

BUY NOW PAY LATER SERVICES

AUGUST 2022 NATIONALLY REPRESENTATIVE INTERNET SURVEY

REPORT PREPARED SEPTEMBER 16, 2022

CONSUMER REPORTS® SURVEY GROUP

Table of Contents

INTRODUCTION..... 1

HIGHLIGHTS..... 1

ENTHUSIASM FOR BUY NOW PAY LATER 3

HOW DO AMERICANS USE BNPL?..... 9

MAKING BNPL PAYMENTS..... 14

DIFFICULTIES WITH BNPL..... 19

BNPL AND CREDIT SCORES 23

SECURITY AND PRIVACY 25

SUMMARY..... 29

METHODOLOGY..... 29

INTRODUCTION

The purpose of this survey is to understand Americans' experiences with and opinions about Buy Now Pay Later services (BNPL). The 2022 BNPL survey was administered by SSRS to a nationally representative sample of BNPL users via its Opinion Panel of US adults. It was administered by internet from August 3rd to August 14th, 2022. A sample of 2,013 U.S. adults completed the survey.

BNPL is a type of lending where the consumer pays for a purchase in installments, often with no interest. It can be considered like a reverse type of layaway: in a layaway purchase, the consumer gets the product when the payments are concluded, whereas in BNPL the consumer gets the product when the payments are initiated. BNPL accounts can be opened very quickly, often at the point of purchase, with no credit check or a soft credit check at most. In this way, BNPL increases access to credit for those who cannot get it otherwise, and simultaneously sidesteps the precautions that prevent consumers from taking on more debt than they can handle.

HIGHLIGHTS

- The percentage of Americans reporting that they have ever used a BNPL service has surged in the seven months since we last polled about it in January 2022, rising ten percentage points from 18% in January to 28% in August. Conversely, the percentage of Americans who said they had never heard of BNPL shrank from 31% in January to 17% in August.
- Black BNPL users are more likely than Hispanic or white BNPL users to have used BNPL at least six times: 40% of Black BNPL users have used it at least six times, compared with 29% of Hispanic BNPL users and 27% of white BNPL users. Also, Black BNPL users are more likely to say that they will definitely use BNPL again: 59% of Black BNPL users say they will definitely use it again, compared with 49% of Hispanic BNPL users and 37% of white BNPL users.
- Sizeable numbers of BNPL users use it in risky ways: making their BNPL payments with a credit card (24%), making manual payments instead of automatic (29%), and having 4 or more concurrent purchases (10%).
- People with four or more concurrent purchases are twice as likely to have missed a payment than people with fewer concurrent purchases (18% of those with four or more concurrent purchases missed a payment, compared with 9% of those with fewer concurrent purchases).
- Missing a single payment is among the issues most commonly encountered by BNPL users, experienced by 7% of them, followed by unexpected fees or interest (6%), and

having difficulty getting a refund for an item that was returned or never received (5%). Fully 50% of those who had missed at least one payment said it was because they expected to have the money but fell short.

- People with household incomes of \$75,000 or more are more likely to say they've had no problems with a BNPL service by 13.5 percentage points, 82% compared to 69% among those with household incomes under \$75,000.
- Of those who missed one or more payments, 21% said their debt was sent to a collections agency, and 15% said that the debt appeared on their credit report.

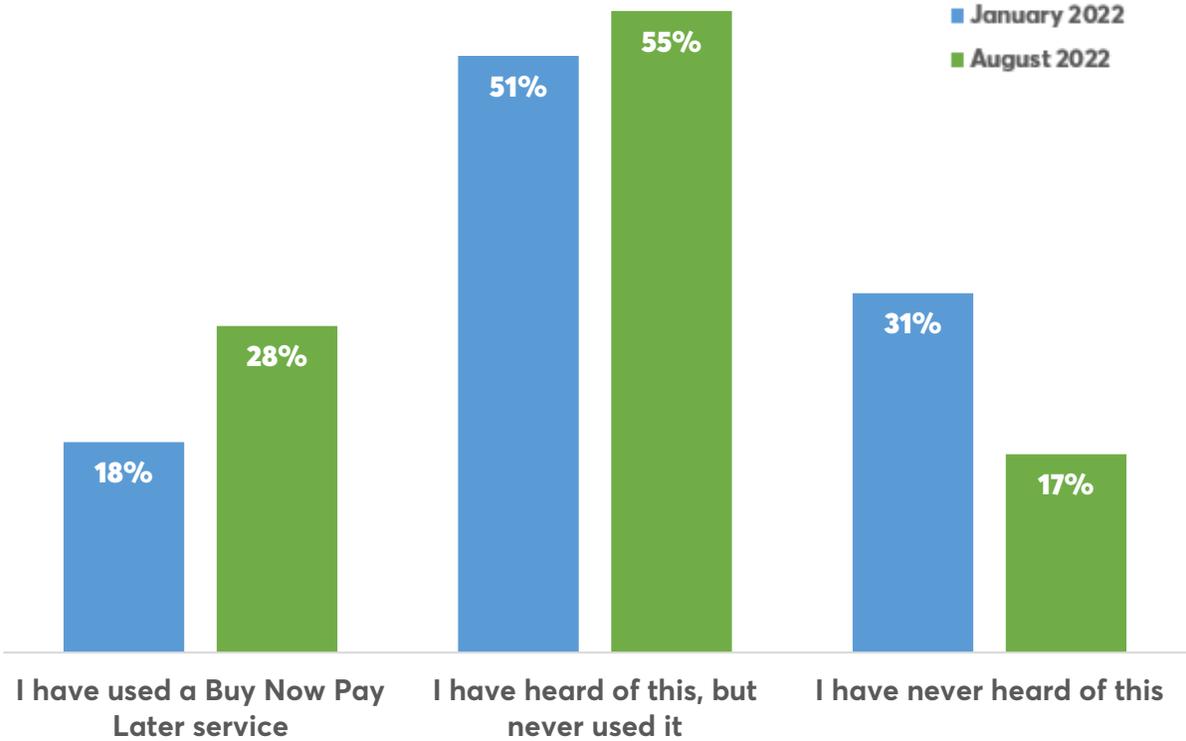
ENTHUSIASM FOR BUY NOW PAY LATER

We intended this survey to explore in depth topics about using BNPL, so first we identified a group of people who had used BNPL. Out of a screened sample of 6,539 U.S. adults, we found that 28% had ever used a BNPL service, while 17% said they had never heard of it.

The percentage of Americans who have used BNPL has surged in the seven months since we last polled about it in January 2022, rising ten percentage points from 18% in January to 28% in August. Conversely, the percentage of Americans who said they had never heard of BNPL shrank from 31% in January to 17% in August.

This survey is about online Buy Now Pay Later services, such as Affirm, Afterpay, and Klarna. They are sometimes called “Pay in 4” services. These services often appear as a payment option on a website or in a store and allow you to pay part of the price at the time of purchase, then pay off the rest in installments.

How familiar are you with Buy Now Pay Later services?

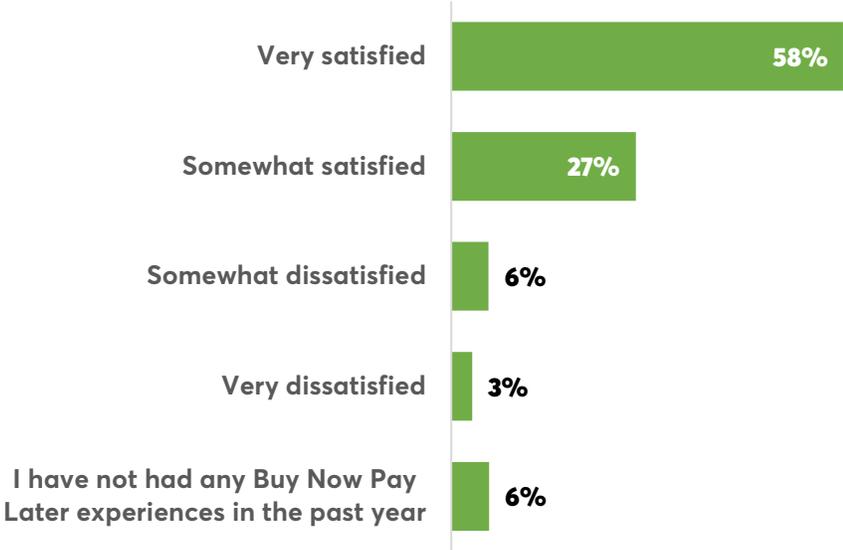


Base: Screened sample (n = 6,539)

After that question, the rest of the survey was addressed to people who said they have ever used a BNPL service.

In large part, Americans feel quite positive about their BNPL experiences. A total of 86% of BNPL users said they were very satisfied or somewhat satisfied with BNPL.

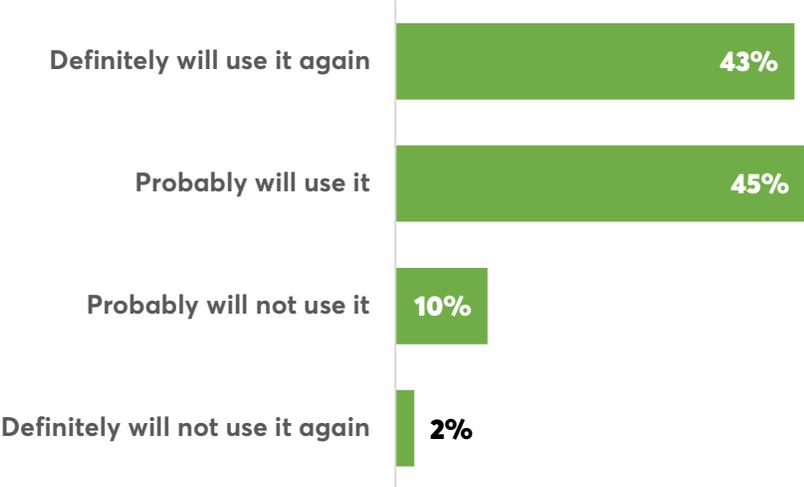
Overall, how satisfied or dissatisfied have you been with your Buy Now Pay Later experiences in the past year?



Base: Respondents who have used BNPL

In fact, people like BNPL so much that most of them are pretty sure they will continue using it – 88% of BNPL users said that they will probably or definitely use it again.

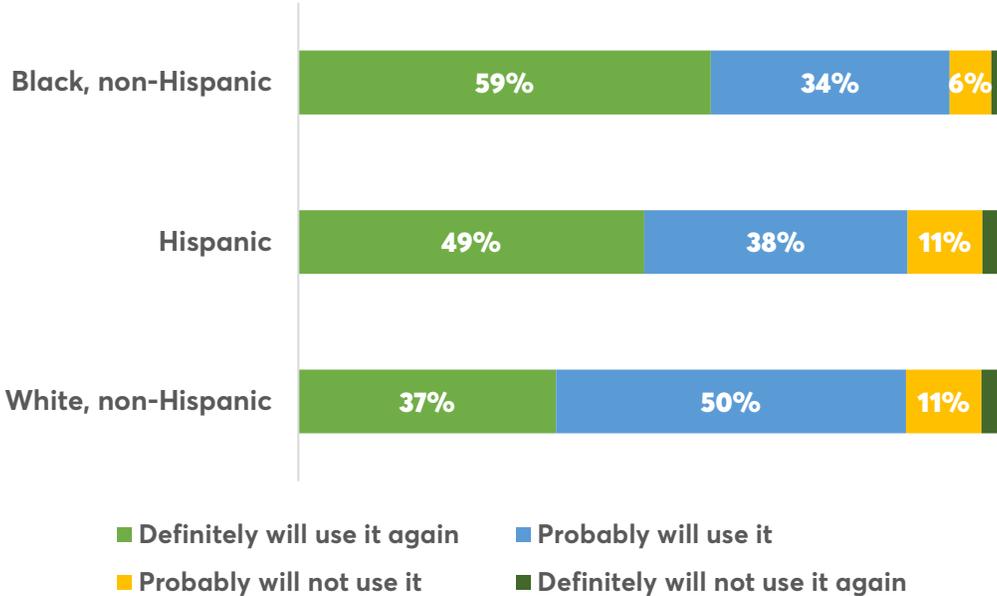
How likely, if at all, are you to use Buy Now Pay Later in the future?



Base: Respondents who have used BNPL

Black BNPL users are more likely to say that they will definitely use BNPL again than other groups: 59% of Black BNPL users say they will definitely use it again, compared with 49% of Hispanic BNPL users and 37% of white BNPL users.¹

How likely, if at all, are you to use Buy Now Pay Later in the future?

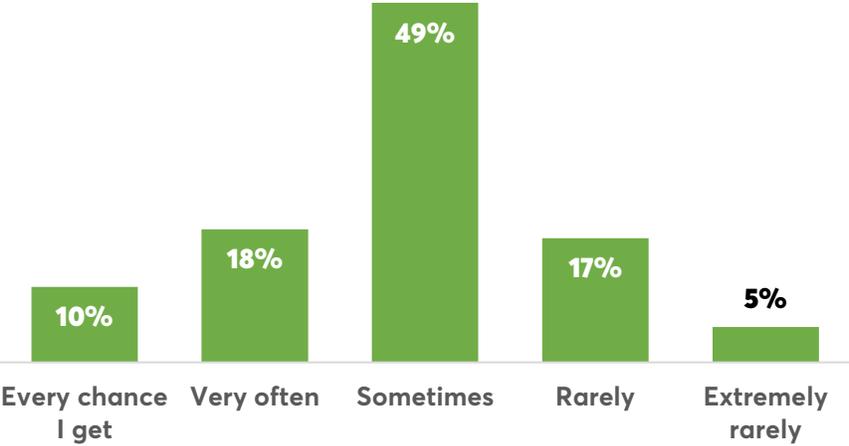


Base: Respondents who have used BNPL

¹ All demographic comparisons described in this report are statistically significant controlling for gender, age, household income, education, race/ethnicity, region, urbanicity, and political party.

Among those who might possibly use BNPL again (who gave any response other than “Definitely will not use it again”), roughly half (49%) said they would use it moderately (“sometimes”). Ten percent said they would use it every chance they get.

How often do you think you will use Buy Now Pay Later in the future?

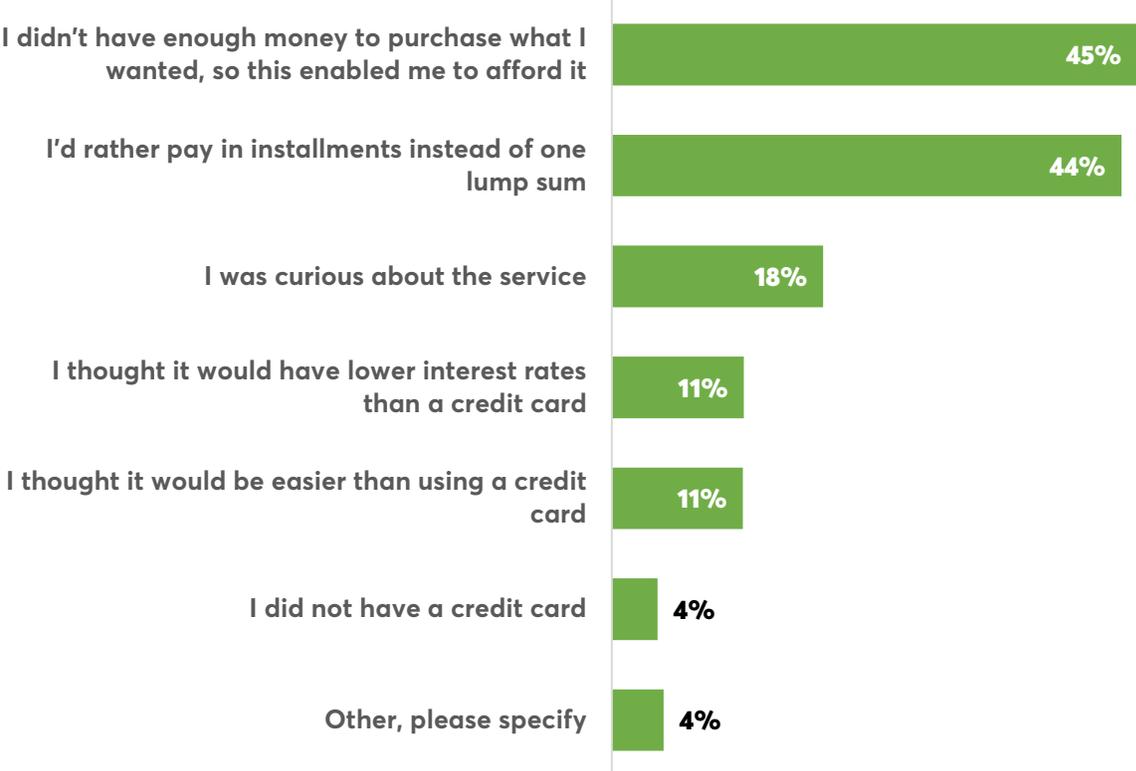


Base: Respondents who might possibly use BNPL again (n = 1,966)

What leads people to use BNPL? By a considerable margin, the most popular reasons are that it enables people to afford a purchase they would not otherwise be able to (45%), and that people would rather pay in installments instead of in one lump sum (44%).

You said that you have used a Buy Now Pay Later service to pay for at least one purchase. Which, if any, of the following are reasons you decided to use this service?

Please select all that apply.

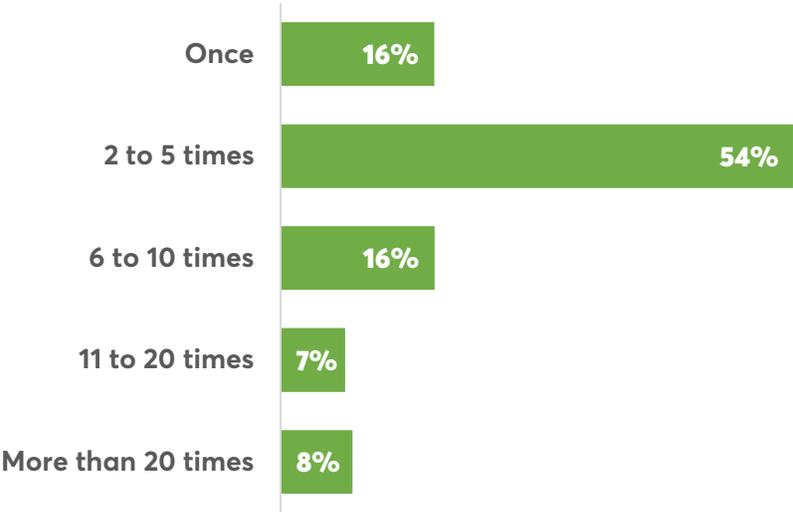


Base: Respondents who have used BNPL

HOW DO AMERICANS USE BNPL?

A majority of Americans have used BNPL a moderate number of times: just over half (54%) of U.S. BNPL users have used the service between two and five times. However, there are those who use it more often: eight percent have used BNPL more than 20 times.

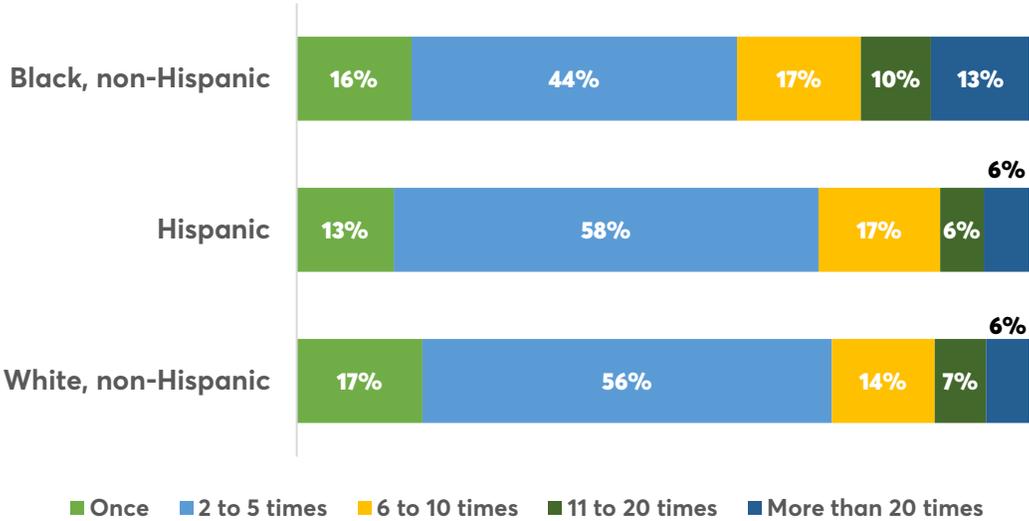
In total, about how many times would you say you have used a Buy Now Pay Later service?



Base: Respondents who have used BNPL

Black BNPL users are more likely than Hispanic or white BNPL users to have used BNPL at least six times: 40% of Black BNPL users have used it at least six times, compared with 29% of Hispanic BNPL users and 27% of white BNPL users.

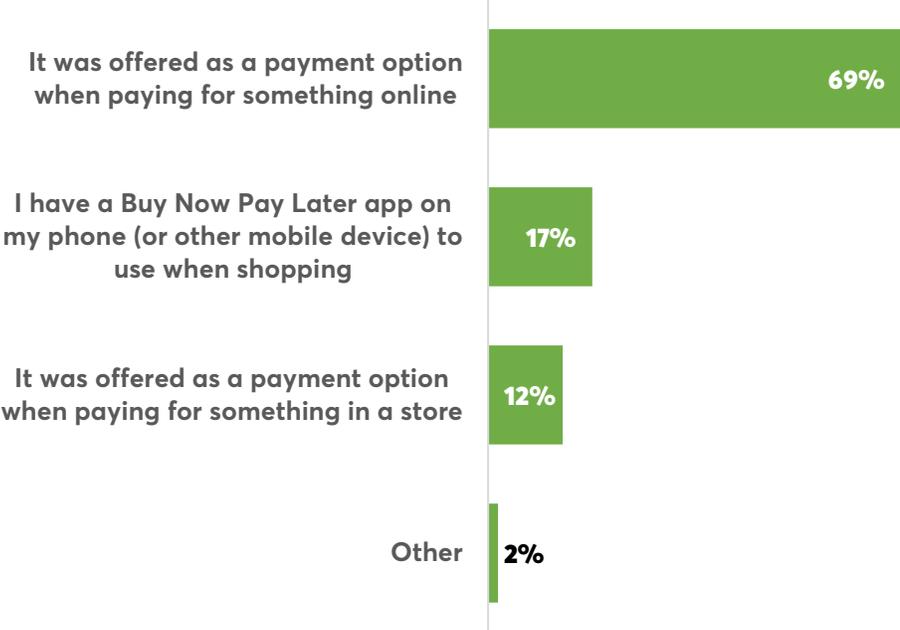
In total, about how many times would you say you have used a Buy Now Pay Later service?



Base: Respondents who have used BNPL

People can enter into a BNPL purchase in different ways. A BNPL payment option might be presented at the point of sale, either online or in a brick and mortar store. Or the consumer may have downloaded a BNPL app and then use the app to make a purchase. Having the app on their phone may indicate deeper engagement with a BNPL service. We found that 17% used an app on their phone for their most recent BNPL purchase, while about two out of three people (69%) had been offered a BNPL payment option in an online purchase. The few write-in "Other" responses mostly reflect a variation on one of the presented options.

Thinking of your most recent Buy Now Pay Later purchase, where did you come across the Buy Now Pay Later option?

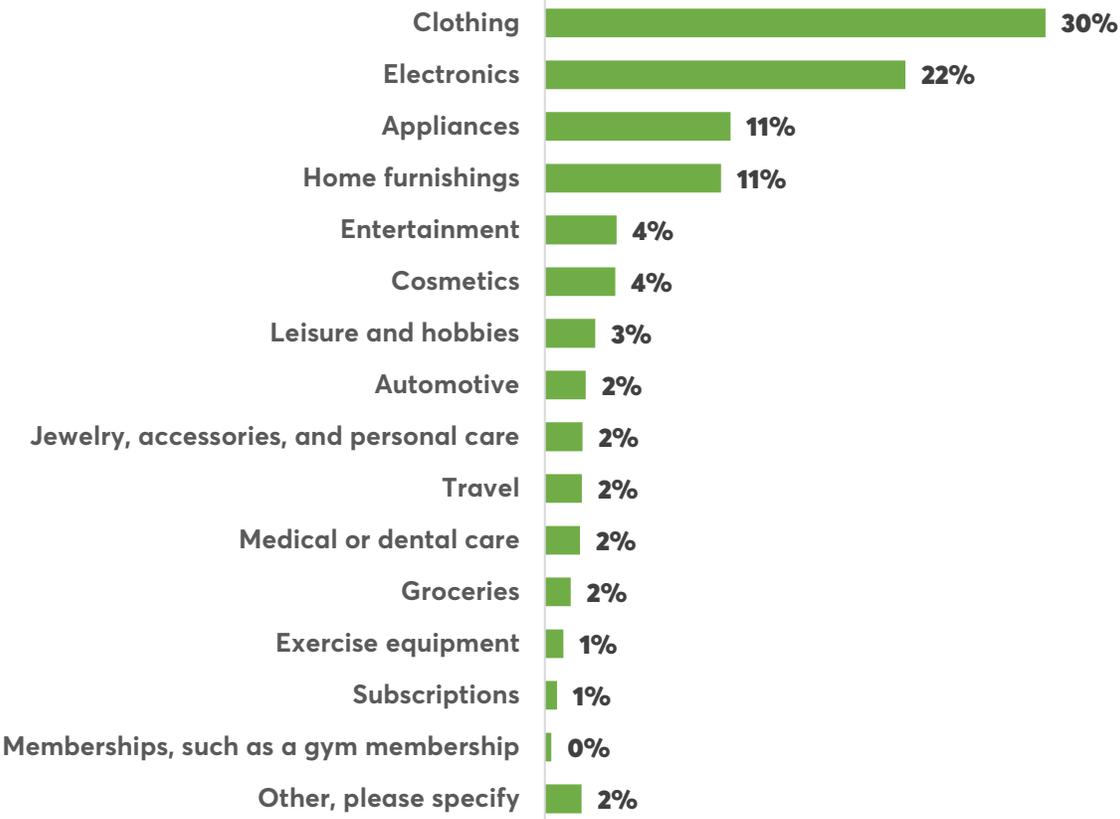


Base: Respondents who have used BNPL

What do Americans buy with BNPL? The most common purchases are clothing (30%) and electronics (22%), followed by appliances and home furnishings (11% each). Only a small number of people said their last BNPL purchase was for a repeated expense like groceries (2%) and gym memberships (less than 1%), but those purchases are risky because the next bill might come before you've paid off the last one. Using BNPL for travel (2%) also poses risks especially in the COVID-19 era, because making cancellations and adjustments can be more difficult with BNPL. The write-in responses in the "Other" category include gifts, pet supplies, firearms, education-related expenses, and utilities.

What type of purchase was your last Buy Now Pay Later purchase?

Please select the category that is the best fit, even if it is not a perfect fit.



Base: Respondents who have used BNPL

Another angle to help us understand the ways Americans are using BNPL is to look at the dollar amount of the purchases. The approximate median price people paid for their last BNPL purchase is \$208. We found that 71% of purchases were \$100 or more, 24% were \$500 or more, and 12% were \$1,000 or more. Just 2% of people's last purchases were under \$20.

What was the price range of your last Buy Now Pay Later purchase?

We are interested in the total purchase price of the item, not the down payment or the amount of each installment payment.



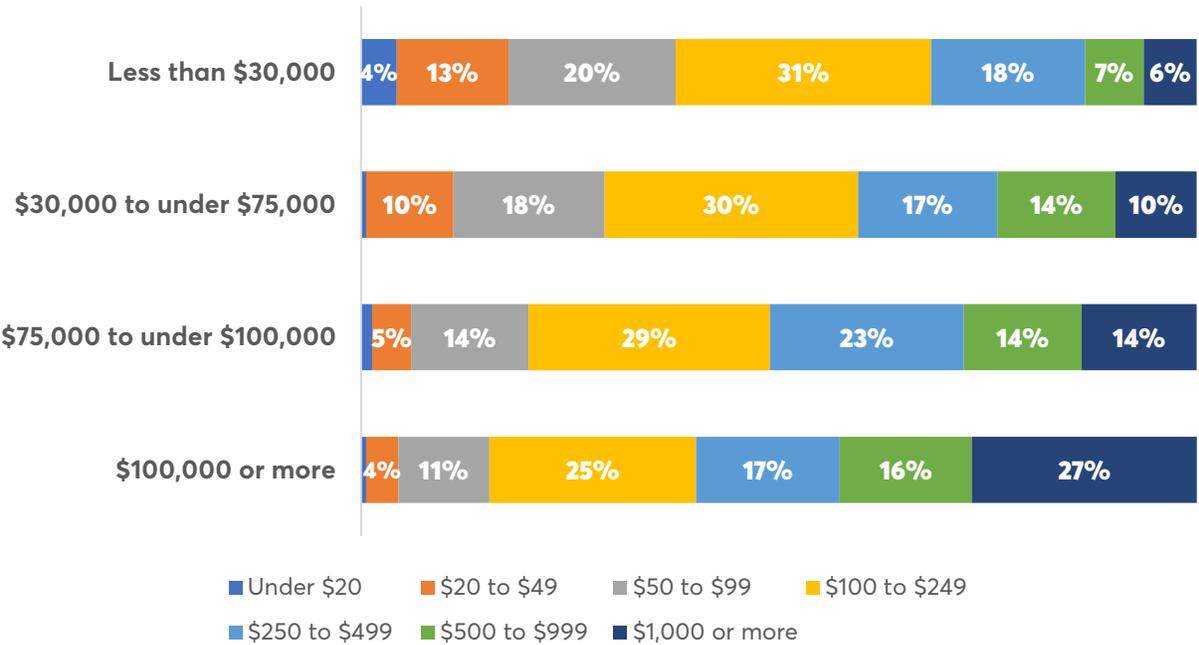
Base: Respondents who have used BNPL

The largest purchases are more common among people in the highest category of household income. Our findings show that 27% of people with a household income over \$100,000 said their last purchase was \$1,000 or more, compared to only 6% of those with a household income under \$30,000.

What was the price range of your last Buy Now Pay Later purchase?

We are interested in the total purchase price of the item, not the down payment or the amount of each installment payment.

Price of Last BNPL Purchase by Household Income



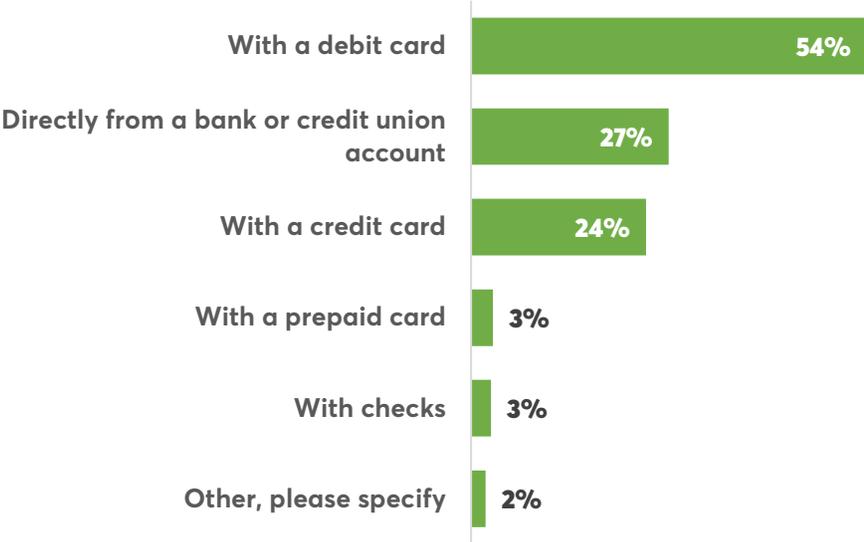
Base: Respondents who have used BNPL

MAKING BNPL PAYMENTS

We wanted to understand more about how BNPL users pay for their purchases. Some aspects of the process of making payments on a BNPL purchase may be associated with the likelihood of making a late payment or missing a payment. Late or missed payments can have far-reaching consequences for the consumer such as affecting their credit score.

First, we asked about the source of funding people use to make the installment payments. On this survey question, people could select more than one payment method. Over half of BNPL users (54%) use a debit card and 27% pay directly from their bank account. But nearly a quarter (24%) pay with a credit card. Paying with a credit card can hold risks because it is essentially taking out one line of credit to pay another. Among the 2% who chose "Other" and wrote in a response, PayPal and cash are the most commonly named payment methods.

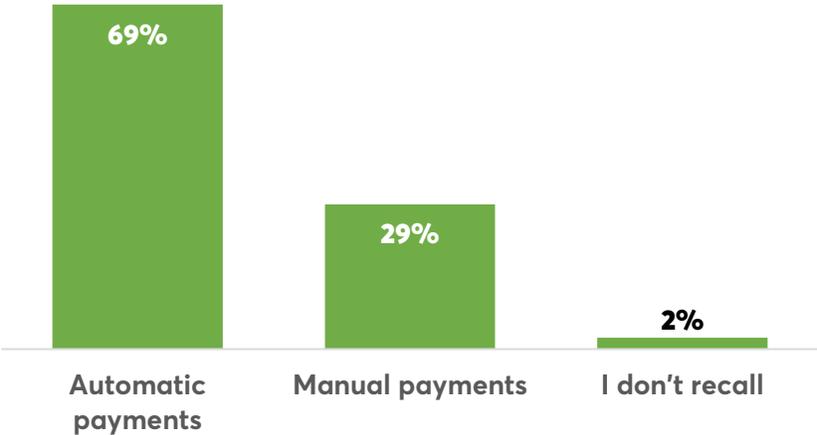
Thinking of your last Buy Now Pay Later purchase, how were or are the payments made?



Base: Respondents who have used BNPL

Another important factor in BNPL payments is whether the consumer signs up for automatic payments, where the payments are withdrawn from the consumer’s chosen payment method automatically on each due date, or whether the consumer makes the installment payments manually each time. Automatic payments make it less likely that the consumer will make a late payment or miss a payment, as long as there are funds available. Nearly three in ten (29%) BNPL users paid for their last BNPL purchase in manual payments, while nearly seven in ten (69%) used automatic payments.²

Thinking of your last Buy Now Pay Later purchase, is (or was) it paid in automatic or manual payments?

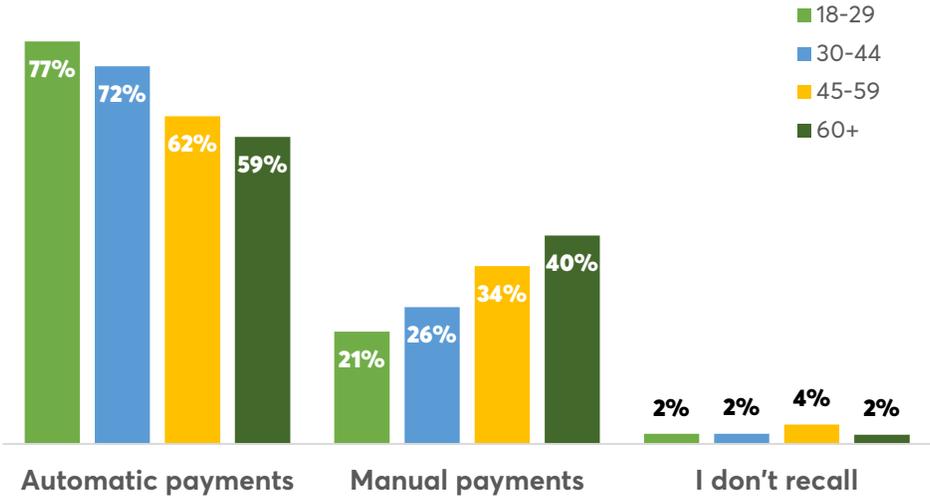


Base: Respondents who have used BNPL

² Please see topline for complete wording of the response options:
https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer_Reports_BNPL_August_2022.pdf

Younger people are more likely than older people to use automatic payments, perhaps because of greater familiarity or comfort with managing their finances digitally. In the 18 to 29 year old group, 77% use automatic payments, compared with 59% in the group of people age 60 and older.

Thinking of your last Buy Now Pay Later purchase, is (or was) it paid in automatic or manual payments?



Base: Respondents who have used BNPL

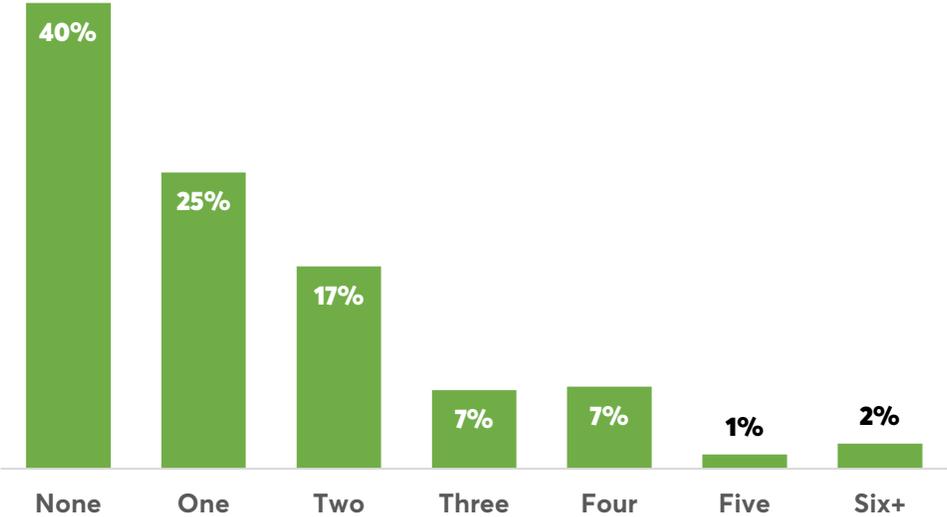
The number of BNPL purchases a user holds concurrently is another factor that may be associated with late or missed payments. Having multiple BNPL purchases active at the same time can make it more difficult to juggle the payment schedules and to make sure there is enough funding to cover each payment on its due date. When we asked BNPL users how many purchases they currently have active, 40% had none and 25% had only one. However, 17% had 2 purchases they were currently paying for, and one in ten BNPL users had 4 or more purchases at the same time.

People with four or more concurrent purchases are twice as likely to have missed a payment than people with fewer concurrent purchases (18% of those with four or more concurrent purchases missed a payment, compared with 9% of those with fewer concurrent purchases).

How many purchases are you currently paying for in Buy Now Pay Later installments?

We are asking about separate complete purchases of products or services that each have their own payment schedule (note, if multiple items were purchased together on the same Buy Now Pay Later transaction, this should be counted as one).

If you are not sure of the exact number, please give your best guess.



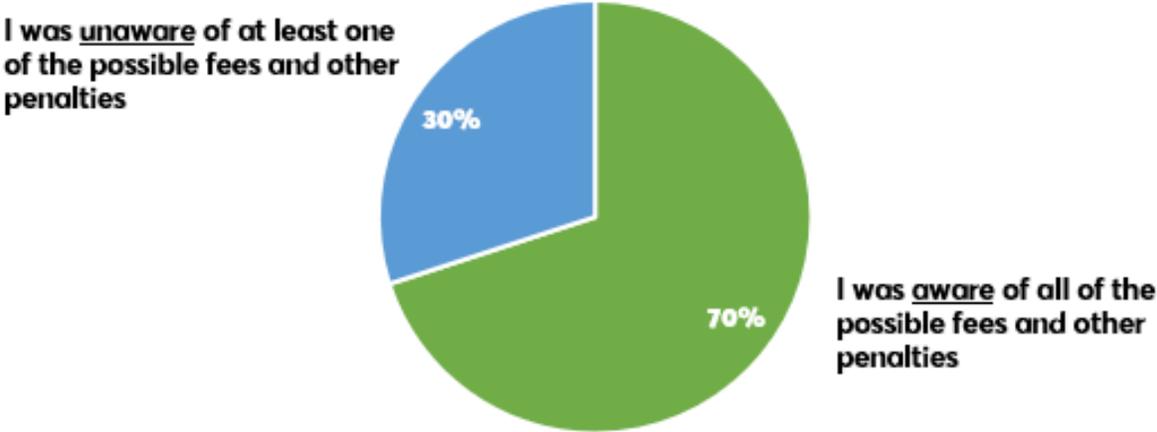
Base: Respondents who have used BNPL

DIFFICULTIES WITH BNPL

BNPL can be a great option for consumers. It can help people improve their quality of life by enabling them to obtain goods and services they couldn't otherwise afford. It can give access to credit to those who are otherwise excluded from credit, and it may even help people build their credit score. But it can also pose risks for some of those same reasons, especially if consumers don't have all the information they need.

BNPL offers at the point of sale may describe themselves as having zero interest, but it may not be clear to consumers what fees and other penalties apply for late and missed payments. Three out of ten BNPL users told us that they had been unaware of at least one of the possible fees or penalties at the time when they made their first BNPL purchase.

When you made your first ever Buy Now Pay Later purchase, how aware or unaware were you of the fees or other penalties for making late payments or missing payments?

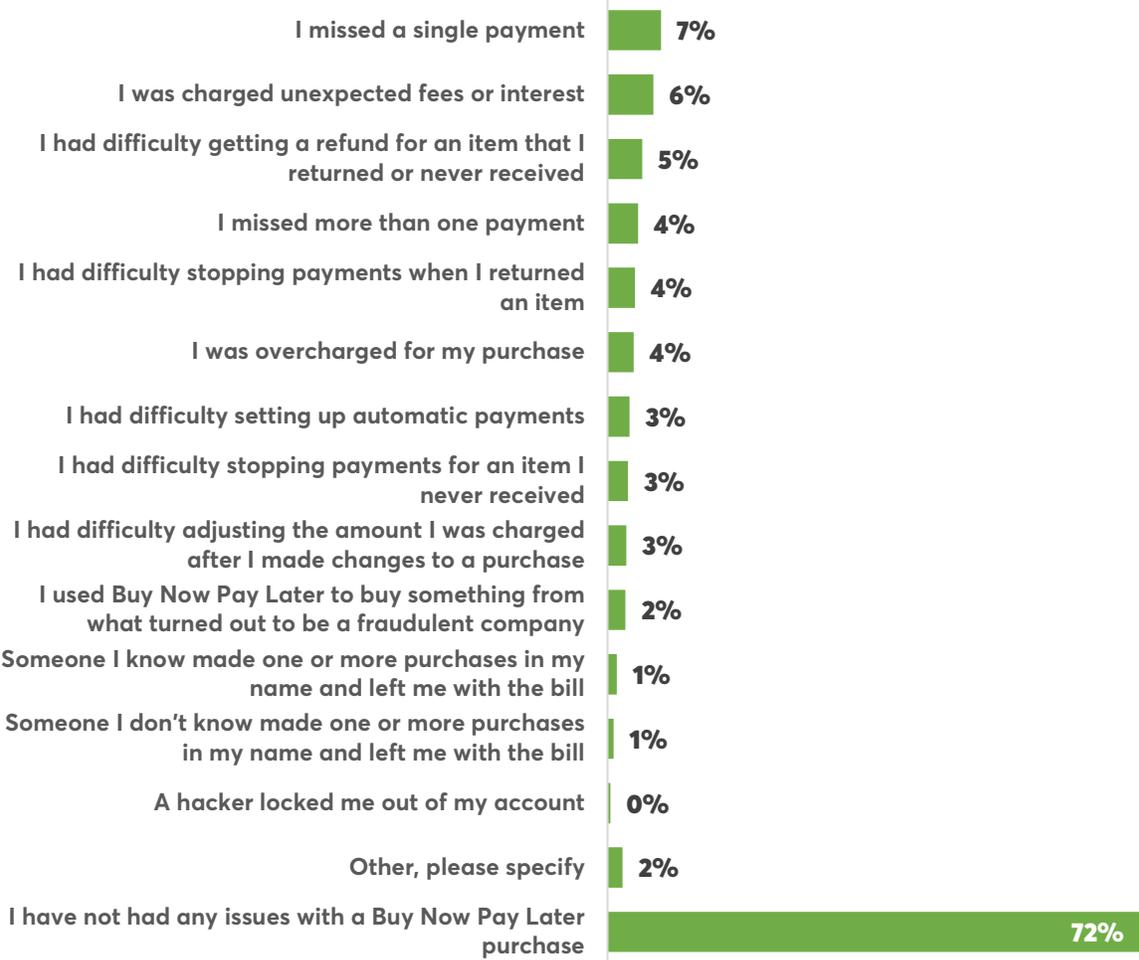


Base: Respondents who have used BNPL

There is a wide array of issues that consumers may encounter with a BNPL purchase, and missed payments, unexpected fees, and having difficulty making returns are among the most common. Small numbers of people experienced fraud, unauthorized purchase, or hacking. Overall, 28% of BNPL users said they had experienced at least one type of problem, and 72% said they had not encountered any.

Which, if any, of the following issues have you ever had with a Buy Now Pay Later purchase?

Please select all that apply.



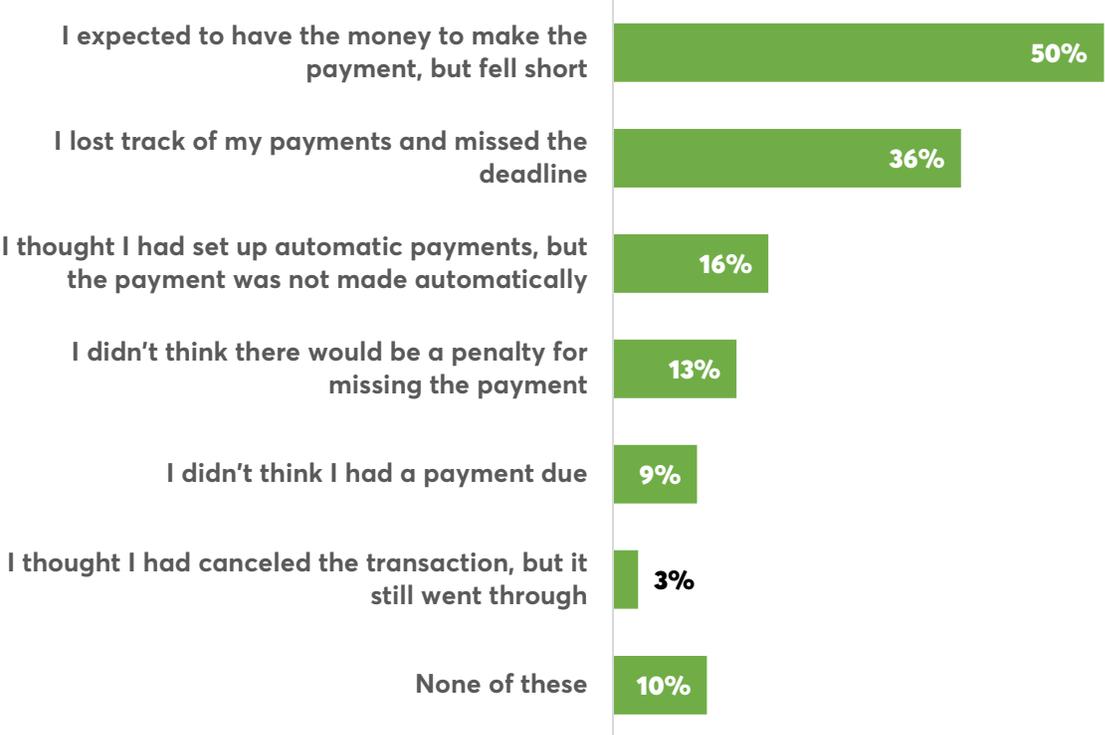
Base: Respondents who have used BNPL

Since missing BNPL payments can have consequences, we asked two follow up questions to those BNPL users who had missed one or more payments: one question about why they missed payments, and one about what consequences they experienced.

Fully 50% of those who had missed at least one payment said it was because they expected to have the money but fell short. This reason aligns with the concern that BNPL offers credit to those who cannot afford it and leads people to take on more debt than they can handle. Over one in three (36%) BNPL users who missed a payment said that they had lost track of their payments and missed the deadline. Sixteen percent said they thought they had set up automatic payments but the payment didn't go through.

People miss payments for many reasons. Below are a few of the most common reasons why people miss payments on their Buy Now Pay Later accounts. Please indicate which, if any, of these reasons has ever been true for you when you have missed a payment.

Please select all that apply.

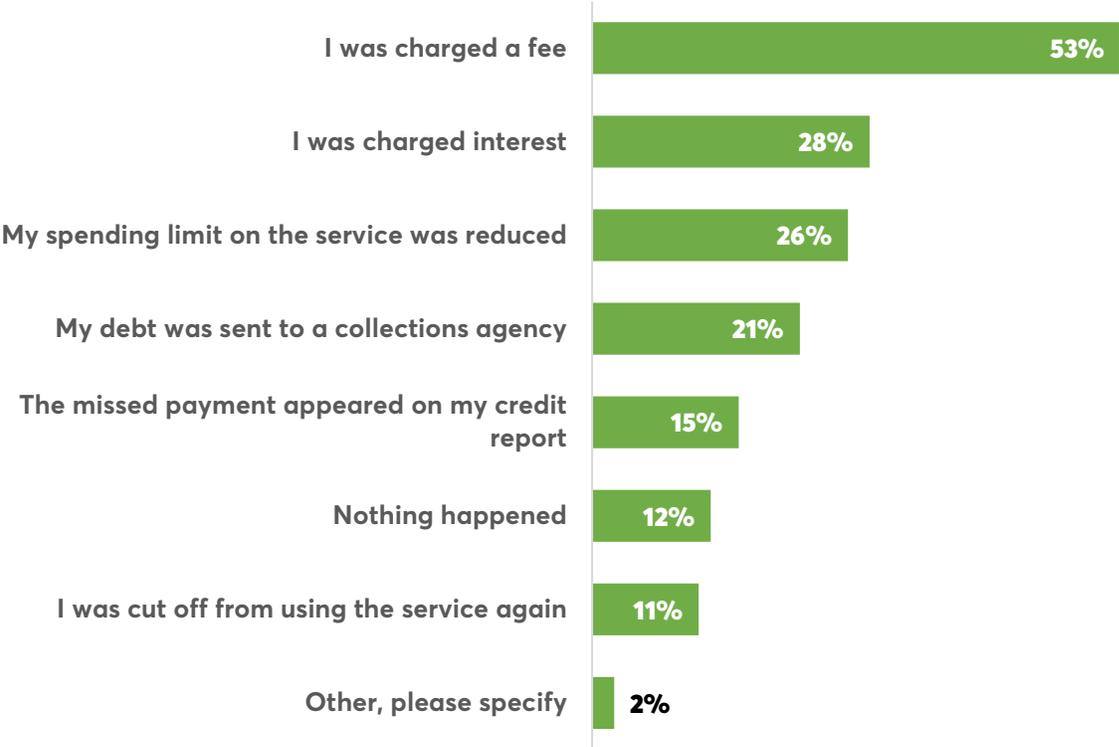


Base: Respondents who have used BNPL and have missed one or more payments (n = 203)

The consequences of missing BNPL payments can range from getting charged a late fee, which can be steep, to having one’s account limited or cut off, to even more serious consequences. Roughly half (53%) of those who had missed at least one payment were charged a fee. Twenty-one percent had their debt sent to a collections agency, and 15% saw the debt appear on their credit report. People whose credit scores are lowered because of a BNPL purchase can end up in worse straits than they began.

Which, if any, of the following have ever happened to you when you have missed one or more payments on a Buy Now Pay Later purchase?

Please select all that apply.



Base: Respondents who have missed one or more payments (n = 203)

BNPL AND CREDIT SCORES

BNPL's relationship with the credit bureaus is rapidly evolving as of this writing. When BNPL first began gaining in popularity in the U.S., these loans were not reported to the credit bureaus. This year there have been some inconsistent moves toward credit reporting.³ In February 2022 the credit bureau Equifax established a business industry code for BNPL in to allow BNPL payments to contribute to building credit, and encouraged BNPL firms to report activity.⁴ In January 2022, the credit bureau Experian created a dedicated bureau to collect data on BNPL payments but holds it separate from core credit bureau data.⁵ TransUnion followed suit in March and includes some, but not all, BNPL loans in the calculation of the credit score.

If a consumer's credit score is too young or thin to get a credit card, reporting successful BNPL repayment to the credit bureaus could be a good way for them to build credit. But because many BNPL loans are short term they may have limited benefits for a person's credit score. And if a consumer misses payments or defaults on a BNPL loan, that would hurt their credit score.

³ <https://www.cNBC.com/select/bnpl-loans-to-be-reported-on-credit-reports/#:~:text=Since%20BNPL%20loans%20can%20reduce,unfairly%20decrease%20someone%27s%20credit%20score.>

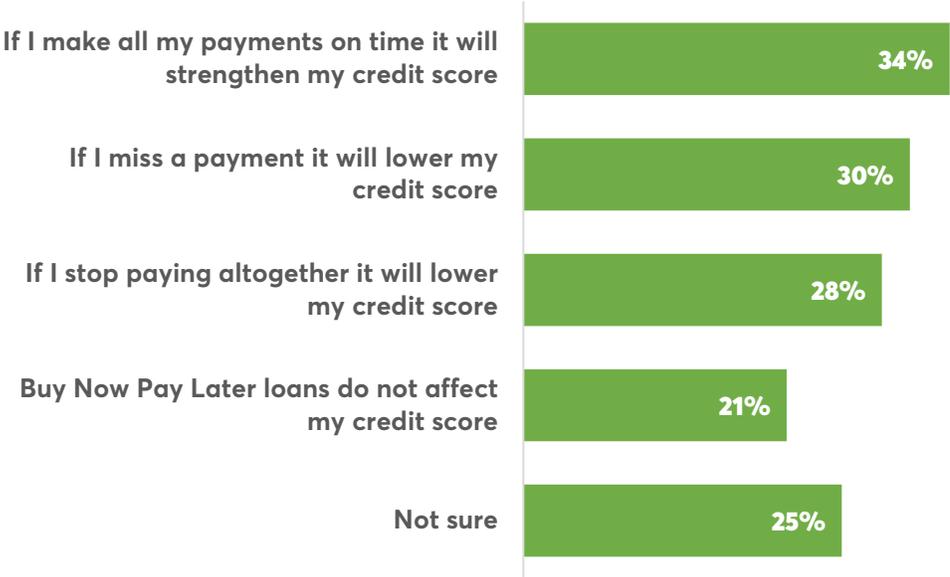
⁴ <https://investor.equifax.com/news-events/press-releases/detail/1204/equifax-first-to-formalize-inclusion-of-buy-now-pay>

⁵ <https://www.pymnts.com/bnpl/2022/experian-launches-worlds-first-bnpl-bureau/>

We wanted to know how BNPL users *think* their BNPL loans affect their credit score, and then what they think *should* happen. One in four said they are not sure how BNPL loans affect their credit score, and 21% believe they have no effect on the credit score. Just over half (54%) believe that their credit score is currently being affected by BNPL loans.

Different Buy Now Pay Later services may affect consumers' credit scores in different ways. Which do you believe to be true of the Buy Now Pay Later service(s) you use?

Please select all that apply.

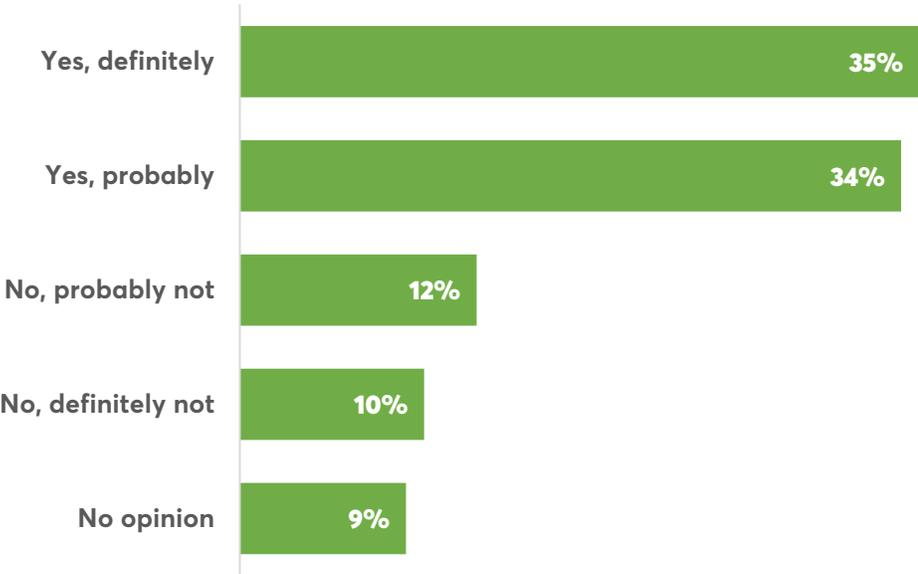


Base: Respondents who have used BNPL

A large majority of BNPL users, 70% of them, believe that BNPL loans should probably or definitely count towards people’s credit scores. Taking the contrary position, 22% believe that BNPL loans should probably or definitely not count towards credit scores.

Credit scores are checked by lenders to help them make a decision to approve or deny someone when they apply for a credit card or for a home mortgage or car loan. The credit bureaus collect data on people’s repayments of their debts and obligations, and use that information to create a credit score.

Do you think that Buy Now Pay Later payments should be counted toward people’s credit scores?



Base: Respondents who have used BNPL

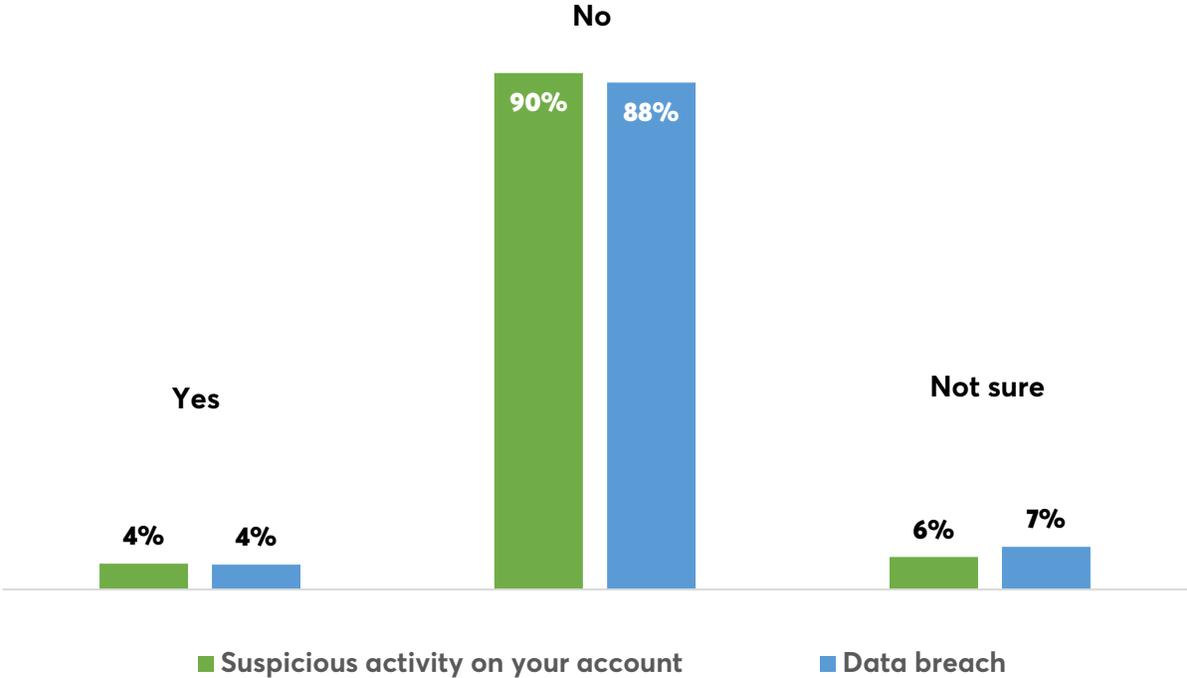
SECURITY AND PRIVACY

The last few questions measure consumers’ perceptions of their security and privacy in BNPL transactions. As financial services firms, BNPL providers hold their customers’ personal and financial information and must keep it safe. As digital firms, they also stand to gain by sharing parts of that valuable data.

One way that these firms' security measures come to consumers' attention is through alerts about data breaches or suspicious activity. We asked BNPL users if they had ever received either of these kinds of alerts from a BNPL provider. Most people had not received either of these two types of alerts. Four percent of BNPL users recalled having received each type of alert.

Have you ever been informed by a Buy Now Pay Later service that you were part of a data breach?

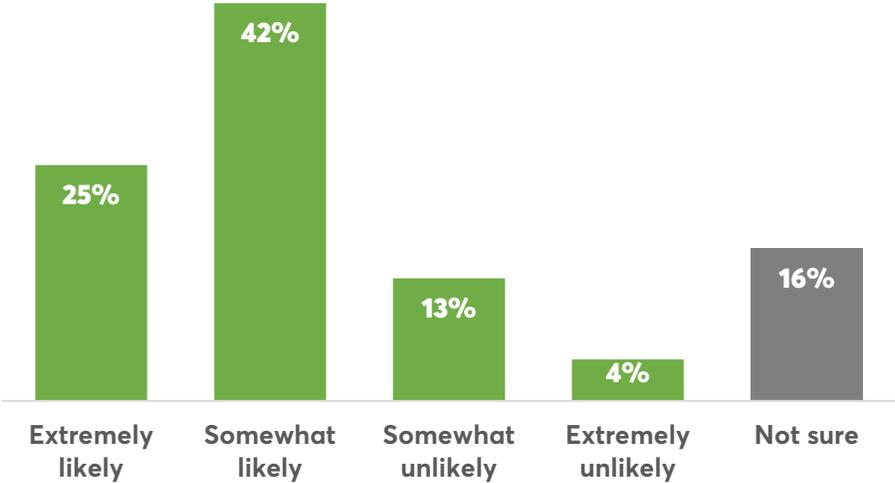
Has a Buy Now Pay Later service ever notified you of suspicious activity on your account?



Base: Respondents who have used BNPL

When it comes to BNPL firms sharing customer data for revenue, Americans' views are realistic but varied. Two out of three people (67%) believe it is extremely or somewhat likely that BNPL firms are sharing their personal information, while 17% think it is somewhat or extremely unlikely. Almost as many (16%) said they were not sure.

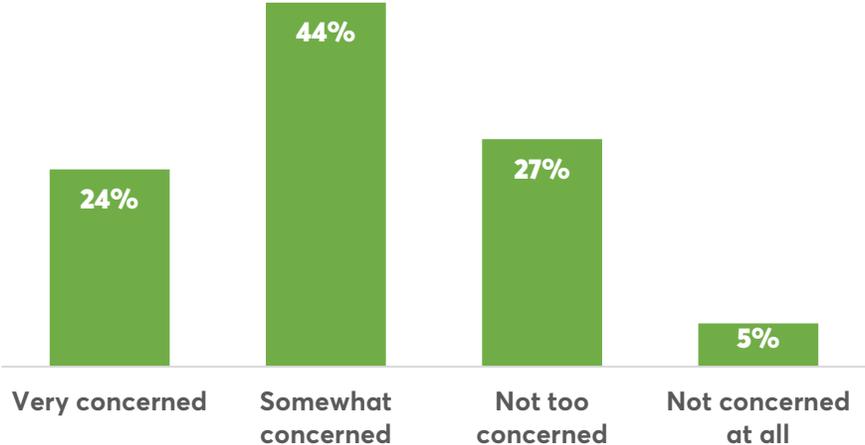
How likely or unlikely do you think it is that Buy Now Pay Later companies share your personal data, such as your purchase history, with other companies?



Base: Respondents who have used BNPL

How concerned are people about their data being shared for commercial purposes? Once again, just about two out of three people (67%) are extremely or very concerned. The other one third (33%) are not very concerned or not concerned at all.

How concerned, if at all, are you about a Buy Now Pay Later company sharing your personal data (for example, with companies that want to market their products to you)?



Base: Respondents who have used BNPL

SUMMARY

BNPL use in the U.S. has grown in the past year and people largely feel positive about it. For the most part, people use BNPL moderately and don't experience many problems with it. However, there are smaller but still sizeable numbers of people who are using BNPL in risky ways, such as paying for it with a credit card, using manual payments, using BNPL every chance they get, and holding multiple accounts concurrently. People who miss payments may be pursued by a collections agency or have their credit score lowered, reducing their access to traditional avenues of wealth building. Consumers need regulatory and industry-driven protections from what is, in some cases, subprime lending.

Black Americans are a bit more enthusiastic about BNPL than other racial and ethnic groups, even controlling for an array of demographic characteristics. Perhaps this is at least partly because of their historical exclusion from traditional financial pathways. This may be useful information for advocacy efforts for consumer protections in BNPL.

BNPL firms have important responsibilities toward their customers. Some users complain about having difficulty with returns or adjustments on purchases, and firms should improve their services in that regard. They must be more transparent about fees and other penalties, so that consumers can be fully aware of the terms before they sign on. They must keep their customers' data safe and be transparent, at least, about data sharing.

BNPL is now a permanent feature of the financial landscape and we need to establish consumer protections to allow Americans to enjoy its benefits without risk of harm.

METHODOLOGY

This survey was administered by SSRS to a United States general population sample of 2,013 U.S. adults. Data were collected via web mode through the SSRS Opinion Panel. The survey soft-launched on August 3, 2022 and closed on August 14, 2022. Of the 2,013 interviews, 1,933 were completed in English and 80 in Spanish. Final data are weighted by age, gender, race and ethnicity, education, Census region, party identification, voter registration, religious affiliation, civic engagement, population density, and internet use frequency to be proportionally representative of the US adult population.

SSRS Opinion Panel members are recruited randomly based on nationally representative ABS (Address Based Sample) design (including Hawaii and Alaska). ABS respondents are randomly sampled by Marketing Systems Group (MSG) through the U.S. Postal Service's Computerized Delivery Sequence File (CDS), a regularly-updated listing of all known

addresses in the U.S. For the SSRS Opinion Panel, known business addresses are excluded from the sample frame.

All sample drawn for this study were SSRS Opinion Panelists who are U.S. adults ages 18 or older. Sample drawn was stratified by age, gender, race and ethnicity, education, Census region, party identification, and preferred survey language to ensure adequate representation of each demographic group.

Panelists were screened at the start of the survey for use of Buy Now Pay Later services. Respondents who indicated they have not used Buy Now Pay Later services were not invited to continue with the survey, but demographic data from these respondents was collected in order to weight the data to the general population.

The margin of error for the qualifying sample of 2,013 is +/- 3.0 percentage points at the 95% confidence level. Smaller subgroups will have larger error margins. In appreciation for their participation, panelists received post-paid compensation in the form of an electronic gift card, sent via email immediately after completion of the survey. Panelists who spoke Spanish or had less than a high school education were offered a larger compensation to encourage participation.

When weighted, the sample has the following characteristics:

- Median age 40 years old, mean age 44 years old
- 55% female
- 27% aged 18-29; 34% aged 30-44; 22% aged 45-59; and 17% aged 60 or older
- 32% with household income less than \$30,000; 41% with income \$30,000 to under \$75,000; 11% with income \$75,000 to under \$100,000; and 15% with \$100,000 or more in household income
- 10% with less than a high school diploma; 29% high school graduates or equivalent; 32% with some college; and 29% with a bachelor's degree or higher
- 52% White non-Hispanic; 17% Black non-Hispanic; 19% Hispanic; 4% English-speaking Asian; and 8% other or multiple racial/ethnic identities