

CFPB takes aim at BNPL's 'Big Five' to mitigate consumer financial concerns

Article

The news: The Consumer Financial Protection Bureau (CFPB) opened an inquiry into **Affirm**, **Afterpay**, **Klarna**, **PayPal**, and **Zip** to determine the risks and benefits of buy now, pay later

(BNPL) products, per a statement. The CFPB will work with international partners in major markets as part of the inquiry, and companies have until March 1, 2022 to report industry practices to the consumer watchdog.

The probe focuses on three key concerns:

- **Debt accumulation.** The statement noted that BNPL products are becoming increasingly easy to use for any purchase. Consumers can also have multiple BNPL plans with various providers —making payments easy to lose track of.
- **Regulatory arbitrage.** The CFPB claims that some BNPL firms may not be appropriately evaluating what consumer protection laws apply to their products, and they might also not provide customers with adequate disclosures and protections.
- **Data harvesting.** The bureau wants to understand how providers collect customer data, what they do with it, and how it benefits them financially.

How we got here: Forty-four percent of US consumers have used a BNPL solution, and out of this group, 34% have missed one or more payments, [according to](#) recent data from Credit Karma. Of those who have missed payments, 72% say they believe their credit score declined as a result.

Surging BNPL use during the pandemic—when many consumers opted to use less credit and embraced flexible payments—was likely the driving force behind the CFPB’s probe. And the recent upswing in use over the holidays may have been the tipping point for the watchdog: [PayPal reported](#) a 400% year-over-year increase in BNPL use on Black Friday, for instance.

Our take: If the data collected from the CFPB probe suggests that BNPL offerings pose risks to consumers, there will likely be targeted regulations for providers next year. This would be in line with our [2022 prediction](#) that the bureau would take a more aggressive push to ensure providers comply with consumer protection laws.

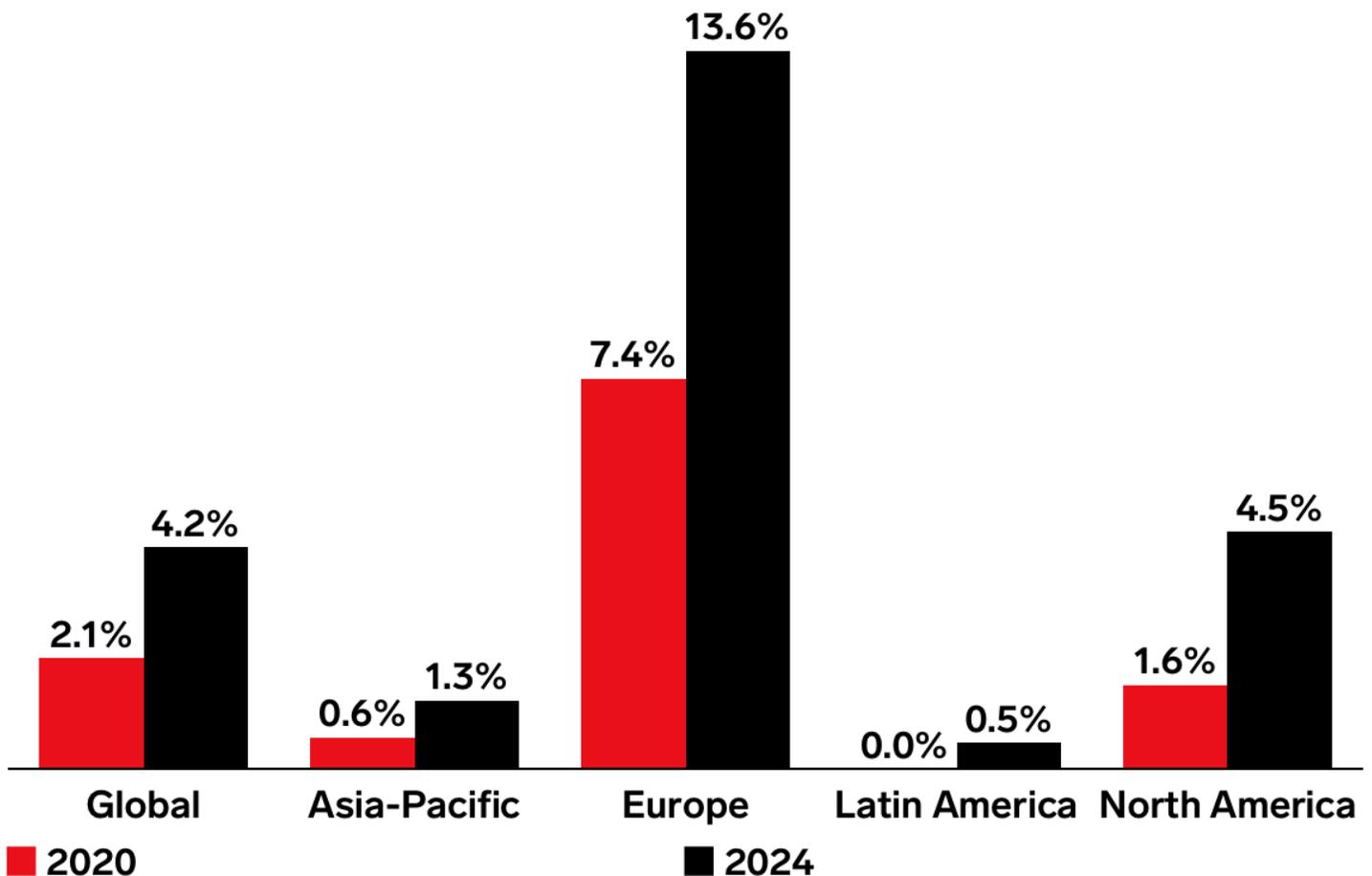
The bigger picture: Regulators in the UK and Australia have also sharpened their focus on BNPL providers in light of data suggesting the risks involved with their offerings. Their moves could foreshadow what BNPL regulation might look like in the US.

- In February, the UK’s Financial Conduct Authority [announced](#) that it would begin regulating BNPL products following a report that highlighted consumer risks with the offerings.

- And earlier this month, Australian Treasurer Josh Frydenburg [released](#) several regulatory proposals that would affect BNPL solutions.

Go deeper: Check out our [chart report](#) to learn more about BNPL's growth tear and what potential regulation could mean for providers.

Share of Ecommerce Transactions Made Using Buy Now, Pay Later Services



Note: percent of BNPL transactions made online

Source: Worldpay from FIS, "The Global Payments Report," February 2021

Methodology: Data is from the February 2021 Worldpay from FIS report titled "The Global Payments Report," which measures transactions across 41 countries.

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