definitely going to see...



Rob Rubin:

Core reporting.

David Morris:

Core reporting with buy now pay later loan behavior, and I think that's going to be what ultimately is going to really stabilize buy now pay later for growth going forward.

Rob Rubin:

This has been fascinating, and I started by saying, well, we have 11 million new users that we're projecting come on board, and I think that when you put it in the context of you now can make purchases at a retail location plus the expansion by generation, you can see how buy now pay later is going to continue to grow. We touched on this issue of credit problems that it could create. Let's take a step back and look at some of the BNPL headlines over the holidays as it relates to that. You can see how we're going to get to that growth this year of 11 million new users based on being more open into retail like Walmart for example, but also new growth with other generations like Gen X and Baby Boomers. Well, this has been absolutely fascinating talking about what is going to drive growth for BNPL in 2024, but now let's get right to the headlines.

In the headlines we chat about a top story as it relates to our episode. For today I chose a few recent articles published in Reuters and CNN about how BNPL usage over the holidays increased the risk of a debt hangover. Those are Reuters words, and I put links to the articles in the show notes. The CNN article cited data indicating that BNPL purchases were up 43% on Cyber Monday compared to the previous year. The Reuters article had two charts that kind of scared me. One showed credit card lending, that's the amount that's revolving, exceeded a trillion dollars in 2023, 150 million more than 2019 pre-pandemic, and the other shows delinquency rates at their highest levels in a decade. So how much debt can consumers carry before it all comes crashing down or is it already happening that lenders are starting to restrict credit?

David Morris:

I'd answer that in two ways. One, there's credit tightening has been occurring for some time now, but I'd want to go back and take a look at the stats. I'm a skeptic when it comes to media

because at the end of the day, media loves creating clicks. I think there's some perspective here.

Rob Rubin:

That's how they get paid Dave, you know that, right?

David Morris:

I know. That's how we get paid a little bit probably, but let's hold some of these numbers to the fire. Grace, what do you think?

Grace Broadbent:

Yeah, absolutely. I think they're much scarier than they are in reality.

Rob Rubin:

Do you guys know what a debt jubilee is? Have you ever heard of that?

Grace Broadbent:

I do.

Rob Rubin:

Like a party.

David Morris:

Sounds like something I might have wanted to be a part of 20 years ago.

Grace Broadbent:

Yeah, it does sound very fun.

Rob Rubin:

It does, right? That name. It's when consumer debt has gotten to be so out of hand that it's crippling the economy. Then there's a debt jubilee, which is we're just going to write it off and everybody starts with a clean slate. There have been times in history where there have been debt jubilees. I always sort of look at all of these. I know that you say that I'm just a sucker for

media clicks and I get worried, but boy, all this debt I think people use BNPL because they can't use their credit cards. Eventually, we're going to have a real reckoning.

David Morris:

I would say first you're looking for a nice debt jubilee, and I don't mean you personally, of course, Rob, but there's always bankruptcy, and I want to go back to these stats. One, buy now pay later usage growth in itself is not a bad thing. That's potentially a really good thing. The stat itself doesn't really tell us one thing either way, and I think if you're looking at these trillion dollar headline figures, I mean, I can see they really grab your attention, but the one thing there is if you just take a look at over the past five years and you take a look at the average credit card holder debt trend, it has risen, but if you compare that to the average household income, it's actually growing at a slower rate. So that's something to keep in mind. I don't think the average consumer is at a tipping point yet, but I think when I look at those stats, and that's delinquencies and charge-offs, there's a quick ramp happening here that if it continues to grow quickly, we're in for a rough ride, and that's where prognostications about a recession come into play.

Rob Rubin:

Grace, how much does BNPL help or hinder the risks of consumer defaults?

Grace Broadbent:

In theory, it should not hinder defaults, but in reality, I think it is more complicated. BNPL usage growth on its own is not bad. There's no use cases, more acceptance, more people using it. That's not a bad thing. I think what gets concerning is the underlying trends that BNPL payments are harder to track. They make budgeting more difficult to keep track of all the payments, more spending inherently creates more risk.

David Morris:

What a naysayer.

Grace Broadbent:

Most people don't use just credit cards or just BNPL. Most people are using both, and I think it can just, an over extension can come and it will just...

David Morris:

Snowball. It sounds like a snowball effect.

Grace Broadbent:

Yeah, absolutely. I think all the inherently it shouldn't, but the way people are using it, yes, it is risky.

Rob Rubin:

Right. Because it was like a modern version of a layaway plan when it came out, right? Like, oh, I need to buy this TV, but I need to pay over time because I don't have the money. That's where stores created like layover plans, but buy now pay later sort of says you don't have to pay now, but you can still have it.

David Morris:

Oh, you guys are both naysayers. See, and I don't mean to be looking too much on the bright side here, but I love a good stat like you, Rob and I took a look at Affirm's Q3 2023 report.

Rob Rubin:

I know that they had an outstanding quarter.

David Morris:

And there's a stat in there that I'll throw up both of you guys, and that's 2.5%. That's the delinquency rate on Affirm's buy now pay later loans. That's the percentage of loans that are 30 days or more past due, 2.5%, and guess what? That's actually lower than the average credit card delinquency rate right now.

Rob Rubin:

Really?

David Morris:

Yep.

Rob Rubin:

All right.

Grace Broadbent:

I would argue though that you have to look at the bigger picture. Credit card delinquencies are going up, and I would argue some people are paying off BNPL payments because it's a quick and easy thing to pay off and are now defaulting on credit cards. I don't think you can look at that. I think you have to look at BNPL delinquencies.

David Morris:

The whole picture.

Grace Broadbent:

Yeah, in addition to credit card delinquencies, because paying off one now just makes it harder to pay off the other.

David Morris:

You make a good point there, no doubt, but it's not buy now pay later that's causing the issue, is it? Buy now pay later payments are still lower.

Rob Rubin:

But it's access to credit that's separate from your credit card, so you could be maxed out on your credit cards and still get a buy now pay later loan.

David Morris:

Well, let's back up and let's think about general underwriting because whoever is driving this ship at Affirm or Klarna or PayPal now is just gangbusters on buy now pay later. These folks know underwriting, and they might do the old soft pull there, and if they happen to say the old shopaholic over there, Grace, I hope you're not overextended and maxed out. Because if you are maxed out across the board with your credit cards, you're not a good risk. And the buy now pay later consumer is definitely lower risk, but we do have to take a look at what underwriting models are going to allow and what they don't.

Rob Rubin:

Right. I want to jump to our final segment today for argument's sake. We're going to argue nicely about whether BNPL promotes good or bad behavior, and I want to point out that I want you guys to be lawyers, so it doesn't necessarily mean that you have to agree with your



position, but just argue the position. On a scale of one to five, how much do you think BNPL providers are promoting good financial behavior?

Grace Broadbent:

I'm taking the negative viewpoint as I kind of have them this whole podcast, but I'm giving them a score of two out of five.

Rob Rubin:

David?

David Morris:

I'll give it a four. Yeah, and I'm speaking as not only the lawyer who's paid to do his or her or their job.

Rob Rubin:

You agree with it?

David Morris:

But I happen to agree personally. Yeah.

Rob Rubin:

I'm going to go with the two. I agree with Grace, and let's get into why, David, you raised some points, but can you point to what BNPL is doing to promote good behavior?

David Morris:

Well, I would backpedal away from the use of promoting good behavior because the financial institutions, are they required to promote good behavior via marketing? In other words, I would say no, not necessarily. How are they promoting good behavior by virtue of their business model? I think one, you can take a look at the cost of use. There's this hobgoblin about regulation. That was a year and a half ago.

Rob Rubin:

That's a good word.

David Morris:

Yeah. The old hobgoblin, regulatory hobgoblin. And you know the irony of all of that, once the Consumer Financial Protection Bureau released a lot of findings, there was not a lot of fire, and one of the things that they pointed to was that the cost of use for buy now pay later is lower than for a buy now pay later user on average than a credit card.

Rob Rubin:

What are the costs?

David Morris:

Well, there's late fees potentially.

Rob Rubin:

Right. So the consumer costs not the cost to provide the loan.

David Morris:

The cost of the consumer, yeah. So you're looking at a product that ultimately is more cost effective for a user who we also know may skew toward lower income and higher risk. That's a good thing. I see this as a financial inclusion play. I think that I'll go back to 2.5%. When I start seeing delinquency rates shooting through the roof for buy now pay later loans, I may change my tune, but I think that there's a lot of control that they can also exert. You have a four to six week window,, so that if a user starts souring, boom, that's it. You don't get another purchase level loan. And remember, these are also purchase level loans. These are \$150 loans. They're not \$10,000 loans.

Rob Rubin:

Unless you're buying outdoor furniture.

David Morris:

I mean, I'm oversimplifying because you can use buy now pay later for larger purchases. Generally, they're going to skew a little lower. So those safeguards, I think help. But Grace?

Grace Broadbent:

I think it's still risky. Lower payments doesn't necessarily mean there's no risk, though. People have started using BNPL a lot more for groceries, for example, and groceries are something

people have to buy every single week. That \$100 grocery bill is then \$100 more the next week and the next and the next, and it snowballs and it gets out of hand. And I don't think because they're now being used for necessity purchases and daily purchases, I don't think you can say that small payments aren't an issue.

David Morris:

Well, I think you make a very good point there. The fact that somebody has to underwrite their groceries, I think is very frightening, but I think that that's also more of a statement about the macro economy and that there's a portion of the population here that lives check to check and is struggling, but I don't know that I'd point the finger at buy now pay later, per se.

Rob Rubin:

I just think, but is buy now pay later helping the situation, or they're just causing more confusion. Like for example, when you apply for a loan, whether it be a car loan or a new credit card, they pull your credit report and they know from the credit report what your exposure is, how much debt do you have? But with buy now pay later, they don't know that, right? If someone pulls a credit report, you don't see the Affirm activity or the Klarna activity necessarily. Someone's making a credit decision without a full set of information, and that's the sort of thing that bugs me.

David Morris:

That's the Achilles heel. I'm entirely in agreement. I'm not looking at this only today. I'm looking at this in terms of an evolving product, an evolving space that's growing and learning. Again, I would say that in 2024, you're going to see the kind of reporting that is necessary to ensure that folks aren't overextended.

Rob Rubin:

Do you think that once they report growth will slow? In other words, is part of the growth today because there isn't credit reporting and people want that, but once they start to report or people don't think that much?

David Morris:

Here's again, you may think Klarna or Affirm has paid me to be here, but I want to point something out. So the OCC in December, this is the currency controller. It's a part of the

Treasury department. It's a banking regulator. And they come out with guidance. Now, when the Fed comes out with guidance, when it comes out every quarter with information about how the economy's doing, and it's guiding and telegraphing, it's not a rule, it's not a regulation, but the market and everybody who's watching the market will listen to every single word. They're meant to guide the market and create stability, and the OCC has come out and they said, don't over-leverage. Don't give loans to people who will need to take another loan out.

Rob Rubin:

But they don't know, if there's no credit reporting, they don't know if they're over leveraged. You could be totally over leveraged with BNPL and they won't know.

David Morris:

Well, again, there is an Achilles heel here, but I think there's also a lot you can do by looking at overall debt to income and so forth that we might be undervaluing here.

Grace Broadbent:

I just don't think we're there yet. Currently, the majority of BNPL users have very low credit scores that wouldn't get credit elsewhere. Sure, Affirm and Klarna doesn't want to extend loans to people that can't pay it back, but in reality, they're taking some really risky bets right now.

David Morris:

Well, and they could be building credit as they go. I mean, another shout out to financial inclusion.

Rob Rubin:

But if they don't report to the credit bureaus, how are they building their credit?

David Morris:

Well, I think that there's movement in that direction. I mean, you guys, I completely agree. I mean, you've got me on the reporting. I think that we'll see much more transparency. That's something that's not the buy now pay later provider's fault per se, either. These are purchase level loans of short duration and the credit reporting agencies need to catch up on how to be able to do this right.

Rob Rubin:

Absolutely. That is all the time that we have for today. This was really a great way to kick off the new year. I loved it. Thank you everybody for listening to the Banking and Payment Show, an eMarketer podcast. And also thank you to our editor, Todd, who has a little work cut out for him this time. Our next episode is on January 23rd, so be sure to check it out. See you then. Bye, Grace. Bye, David.

David Morris:

Bye guys. Thanks for having us.

Grace Broadbent:

Bye. Thanks.

Rob Rubin:

Yeah, I loved it. Thanks, guys.