



# Buy Now, Pay Later: A Case Study for a Digital Finance Standard

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## Executive Summary

Buy now, pay later (BNPL) products are an extremely fast-growing form of lending that typically enables consumers to split the cost of retail goods or services into four or more periodic payments, with the first payment due immediately. Unlike traditional credit card loans, many BNPL loans are offered to consumers without fees or interest charges, provided the consumer abides by the terms of the offer. As such, BNPL holds itself out as a lower-cost alternative to traditional credit cards.

This study builds on Consumer Reports' recent examination of peer-to-peer (P2P) payment apps in using a subset of the principles articulated in [CR's Fair Digital Finance Framework](#) to evaluate BNPL products. Specifically, the Framework's Safety Principle concerns the technology applications as well as the policies that companies use to protect consumer data and funds; the Privacy Principle concerns company data collection, sharing, and deletion practices and policies; and the Transparency Principle concerns company disclosures of legal terms and consumer legal rights and their corresponding practices.

Based on our Framework and evaluation procedures summarized below, we have identified areas for improvement regarding certain BNPL app disclosures, security measures, and privacy and consumer protection policies. These key findings are listed below.

### Findings

1. BNPL apps may not sufficiently disclose fees and interest rates or notify users of changes to terms.
2. Most BNPL apps clearly disclose fraud policies, and often provide useful consumer education content on fraud, but do not commit to real-time fraud monitoring and notification.
3. BNPL apps provide basic security measures but do not commit in their disclosures to proactively monitoring accounts for security vulnerabilities, and make vague commitments to using industry-standard security practices.
4. BNPL apps make adequate legal disclosures regarding data collection practices, but they do not go further to ensure that users understand their rights, and they collect more data than is needed to use the services.

5. BNPL apps have varying policies and practices regarding their sharing and usage of consumer data. Although most companies do not sell consumer data, most share data with third parties, in many cases for the purpose of targeted advertising and marketing.
6. In many cases BNPL apps do not offer users easily accessible control of privacy settings, and in most cases they do not provide users with the ability to easily access or delete data.
7. BNPL apps essentially require users to use arbitration, and not the court system, to resolve potential legal disputes, and prohibit them from joining with other users to bring legal claims.

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## Introduction: The Case for a Fair Digital Finance Standard

Consumer Reports' vision for a Fair Digital Financial Marketplace is one in which digital financial products let consumers spend, save, borrow, and invest safely; respect their privacy and data; provide the benefits they expect; and protect them from discriminatory and predatory practices; all while helping them achieve their financial goals.

We are now promoting that vision by providing timely, independent, and reliable reviews of new financial products and services that are delivered and driven by technology. This undertaking has two fundamental aims. One is to enable consumers to know, before they use one of these new “fintech” products or services, whether it is safe, private, and transparent, and whether it delivers on its promise of improving consumer outcomes or achieving financial goals. The other is to identify industry best practices and other insights that can help shape the future of consumer-friendly financial innovation.

We began this project with an examination of peer-to-peer (P2P) payment apps, the results of which were published in January 2023. This report is the next step, an evaluation of the most widely used companies offering buy now, pay later (BNPL) services: Affirm, Afterpay, Klarna, PayPal, Perpay, Sezzle, Zilch, and Zip.<sup>1</sup> (Future evaluations will include banking apps offered by both traditional and online-only banks, digital currency exchanges and wallets, credit score apps, and savings and investment apps.)

BNPL companies enable consumers to decide, at the point of sale, to delay payment for part or all of a retail purchase. This examination focuses mostly, though not exclusively, on the most common form of BNPL loan, known as a pay-in-four. These loans typically split the cost of the purchase into four equal payments stretching over six weeks, with the first due immediately. Pay-in-four loans often do not affect the borrower's credit score, in part because they are not subject to the same credit checking and reporting requirements that generally accompany traditional loans.<sup>2</sup>

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<sup>1</sup> See Methodology for information on how we selected these apps for evaluation.

<sup>2</sup> Afterpay, Sezzle, and Zip don't perform a credit check to determine eligibility or approval, nor do they report these loans to the credit bureaus. PayPal does not report to the credit bureaus but does sometimes—on a case-by-case basis—perform a soft credit check to review an applicant's creditworthiness. Affirm and Zilch use a soft credit check when approving consumers for loans. Affirm also reports some loans to the credit bureau Experian. Zilch partnered with Experian in 2022 to perform credit

Unlike traditional credit card loans, pay-in-four BNPL loans are ostensibly offered to consumers without fees or interest charges, provided the consumer makes payments as scheduled. As such, BNPL holds itself out as a lower-cost alternative to traditional credit cards.

BNPL products have been thoroughly integrated into the digital marketplace and payments infrastructure, and are now offered at the point of sale by most major online retailers and many brick-and-mortar retailers. Meanwhile, consumer acceptance and use of BNPL products has grown dramatically in a very short period of time. Between 2019 and 2021, BNPL loans issued to consumers increased more than tenfold, from 16.8 million to 180 million.

The primary goals of this second case study test are to continue to build and extend the Framework as a methodology; identify insights into industry practices across the applied principle set; and engage the financial services ecosystem in order to iterate on the Framework. But the application of the Fair Digital Finance Framework has also, we believe, enabled us to begin answering some of the most important questions about BNPL products, including:

- How are consumers faring with these products?
- Are they successfully managing BNPL loans?
- Which BNPL apps are safe?
- Which apps are the better stewards of consumer information?
- Do any BNPL apps sufficiently engage consumers who use these apps to be able to understand their rights and, when the need arrives, resolve problems?

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checks without affecting consumer credit scores, and it reports positive payments to credit bureaus. It doesn't report 0 percent loans with four biweekly payments or 0 percent loans with a three-month repayment period. Perpay does not check credit scores to determine eligibility for a loan, but it does report payment history to all three credit bureaus.

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## Methodology

Our testing involved applying a subset of [CR's Fair Digital Finance Framework](#) to BNPL products and conducting tests on the BNPL apps. The Framework includes criteria, indicators, and procedures<sup>3</sup> to test digital finance products across the principles of Privacy, Safety, Transparency, User-Centricity, Financial Well-Being, Inclusivity, and Environmental Social Governance. Each of these Framework principles contains multiple criteria, which are defined by indicators—actions or behavior demonstrating the criteria. Each indicator is then assigned one or more testing procedures. For this evaluation, only the Privacy, Safety, and Transparency principles were applied.

We examined eight BNPL mobile apps: Affirm, Afterpay, Klarna, PayPal, Perpay, Sezzle, Zip, and Zip.<sup>4</sup> To select these apps for evaluation, we looked at market share data, the number of recent downloads, and key media mentions. We also considered whether researchers would be able to access an app's privacy policies, permission information (e.g., requests to access to geolocation info, camera, etc.), and software development kits and embedded trackers. We also were more likely to select apps for evaluation if we found that they use particular types of marketing and if they had been the subject of consumer complaints to the Consumer Financial Protection Bureau or highlighted in recent CFPB reports.

Though each company offers its own blend of specific features via a mobile app, they all deliver the same core service, which was the focus of the testing: enabling individuals to pay for purchases in installments. As noted earlier, we looked mainly at pay-in-four products, where the cost of a good or service is split into four equal, interest-free, biweekly or monthly installments, with the first payment due at the point of sale.

The evaluation, performed from December through April 2023 and in part by Consumer Reports' partner, IDAC (International Digital Accountability Council), leveraged consumer research, document review, user interface review, technical tests such as network traffic analysis, and direct engagement with evaluated BNPL companies.<sup>5</sup> Consumer research

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<sup>3</sup> The procedures, while part of the Fair Digital Finance Framework, are not shown at the link provided. The procedures are specific steps CR testers follow when examining apps to test the criteria and indicators.

<sup>4</sup> Because some of the apps do not allow full engagement with the product or services through an app, in some cases we also reviewed and managed the account through the associated company website.

<sup>5</sup> As a more formalized part of our methodology, after product testing we reach out to all evaluated companies to share our findings with them. This provides an opportunity to contextualize our observations and data, and to request additional documentation or get a better understanding of observed practices.

included several consumer surveys<sup>6</sup> and an online discussion panel consisting of 29 participants, which together increased our understanding of consumer concerns, experiences, and opinions about BNPL services.<sup>7</sup> Document review examined publicly available documents found on BNPL company websites and mobile apps under headings such as “terms of service,” “terms and conditions,” “privacy policy,” “privacy disclosures,” and “end user license agreement” (sometimes shortened to EULA). In this report, we will refer to these materials collectively as “documentation.” Company engagement included extensive conversations and data sharing with evaluated companies to validate and contextualize our observations.

The product tests examined the following aspects of the first three Framework principles.

- **Safety: Maximum Fraud Protection** evaluates the disclosure of funds’ protection; disclosures related to monitoring for, notifying users of, and process for handling suspicious or fraudulent activity; and protecting users from and educating users about fraud and scams. **Good Security Practices** evaluates authentication systems; disclosure of the use of encryption; protection from known software vulnerabilities; protecting user data, including limiting employee access to data, performing or commissioning security audits, and accountable use of third-party contractors; software updates; and addressing reports of vulnerabilities.
- **Privacy: Appropriate Disclosure** evaluates disclosure of specific data elements collected, how data elements are collected, the purpose for collecting each type of user data, data sharing, and user data rights. **Data Minimization** evaluates

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These interactions are a useful way to validate data and additionally serve as an opportunity to explore our theory of change for this work, which is to identify opportunities for improved language and practice directly with a company. We reached out to all companies in this case, and Perpay was the only company that declined to meet with us.

<sup>6</sup> Consumer Reports nationally representative American Experiences Survey of 2,174 U.S. adults, January 2022,

[https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer\\_Reports\\_AES\\_January\\_2022](https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer_Reports_AES_January_2022); “Buy Now, Pay Later Services,” CR nationally representative internet survey of 2,013 U.S. buy now, pay later users, August 2022,

<https://advocacy.consumerreports.org/research/buy-now-pay-later-services-august-2022-nationally-representative-internet-survey/>; CR nationally representative American Experiences Survey of 2,017 U.S. adults, December 2022,

[https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer\\_Reports\\_AES\\_December\\_2022.pdf](https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer_Reports_AES_December_2022.pdf).

<sup>7</sup> Consumer Reports Buy Now, Pay Later Discussion Board, May 2023,

<https://advocacy.consumerreports.org/research/buy-now-pay-later-online-discussion-panel/>.



whether data collected is necessary for service provision. **Minimum Data Sharing** evaluates if data sharing is necessary for service provision or is opt-in by default. **Data Deletion** evaluates company data retention policies and whether users can delete their data. **Right to Access and Control** evaluates whether users can access and correct their data. **User Privacy Control** evaluates whether users can control their privacy through settings and if default settings prioritize users' privacy.

- **Transparency: Meaningful Privacy Information** evaluates whether the company clearly discloses legally binding documentation and how the company meaningfully shares privacy information with users. **Transparent Safety Practices** evaluates disclosure of meeting recognized security standards and notification and responses to cybersecurity incidents. **Meaningful Explanation of Service** evaluates whether the company transparently and meaningfully shares information about the service, including fees. **Legal Rights** evaluates whether users have to give up legal rights to use the service.

An additional and developing data validation and collection method is engagement with evaluated companies. After conducting consumer research and product testing, we contact each company to present our findings. These interactions provide opportunities to contextualize and validate the data we have gathered, obtain additional documentation and substantiation of additional data presented by the companies, and identify to companies opportunities for improving documented processes, workflows, design interfaces, or other practices.

Consumer Reports shared its findings with the eight evaluated companies<sup>8</sup> and asked each if it would continue to work with CR on identified areas to improve policies, practices, and the consumer experience. As a result of these engagements, Klarna and Sezzle identified and made positive adjustments. Affirm, Afterpay, Klarna, and Sezzle acknowledged support for Consumer Reports' mission to create a fair and just marketplace for all and agreed to continue engaging with CR after publication of this report. We have committed in turn to updating our findings and ratings at a later date to reflect our continued dialogue.

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<sup>8</sup> Only Perpay declined to meet to discuss our findings.

## Industry Overview

Technological advances that provide consumers with new ways to make payments have coincided with robust consumer demand for convenient and low-cost new payment methods.<sup>9</sup> In this context, buy now, pay later products have grown dramatically. From 2019 through 2021, the number of BNPL loans originated in the U.S. by five lenders (Affirm, Afterpay, Klarna, PayPal, and Zip) grew almost tenfold, from 16.8 million to 180 million, while the dollar volume (commonly referred to as gross merchandise volume, or GMV) of those loans grew more than tenfold, from \$2 billion to \$24.2 billion.<sup>10</sup>

This growth is reflected in Consumer Reports' consumer survey responses. Between January and December 2022, the percentage of Americans who said they had never heard of BNPL fell from 32 percent to 26 percent.<sup>11</sup> And the percentage of Americans reporting that they had ever used a BNPL service increased from 18 percent to 21 percent.

It is notable that all this growth has taken place despite industry volatility and open questions about the viability of the BNPL business model.<sup>12</sup>

In terms of user-level data, recent statistics show that 73 percent of BNPL applicants were approved for credit in 2021, up from 69 percent in 2020. Meanwhile, the average individual order value<sup>13</sup> in 2021 was \$135, up from \$121 in 2020.<sup>14</sup>

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<sup>9</sup> Johannes Ehrentraud, Jermy Prenio, Codruta Boar, Mathilde Janfils, and Aidan Lawson, "Fintech and payments: regulating digital payment services and e-money," FSI Insights on policy implementation No 33, July 2021, <https://www.bis.org/fsi/publ/insights33.pdf>.

<sup>10</sup> "Buy Now, Pay Later: Market Trends and Consumer Impacts," *Consumer Financial Protection Bureau*, September 2022, <https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts>.

<sup>11</sup> CR nationally representative American Experiences Survey of 2,174 U.S. adults, January 2022, [https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer\\_Reports\\_AES\\_January\\_2022](https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer_Reports_AES_January_2022); CR nationally representative American Experiences Survey of 2,017 U.S. adults, December 2022, [https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer\\_Reports\\_AES\\_December\\_2022.pdf](https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer_Reports_AES_December_2022.pdf).

<sup>12</sup> "Pushing through undercurrents: Sectoral and regional forces influencing technology driven systemic risk, and resulting mitigation opportunities," *World Economic Forum (in collaboration with Deloitte)*, March 30, 2023, 49, <https://www.weforum.org/reports/pushing-through-undercurrents-sectoral-and-regional-forces-influencing-technology-driven-systemic-risk-and-resulting-mitigation-opportunities>.

<sup>13</sup> Average purchase amount financed by a BNPL loan.

<sup>14</sup> "Buy Now, Pay Later: Market Trends and Consumer Impacts," *CFPB*, September 2022, 4, <https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts>.

BNPL has been positioned as an alternative form of short-term credit for online retail purchases. As a report by the Consumer Financial Protection Bureau put it last year, “Combining the digital point-of-purchase ubiquity of credit cards, the simple repayment terms of traditional installment loans, and the general appeal of no interest charges, BNPL was able to gain traction with consumers who enjoyed the ease of ecommerce and the flexibility of being able to pay for goods and services over time but who may have been leery of more traditional forms of debt.”<sup>15</sup>

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<sup>15</sup> “Buy Now, Pay Later: Market Trends and Consumer Impacts,” *CFPB*, September 2022, 6, <https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts>.

## Consumer Attitudes

Consumers express largely positive feelings about BNPL products. In CR's 2023 online discussion board, users again and again extolled the ease and low cost of getting credit through BNPL. As one participant put it: "The fact you can borrow credit at a low cost or for nothing at all is super duper cool."

Panelists consistently reported that BNPL enhances their quality of life and fills temporary financial gaps. Several mentioned that BNPL supports their ability to maintain emergency savings. Many had used it to pay for gifts, including one father of four who says he relies on BNPL loans for all his Christmas shopping. People had also used it for large appliances, mattresses, and furniture.

Users mostly claim to be very careful to handle their BNPL loans responsibly. Among a group of 29 heavy BNPL users, only one acknowledged ever missing a payment. The participants described their BNPL use as part of a suite of strategic money moves, including leveraging credit card points and special offers, to stretch their earnings and chase their piece of the American dream.

Recent survey findings, however, indicate that BNPL users are generally less financially secure than nonusers. In response to a nationally representative CR survey of 2,017 U.S. adults in December 2022, BNPL users reported poorer financial health than nonusers across a wide array of indicators. They were less likely to say that, in the past year, they had felt comfortable that they had enough money to get by (53 percent vs. 69 percent of nonusers). They were more than twice as likely as nonusers to report feeling that they had more debt than they could handle (48 percent vs. 21 percent) and that they didn't have enough money to pay all their bills on time (40 percent vs. 18 percent). They were nearly three times as likely to say they had overdrafted their bank account (34 percent vs. 12 percent).<sup>16</sup> (Additional findings of that CR survey can be seen in figure below.)

And, indeed, some BNPL users who participated in our panel discussions told us that BNPL has been a lifeline during moments of financial strain. One single mother whose

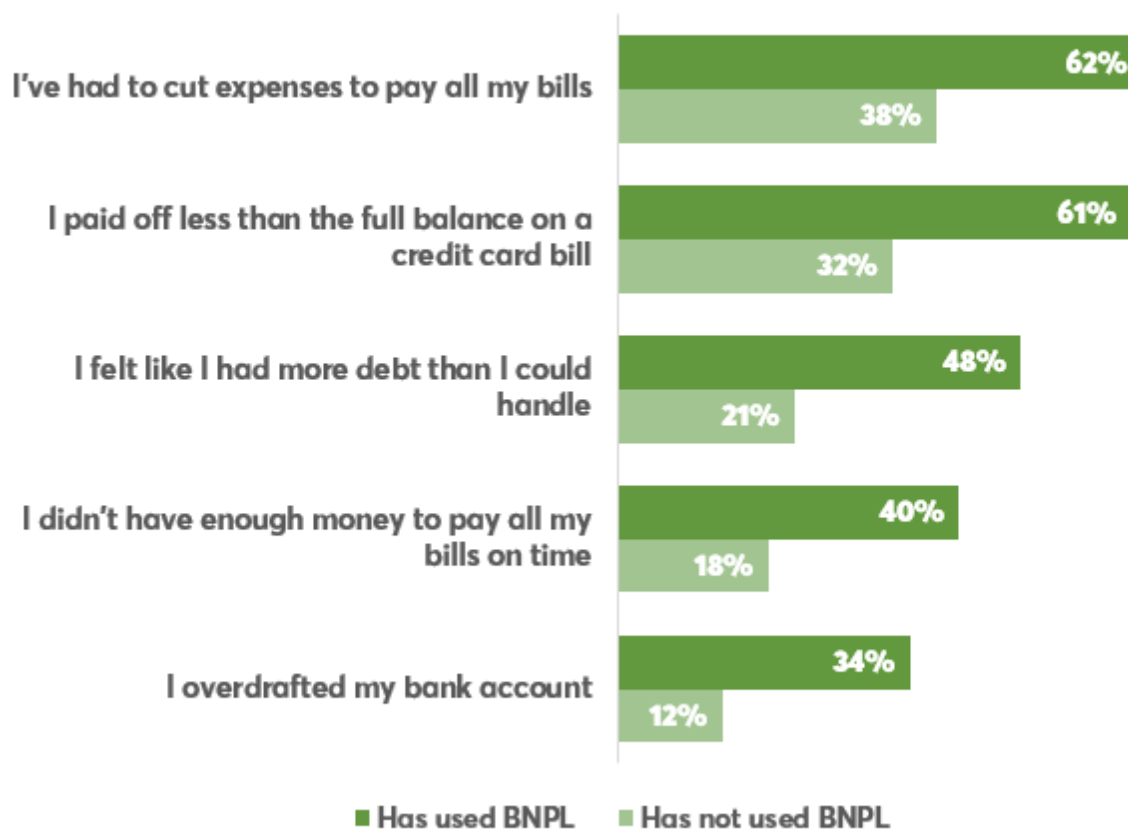
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<sup>16</sup> Consumer Reports nationally representative American Experiences Survey of 2,017 U.S. adults, December 2022, [https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer\\_Reports\\_AES\\_December\\_2022.pdf](https://article.images.consumerreports.org/image/upload/v1672847923/prod/content/dam/surveys/Consumer_Reports_AES_December_2022.pdf).

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job offers no paid sick leave explained why she recently used BNPL to buy groceries: “BNPL helped me pay because I had worked less that week due to being sick and still needed enough to get me and my three girls by.” Another participant, a self-described “dad who loves to spend time with his kids,” told us he had used a BNPL loan to replace the brakes on his car, a crucial safety purchase that he could not afford to pay in full at the time. When we asked participants whether a purchase paid for using a BNPL loan ever strained their finances, the same panelist responded, “If I was using a BNPL service, it’s because [my finances were] already strained.”<sup>17</sup>

Please read the following statements and indicate whether or not each statement has been true for you in the past year – selected items



Base: All respondents

<sup>17</sup> Consumer Reports Buy Now, Pay Later Discussion Board, May 2023, <https://advocacy.consumerreports.org/research/buy-now-pay-later-online-discussion-panel/>.

## Findings

### Finding 1: BNPL apps may not sufficiently disclose fees and interest rates or notify users of changes to terms.

A primary issue of debate around BNPL loans is the veracity of the “no fee” and “no interest” claims made in marketing materials and alongside point-of-sale offers. While these claims may be mostly accurate for borrowers who make all their installment payments on time, borrowers who end up missing payments may be charged late fees. There are varying associated costs of BNPL, which could also include interest,<sup>18</sup> depending on the loan size or type of payment plan offered to the consumer. A consumer could, for example, intend to choose a zero interest pay-in-four loan option, but decide that six payments is more suitable, not realizing that the six-payment plan is subject to interest. Thus, simple and clear delivery of cost information, at all points of engagement with the consumer, is important, and how terms and fee information are presented in-app implicates whether the true potential costs of the product are being clearly conveyed to consumers.

Transparency about the costs to borrow may affect whether BNPL products have the potential to further trap borrowers in a debt cycle, where borrowers end up taking on additional and often greater debt to pay off previous loans.<sup>19</sup> It may also affect whether they offer, as many companies asserted in our engagement with them, a path to financial well-being by enabling users to split the costs of payments into smaller payments over time. These concerns are particularly acute given that BNPL users, on average, are younger and more likely to be Black, Hispanic, and female, and have lower incomes and credit scores, than the general population.<sup>20</sup>

In addition, there is great variation in product offerings among BNPL companies, making it especially crucial that consumers are made aware of precisely what type of product they are being offered and at what cost. While this evaluation did not specifically examine or compare specific fees or costs of using BNPL products, we reviewed fee disclosures, in-app notification of fees, and disclosures regarding changes to any terms and conditions that could affect the cost of

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<sup>18</sup> CFPB. *Buy Now, Pay Later: Market Trends and Consumer Impacts*, September 2022, <https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts>.

<sup>19</sup> Cortnie Shupe, Greta Li, and Scott Fulford, “Consumer Use of Buy Now Pay Later: Insights from the CFPB Making Ends Meet Survey,” *CFPB Office of Research Publication No. 2023-1*, March 2023, <https://www.consumerfinance.gov/data-research/research-reports/consumer-use-of-buy-now-pay-later-insights-from-the-cfpb-making-ends-meet-survey/>.

<sup>20</sup> Cortnie Shupe, Greta Li, and Scott Fulford, “Consumer Use of Buy Now Pay Later: Insights from the CFPB Making Ends Meet Survey,” *CFPB Office of Research Publication No. 2023-1*, March 2023, <https://www.consumerfinance.gov/data-research/research-reports/consumer-use-of-buy-now-pay-later-insights-from-the-cfpb-making-ends-meet-survey/>.

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a BNPL loan to determine whether users are appropriately notified. We also examined onboarding materials to review whether and how fee schedules are shared with users before they create an account, and whether users receive in-app notifications of fees at appropriate times. Our findings include the following:

<b>Affirm, PayPal</b>	Do not charge late fees for their pay-in-four options but do charge an annual percentage rate (APR) for longer-term monthly options.
<b>Afterpay, Klarna</b>	Charges a fixed late fee for its “interest free” pay-in-four option, although these fees don’t seem to make up a significant portion of its revenue.
<b>Sezzle</b>	Prevents users who fail to pay their installments on time from accessing their accounts, and charges them a reactivation fee if they want to rejoin.
<b>Perpay, Zip</b>	Charge both late fees and APRs.
<b>Zilch</b>	Says it charges zero fees on purchases made at their participating retailers, but charges fees for any purchases online made with its Mastercard. Business model is unclear and potentially raises concerns about user privacy. <sup>21</sup>

Further, while most companies offer detailed explanations and terms of service, the nature, number, and complexity of different product options varies among companies. Combined with marketing that emphasizes no fees and no-cost payment options, consumers may not fully understand their obligations.

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<sup>21</sup> Zilch’s revenue model appears to be unique. Although the company seems to rely heavily on merchant fees, it has also created a proprietary advertising system called the Ad-Subsidized-Payments-Network that generates advertising revenue every time its customers make a purchase. Zilch then passes on a portion of this revenue to users “in the form of free credit, savings, deals, and discounts.” It’s unclear how this system works in practice and whether it poses any privacy concerns for users. See more at <https://www.zilch.com/news/googlisation-of-payments-a-1-trillion-evolution-of-the-payments-model/>.

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<b>Affirm, PayPal</b> <sup>22</sup>	Provide users with similar options, allowing them to acquire goods and choose between a pay-in-four and a monthly payment plan.
<b>Klarna</b>	Offers these same options, plus an interest-free, pay-in-30-days <sup>23</sup> plan and longer-term financing.
<b>Afterpay,</b> <sup>24</sup> <b>Sezzle,</b> <sup>25</sup> <b>Zip</b>	At the time of testing offered a pay-in-four option: the ability to pay for goods in four installments over a period of six weeks.
<b>Perpay</b>	Offers a digital credit card, which can be used only to make purchases through its proprietary “marketplace,” and allows users to select from several repayment plans.

This variation in product offerings, payment plans, and applicable fees amounts to a lack of transparency and was a particular concern for our discussion board participants, who mentioned it several times:<sup>26</sup>

- ***“It also is not always apparent the exact terms of the BNPL and can seem tricky as far as when exactly you can be charged interest or a fee and how that will work.... I saw the option to split into four equal payments and selected it. It could have been personal error but I had trouble deciphering what determined what the APR interest rate was depending on the purchase price, if shipping was included in that or not, etc.... it would have been nice if the exact details were more clearly stated as you go through the registration process because to me, it felt like they were keeping their cards close to their hand and not making it obvious to try and take advantage of someone not knowing exactly what they were getting into.... it seemed that all the exact details and terms of the BNPL system were not explicitly given or obvious at the very least. I think full transparency should be given maybe even with a disclaimer at the beginning that this***

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<sup>22</sup> Here we refer only to PayPal’s BNPL services, not its other services, such as P2P.

<sup>23</sup> The Pay in 30 option offered by Klarna gives users 30 days after a purchase has shipped to pay for the purchase.

<sup>24</sup> Subsequent to our testing period, Afterpay now also offers additional payment options with long-term financing over a six or twelve month period.

<sup>25</sup> Subsequent to our testing period, Sezzle now also offers another payment option with long-term financing, which requires the provision of additional information, pre-qualification, and may require a hard credit check.

<sup>26</sup> Consumer Reports Buy Now, Pay Later Discussion Board, May 2023, <https://advocacy.consumerreports.org/research/buy-now-pay-later-online-discussion-panel/>.



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*service is much like taking a loan and can incur interest and tell how that will be determined and how it is received and paid.”*

• “...I would like BNPL to be clearer on the implications of using them. Most of them say they don’t do a hard credit check, but **what is actually happening behind the scenes? ... The lack of visibility into the process that goes on here makes it seem like to me the only winners here are the BNPL services...**”

• “I think transparency is really big for me. I haven’t had this happen to me, but if there were that BNPL option and it wasn’t upfront about interest, if there was any at all or none, that would be a big red flag. **I just want these BNPL options to be as upfront as possible when advertising their service or describing it at a website’s checkout.**”

Related, we are concerned that companies may not sufficiently notify users of material changes to the terms and conditions for use of the services. Six of the eight apps provide no affirmative or proactive notice of such changes to users. Some of the apps explicitly assert that users are acknowledging legal notice of new terms and consenting to them by merely continuing to use the apps after such updates are made.

Afterpay, Zilch	Proactively notify users of changes to their policies.
PayPal	Will provide notice within 30 days only if required by law.
Klarna	Directs users to regularly check its website for changes.
Affirm, Sezzle	Reserve the right to unilaterally make changes to the agreement and explicitly state that continued use of the service is consent to the changes. <sup>27</sup>
Affirm	States that “it is your responsibility to review the Agreement posted to our website from time to time to see if it has been changed.”
Affirm, Sezzle, Zip	Considers continued use of an account as consent to changes to the user terms.

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<sup>27</sup> Sezzle’s terms of service provide that if a consumer is located in a jurisdiction that requires consent to any changes in the agreement, affecting services provided by Sezzle or conditions of a loan, changes won’t take effect until affirmative consent to such changes occurs.

## **Finding 2: Most BNPL apps clearly disclose fraud policies, and often provide useful consumer education content on fraud, but do not commit to real-time fraud monitoring and notification.**

The BNPL industry is susceptible to fraudulent purchases made with stolen identities.<sup>28</sup> While every app states in its documentation that it protects users against fraud and/or provides guidance for users who experience fraud or suspicious account activity, they do not all commit to real-time or proactive monitoring for potential fraud, to immediately notifying consumers when fraud is suspected, or to conducting regular security audits. In fact, most apps appear to place the burden of reporting or making a claim of fraud on users, who may be unaware that their identities have been stolen or their accounts have been breached.

Our data validation with companies revealed that while companies may in fact have robust real-time fraud monitoring practices, this is not reflected in most company documentation. Additionally, the companies may not sufficiently equip consumers to recognize when fraud has occurred. For example, some consider routine email or text transaction notifications to be adequate notice of potential fraud. But because consumers may not be specifically alerted that these notifications may address potential fraud, it is unlikely that they are being engaged in the fraud monitoring process. Additionally, based on company documentation, not all companies proactively contact consumers, beyond these automatic email notifications, when suspicious activity is detected.

Of companies evaluated, PayPal stands out for its express commitments to guard against fraud and seems to provide the most comprehensive protection.

<b>Afterpay, Klarna, PayPal</b>	Disclose that they have specific measures in place, such as proactively monitoring for fraud and conducting regular security audits.
<b>PayPal</b>	Explicitly commits to monitoring transactions in real time. Additionally, commits to notifying users of fraud in real time and outlines a clear process for the recovery of assets.

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<sup>28</sup> The buy now, pay later industry, which boasts that companies can safely approve an online credit application within minutes, is susceptible to purchases made with stolen identities. A study published in June 2022 by a division of financial market data provider Refinitiv found that 23 percent of Americans who said they were victims of identity theft reported that their information had been used to open an account with a buy now, pay later service.

<b>Klarna,<sup>29</sup> PayPal</b>	Make the clearest commitments to review claims made by users of unauthorized account activity. Both also have separate documents or webpages that articulate specific security measures that they take.
<b>Affirm, Afterpay, Klarna, PayPal, Sezzle, Zip</b>	Provide user-facing educational content about scams and fraud in their blogs and on their websites.
<b>Perpay, Zilch</b>	Do not provide user-facing education content about scams and fraud in their blogs and on their websites. During our evaluation, in February 2023, Zilch’s security and fraud pages were incomplete; after our engagement with the company, and our re-review of the same, we note that those pages are now complete.

When CR engaged the evaluated companies for the purpose of validating our data, Klarna and Sezzle agreed to explore improvements to their public disclosures for consumers in order to provide additional detail about real-time monitoring capabilities. Notably, Sezzle has since created a new page that clearly outlines how the company protects consumer accounts.<sup>30</sup>

### **Finding 3: BNPL apps provide basic security measures but do not commit in their disclosures to proactively monitoring accounts for security vulnerabilities, and make vague commitments to industry-standard security practices.**

BNPL apps generally use strong basic security practices. Every company has a fairly thorough authentication process that requires at least two pieces of personal information.<sup>31</sup> All the

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<sup>29</sup> In our engagement with Klarna, the company shared that it reaches out to consumers to take preventive actions when it notices suspicious activity, either on a consumer’s account or on a collection of accounts. In our continuing engagement with Klarna, CR will validate this.

<sup>30</sup> See Sezzle’s updated Fraud & Dispute page:

<https://shopper-help.sezzle.com/hc/en-us/articles/15485662001684-How-does-Sezzle-protect-my-account>

<sup>31</sup> In testing security procedures for Zilch, we were unable to complete or fully observe data for certain security procedures, including: notifications when email, phone number, address, and payment method are changed; settings for notifications related to changing security settings; whether the service still functions when all permissions are declined; whether default settings compromise users’ privacy; whether a control for targeted advertising exists and that it is disabled by default; whether language and controls do not push users into selecting options that erode their privacy or share more data than is needed; whether the app allows separate controls for marketing; technical integrations; whether users receive in-app notifications of fees; and the accessibility of help text. This, alongside incomplete security and privacy pages at the time of testing, as well as Zilch being the only app that required testers to provide their full Social Security number, led our testers to conclude that aspects of the sign-up process implicating security were underdeveloped, and one tester did not feel comfortable providing additional personally identifying information.

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companies encrypt financial data and personally identifiable information using industry standard, state-of-the-art algorithms to prevent it from being easily read or used by attackers.<sup>32</sup> And none of the apps were found to be susceptible to known software vulnerabilities.

That said, we did identify ways in which some app security practices can and should be improved. First, in some apps, notifications are not sent to consumers when changes to sensitive settings are made, including changes to name, email address, phone number, and address. Second, some apps do not require a password, some allow easy-to-guess passwords, and only some use multifactor authentication. Third, we noted that users of some of the apps do not have to reauthenticate when their apps or devices are left unattended for an extended period of time. (In our engagements with the companies on reauthentication, some companies noted that the reauthentication process works differently in certain sections of the app. That is, some apps require that users reauthenticate at the shopping cart section of the app, not at the overall app level.)

<b>Perpay, Zilch</b>	Did not trigger a lockout after 10 incorrect attempts to log in.
<b>Sezzle</b>	Does not notify users when changes to sensitive settings are made. <sup>33</sup>
<b>Zilch</b>	Raised particular concerns. Our testers experienced log-in problems, authentication issues, and requests for sensitive information during the sign-up process. Additionally, in February 2023, the app's security and fraud pages were incomplete. After engagement with the company, the pages now appear to be complete.

Security practice disclosures can and should be improved as well. Some apps make only vague commitments to safeguard users' personal information, restrict employee access to sensitive data, or respond to security vulnerabilities. Although this does not necessarily mean that apps fail to invest in and address fraud prevention, auditing, or employee training, there is variation in the information shared about internal security measures. Several companies do disclose Payment Card Industry Data Security Standard (PCI-DSS) or Systems and Organizational Controls (SOC) commitments and share information about robust internal security measures.

<b>PayPal</b>	Makes more comprehensive security disclosures than the rest.
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<sup>32</sup> All observed transmissions were encrypted using Transport Layer Security (TLS) 1.3 with a good cipher, indicating good transport security practices.

<sup>33</sup> As a result of our engagement with Sezzle, the company has initiated a workflow to send a notification when a shopper adds or changes an address on their account.

**Affirm, Klarna,  
Perpay**

Do not describe adherence to a specific industry security standard, such as PCI-DSS or SOC1.

Additionally, every app can and should do more to ensure that users are informed in the event of a cybersecurity incident. None of the apps in CR's analysis explicitly promise to notify users.

When CR engaged the evaluated companies for the purpose of validating our data, some companies agreed to improve their security disclosures and practices. Notably, Klarna will explore options to provide additional clarifying language to their public disclosures to detail controls for employee access to sensitive data, third-party controls, and third-party obligations. Sezzle has committed to updating its disclosures and practices; it has already published new web pages to further explain its use of certain security protocols and adherence to widely accepted industry security standards.<sup>34</sup>

**Finding 4: BNPL apps make adequate legal disclosures regarding their data collection practices, but they do not go further to ensure that users understand their rights; and they collect more data than is needed to use the service.**

Broadly speaking, the apps adequately disclose the types of information they collect, when they collect it, where they collect it from, why they collect it, how they use it, and with whom they share it. The apps also disclose how users can control the use and sharing of their data and whether their information is incorporated into a data profile.

However, these disclosures are typically shared with users only through links to applicable policies during the sign-up process, and the information is not conveyed in any more meaningful way, such as summarizing important privacy practices in consumer-friendly language on a dedicated screen. We also measured the readability of app privacy policies and found that every policy graded beyond the elementary, grade-8 level. As such, every app could do more to make its privacy commitments more easily understandable.

Additionally, data collection, usage, and sharing may go beyond what is strictly necessary for service use and provision. For example, every company discloses that it uses personal information for marketing or targeted advertising, which is not necessary for the core function of a

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<sup>34</sup> To avoid potential exposure of security risks, we have not publicly identified the companies that agreed to work on security improvements.

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fintech app. Furthermore, every app has ambiguous language in its privacy policies regarding data use, such as using personal information for “legitimate business purposes.”

### Data Collection

Every app discloses specific categories of data that it collects or may collect from users. Most collect basic information, such as a user’s name, email address, and mobile number, and some collect additional data, such as a residential address, the last four digits of the user’s Social Security number, or the full Social Security number.<sup>35</sup>

Some of the apps disclose that they may be collecting or seeking permission to use additional categories of data that do not appear to be necessary for the apps to function or to use the service. This includes internet browsing history, email and chat communications, and video and voice recordings. None of the eight BNPL apps tested committed to collecting users’ information and data for targeted advertising only with user consent or allowing users to restrict secondary use of data.

**Affirm, Afterpay, Klarna, PayPal, Perpay, Sezzle, Zilch**

Disclose that they collect geolocation data while users are actively using the app.<sup>36</sup>

**Affirm, Klarna, PayPal,<sup>37</sup> Zilch**

Disclose that they may collect biometric data for identity verification purposes.

Some of the apps also request that users grant permissions for the collection of additional and apparently unnecessary data. For six of the eight apps, however, testers were able to decline all permissions and still use the core features of the service.<sup>38</sup> While the apps that collect geolocation and address information claim that such data is needed for identity verification and fraud prevention, that information can also be used for targeted advertising.

Additionally, some apps request permissions that can allow an app to access files on a user’s device—such as calendar invites and image metadata—that could be used to infer additional personal information about the user.

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<sup>35</sup> While Affirm, Zilch, and Zip perform credit checks, Zilch is the only app that requires users to submit their full Social Security number to open an account.

<sup>36</sup> While most apps require users to opt in to this collection via system permissions, Zilch and Zip state that they collect this data automatically. Afterpay allows users to adjust these settings in the mobile app.

<sup>37</sup> PayPal collects geolocation and biometric information with user consent.

<sup>38</sup> This was not possible for Zilch and Zip due to blocked access.

<b>Klarna, Sezzle</b>	Declare permission requests for user's contacts. <sup>39</sup>
<b>Afterpay, Klarna, PayPal, Sezzle, Zilch, Zip</b>	Declare permission requests that would allow the app to read or write to other files on a user's device.

Our consumer research demonstrates that consumers may not anticipate or have specific awareness of the kinds of permissions or data BNPL companies have access to. We led our discussion board members through an exercise of logging in to their BNPL accounts, and several were surprised at the data the company was keeping about them. Eight people said their annual income was shown, and one user discovered that the app had been collecting all the reviews he had written about products he bought using the service.

When CR engaged the evaluated companies for the purpose of validating our data collection findings, companies reiterated that they only collect data as relevant to a transaction or in a way that is reflective of consumer permissions. Although CR views that most apps evaluated have room for improvement here, only Sezzle committed to review its privacy policies and app permissions.

**Finding 5: BNPL apps have varying policies and practices regarding their sharing and usage of consumer data. Although most companies do not sell consumer data, most share data with third parties, in many cases for the purpose of targeted advertising and marketing.**

#### ***Data Sharing and Usage***

Most apps disclose how they use consumer data but use vague or inconsistent and at times contradictory language that could enable them to use the data for almost any purpose. For instance, every app discloses that it uses personal information for marketing or targeted advertising, and some enable its use for “legitimate business purposes.” While apps note with specificity when they use data for beneficial purposes, such as identity verification and assisting with law enforcement, some could make clearer whether they use data to create marketing profiles, to target interest-based ads, or to aggregate and share with retailers. Notably, some companies explicitly say that they do not sell or share consumer data, but our review of disclosures found language in privacy policies specifying the very data sharing—and ways to opt

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<sup>39</sup> Per our engagement with BNPL companies, contacts are said to be used contemporaneously with the consumers' use of the app. Companies reiterate that they neither store contact information nor provide contact information to third parties. Sezzle additionally notes that shoppers can still use the app while declining access to contacts. In the U.S., the Klarna says that it does not currently request access to a user's contacts.



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out of the sharing—that some companies say they don’t do. Of the eight apps, Afterpay offers the clearest and most detailed disclosures on data collection.

Where privacy policies can be circular, we were also able to examine the potential of consumer data being used through network traffic analysis and observation of data flows. The apps also appear to use the personal information they collect for purposes beyond the essential functions of the app. In some instances, they use software development kits (SDKs) that access more user data than necessary, demonstrating that apps share data beyond BNPL-related purposes. Additionally, we observed that seven out of the eight companies send data to potentially problematic end points. In some cases, these end points are associated with companies involved in advertising or e-commerce, which could indicate use of the data for targeted advertising purposes.

<b>Klarna, PayPal, Perpay</b>	SDK usage appears to be reasonable and functionally aligned with the apps’ core purposes.
<b>Afterpay, Zilch, Zip</b>	SDK usage raised concerns: Each uses more than 10 SDK packages, including redundant analytics and advertising SDKs that enable targeted advertising to users.
<b>Affirm, Sezzle</b>	Fall into an uncertain middle ground: Affirm’s SDK uses “Bluetooth beacons,” which may be used to determine user location. Sezzle uses a Facebook SDK, which may access more user data than necessary.

### ***Data Sales and Transfers***

There is significant variation between BNPL company disclosures and practices regarding the sale or transfer of consumer data. Though companies may not sell data, data can be exchanged for “other forms of value” (Klarna), used in consumer profiles from which analytics may be shared with third parties (Affirm), transferred outright, or shared with third parties. Most companies opt consumers into third-party data sharing by default. To prevent it, consumers must actively opt out, which often requires finding instructions in privacy policies rather than using easily accessible app settings or controls. Thus, even if not sold, consumer data is likely shared or transferred by BNPL companies to affiliated or nonaffiliated third parties for marketing or targeted advertising.



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In our review, we also found:

<b>PayPal</b>	The only app of the eight that commits not to selling or sharing data with nonaffiliates for advertising purposes, though this may not apply to international data transfers.
<b>Zip</b>	Commits not to <i>sell</i> data to third parties for marketing purposes without user consent. It does, however, share consumer data with nonaffiliates for marketing purposes. Zip's privacy policy provides a way for consumers to limit this sharing.
<b>Affirm, Afterpay, Klarna</b>	Commit to not transfer the data of California consumers, to not selling it, or both, as required by California law. All other consumers must opt out via the applicable privacy policy/notice to prevent their data from being sold or transferred.
<b>Perpay</b>	Commits not to rent or sell data to third parties and makes vague commitments to minimize data sharing by allowing consumers to opt in to future data sales and transfers.
<b>Sezzle</b>	States in its privacy policy that it does not sell data to third parties but in the same policy reserves the right to "disclose, transfer or share" data without further notice to the consumers. Sezzle also discloses that it shares information with nonaffiliate companies for marketing purposes, though consumers can opt out of this.
<b>Zilch</b>	Makes no commitment not to sell data to third parties. Commits to limiting sharing of some consumer data for California, Massachusetts, Mississippi, New Jersey, and Vermont users but not for other consumers. Zilch also states that user personal information may be transferred to, processed, and stored outside the U.S. from time to time by its service providers and other third parties the company works with. Furthermore, it makes no statement about whether this transferred data is protected or not.

When CR engaged the evaluated companies on our data sharing and usage findings, companies reiterated that they do not sell consumer data, and maintained that third-party data sharing is conducted only with affiliate merchants, reflects consumer preferences, or happens only for the

purpose of improving account security. Notably, Sezzle has agreed to review and amend its privacy policies to ensure data minimization and to clarify its data sharing and use practices.

**Finding 6: In many cases BNPL apps do not offer users easily accessible control of privacy settings, and in most cases do not provide users with the ability to easily access or delete data.**

While every app discloses some level of user data rights, most mention only the rights related to data review, correction, and deletion. Disclosure of rights is typically more expansive and detailed for California users. Afterpay and PayPal have the clearest and most comprehensive explanation of user data rights. PayPal provides users with detailed and accessible information and guidance on how users can exercise their rights, such as requesting the transfer of personal data.

***User Privacy Controls***

Given the large amount of data that users provide to BNPL apps, users should be able to see, access, and control their privacy settings, and default privacy settings in BNPL apps should prioritize user privacy. Our review found that privacy control settings often either did not exist in the app or were hard to find and/or not obvious. We specifically found the following:

<b>PayPal</b>	Offers users the most comprehensive privacy controls, including the ability to change data tracking and sharing permissions on its app.
<b>Affirm, Klarna</b>	Enable limited privacy settings, including the ability to track all orders, opt out from being remembered by merchants, set up a PIN for secure transactions across the app, and autofill information at purchase.
<b>Afterpay</b>	Only app that provides a setting to turn off personalized ads, but that setting is not enabled by default.
<b>Perpay, Sezzle, Zip</b>	Had no settings related to privacy.
<b>Zilch</b>	Unable to fully evaluate privacy settings for Zilch because the tester's access was blocked.

In our data validation engagement with evaluated companies, we learned that while user privacy settings and controls may exist, they often are not located in places that are evident or intuitive to a consumer. Additionally, in some apps where documentation describes how a consumer can access their information, there are no corresponding user settings or controls in the app.

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In a few of our engagements with companies, when we highlighted that settings were absent or not obvious, companies often pointed us to language in their long-form privacy notices. In cases where corresponding user controls were later identified for us in the app, we gave credit to the companies. We are working with some of the companies to improve the accessibility of user controls.

When CR engaged the evaluated companies on our user-controls findings, companies largely reiterated their view that consumers have sufficient user controls or access to instructions located in privacy policies or other terms and conditions. Additionally, some companies considered in-app shopping and marketing features as core to the business, thus they do not offer the functionality to turn off targeted advertising within the app, though a consumer could email and request to not receive marketing emails or otherwise contact third-party organizations such as YourAdChoices to limit targeted advertising. It is our view that in a mobile app environment, much is lost in translation or missed if privacy policies are not simplified and transformed into specific user-friendly app controls. Sezzle indicated willingness to assess how their user privacy controls could be improved.

### **Data Access**

While seven of the eight apps state that they allow users to request a copy of their data, none guarantee that users will gain access to their data; the disclosed rights seem to apply only to the request itself.<sup>40</sup> Although users can see the data they provided in all of the apps, CR testers were able to obtain a copy of that data only through PayPal.

Notably, every app provides users with the right to correct their data, though some make doing so easier than others. The PayPal app provides the clearest model for this.

### **Data Deletion**

While every app provides users with instructions on how to request data deletion in their respective privacy policies,<sup>41</sup> some of these processes are not straightforward and may not lead to the intended result. In fact, all the apps that provide a method to delete data also require account deletion.

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<sup>40</sup> For non-California users, Affirm's policy is slightly less clear: It does not specifically mention a user's right to request a copy of their data ("You can review and edit your personal information at any time by logging in to your account or by contacting us..."). Nevertheless, Affirm's policy clearly outlines these rights for California users.

<sup>41</sup> Affirm and Zip articulated these rights only for California users.

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<b>PayPal, Klarna</b>	Allow users to request data deletion through the app, but this also deletes the user's account.
<b>Affirm</b>	Provides controls for deleting data only to California users. <sup>42</sup>
<b>Afterpay, Perpay, Sezzle, Zilch, Zip<sup>43</sup></b>	Have no visible controls for deleting data, though users are provided with ways to close their accounts.

None of the BNPL apps commit to deleting all user data in the event of bankruptcy or if the app ceases to operate. Only PayPal commits to deleting user data after the relationship with the user ends, though not for 10 years.

When CR engaged the evaluated companies on their data access and data deletion controls, companies reiterate that data access, retention, and deletion policies are aligned with applicable industry standards and legal requirements. We clarified that we were looking for not just the mere availability of a policy but whether the policy was easy to locate in the app and whether it was easy for consumers to access and control their data in the app. In many instances, in order for consumers to access, correct, and delete their data, they have to follow procedures outlined in a privacy policy and reach out to the company outside of the app. Sezzle indicated willingness to improve their user data access and controls; Zilch noted it is doing ongoing reviews of data requesting processes.

### ***Consumer Experience With Data Access and Control***

We conducted a user findability exercise wherein we asked BNPL users to log in to their account on the service's website and see if they could find instructions for deleting their data. Then we asked them to report how easy or difficult that information was to find, using a standard seven-point findability scale where 1 is "very easy" and 7 is "very difficult." Participants found this task relatively difficult, with an average findability score of 4.2 out of 7. Wrote one participant: "I couldn't really find a way to delete my information. It only gave me options to change or update my information. I couldn't even find a way to delete my account."

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<sup>42</sup> Under settings on the app, if you click "Do not sell my info," it will take you to a page that allows you to request to have your data deleted only if you are a resident of California.

<sup>43</sup> According to Zip's privacy policy, "California Consumers can submit 'verifiable consumer requests' (as such term is used in the CCPA) regarding the privacy of their personal information, by sending an email to [privacy.usa@zip.co](mailto:privacy.usa@zip.co) or calling toll-free 1-888-322-5037."

We were able to disaggregate the findability scores by company, although these findings should be interpreted with caution because of the small sample and because we were not able to verify independently which BNPL service each participant was looking at. That said, the 13 participants who said they were using Affirm gave the findability task the worst average score—5.8 out of 7—while the 6 participants using Afterpay gave the findability task the best average score of 2.0.<sup>44</sup>

### Deleting Account Data

Average findability score (out of 7)



### Finding 7: BNPL apps essentially require users to use arbitration, and not the court system, to resolve potential legal disputes, and prohibit them from joining with other users to bring legal claims.

Users must give up important legal rights to use BNPL apps. In particular, for all apps, users effectively must agree to use binding arbitration to resolve any potential legal disputes, and are forbidden from joining together with other users to bring claims in a court of law. Although seven of the eight apps provide mechanisms for opting out of binding arbitration, such mechanisms are less meaningful and less likely to be utilized by consumers within the narrow time constraints allowed.

**Affirm, Afterpay, Klarna, PayPal, Perpay, Zilch, Zip**

Except for Sezzle, all opt-out clauses are time-bound. (Most opt-outs have to occur within 30 days of accepting the terms of service.)

**Perpay**

Allows for opt-out after 60 days.

<sup>44</sup> 1 = Very easy; 7 = Very difficult. (Consumer Reports Buy Now, Pay Later Discussion Board, May 2023, <https://advocacy.consumerreports.org/research/buy-now-pay-later-online-discussion-panel/>.)

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**PayPal, Sezzle,  
Zilch**

Do not provide opt-out clauses to enable users to join with other users to bring claims in a court of law.

**Zip**

While Zip provides a specific time limit and appears to provide a path for users to bring small claims in court, by their terms of service, any claim of wrongdoing gives them the ability to use arbitration.

## Scoring and Ratings of Evaluated BNPL Apps

After evaluating these eight BNPL apps, we scored and rated the apps. The findings detailed above represent our conclusions after examination, and the ratings below represent all the data collected across the first three principles in the Fair Digital Finance Framework.

In these evaluation-based ratings of BNPL apps, CR scored PayPal highest for the evaluated procedures across all three principles: Safety, Privacy, and Transparency. Affirm, Afterpay, Klarna, Sezzle, and Zip did well in specific aspects of our evaluations but faced some challenges. Perpay and Zilch placed last.

It should be noted that although companies scored well under the Privacy Principle for making appropriate disclosures, this merely indicates that they have fulfilled their legal obligations and does not necessarily mean their disclosures were meaningful or that they translated into actionable controls for consumers. This distinction is reflected in company transparency ratings and scores. All companies can and should make improvements with regard to data collection, sharing, and deletion. As a result, the eight services performed notably less well in the Transparency Principle, driven in part by lower scores for Meaningful Explanation of Service and Legal Rights.

It should also be noted that Consumer Reports weighs the various principles, subprinciples, and criteria differently based on the driving considerations for buy now, pay later apps. That is, each part of the Framework contributes more or less to the Overall Score based on its relative importance for consumers. For example, CR has determined that the Safety Principle is the most important principle tested in this examination. If an app scores poorly in the Safety Principle, that will hurt its Overall Score more than if it scores poorly in the Privacy or Transparency Principle.

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The ratings are visualized below:





### Ratings Criteria

Ratings are based on analyses of mobile versions of buy now, pay later (BNPL) services performed between December 2022 and April 2023.

**Safety: Maximum Fraud Protection** evaluates the disclosure of funds protection; monitoring for, notifying users of, and process for handling suspicious or fraudulent activity; and protecting users from and educating users about fraud and scams. **Good Security Practices** evaluates authentication systems; disclosure of the use of encryption; protection from known software vulnerabilities; protecting user data, including limiting employee access to data, performing or commissioning security audits, and accountable use of third-party contractors; software updates; and addressing reports of vulnerabilities.

**Privacy: Appropriate Disclosure** evaluates disclosure of specific data elements collected, how data elements are collected, the purpose for collecting each type of user data, data sharing, and user data rights. **Data Minimization** evaluates whether data collected is necessary for service provision.

**Minimum Data Sharing** evaluates whether data sharing is necessary for service provision or is opt-in by default. **Data Deletion** evaluates company data retention policies and whether users can delete their data. **Right to Access and Control** evaluates whether users can review and correct data. **User Privacy Control** evaluates whether users can control their privacy through settings and if default settings prioritize user privacy.

**Transparency: Meaningful Privacy Information** evaluates whether the company clearly discloses legally binding documentation and how the company meaningfully shares privacy information with users. **Transparent Safety Practices** evaluates disclosure of meeting recognized security standards and disclosure of notifications and responses to cybersecurity incidents. **Meaningful Explanation of Service** evaluates whether the company transparently and meaningfully shares information about fees and services. **Legal Rights** evaluates whether users have to give up legal rights to use the service.

## Conclusions

During this evaluation, CR observed opportunities for improvement across all the findings above and developed the following considerations for how companies can leverage the dynamic app environment.

### *Transparency and In-App Consumer Engagement*

As we noted in our peer-to-peer app evaluation, there is great opportunity for companies to take better advantage of the highly dynamic, technology-forward mobile app environment to improve transparency by ensuring meaningful disclosure. In other words, companies should assure consumers that they leverage technology not just to facilitate financial transactions and services but also to facilitate improved consumer experience and outcomes. Thus, transparency means that consumers have a meaningful opportunity to become aware of important information and rights when using these services.

In our evaluation of BNPL apps, we observed numerous instances where delivery of important information that may not be at the forefront of a consumer's mind when using a product—fraud protection, security practices, data sharing, user privacy controls, explanation of service—could be improved to ensure greater transparency for consumers. These included:

1. **Information is made available but isn't accessible.** In a mobile app environment, there was consistent reliance upon and reference to long-form disclosures and a missed opportunity to translate disclosures into simple concepts and actionable processes to facilitate consumer engagement and understanding. Across the board, we found use of vague and overly complex language—above an 8th-grade level—which meant that the documentation found in user disclosures was less informative and readable, thus less accessible to consumers.
2. **Information is available but hard to find.** In some apps we found that information or available controls were not easy to locate, or that search optimization features could be improved to increase the likelihood that consumers could find useful information. In our engagements with companies, we noted, for example, that information or settings were sometimes available but not located in a place where consumers are likely to look for or come across them.
3. **Information is not well integrated into the user experience.** Most apps are also missing opportunities to ensure that important information is integrated into the user experience using techniques such as gamification, push notifications, short-form disclosures, and transitional screens to ensure user engagement.

4. **Policies and practices are misaligned.** Additionally, across the board, we found that policies and practices did not always match. Most companies do not, for example, expressly commit in their documentation to proactively monitoring and providing consumers with notice of potential fraud. In our data validation conversations with companies, however, almost all companies detailed and demonstrated fairly robust and active fraud monitoring and varying notification to consumers.

### ***Privacy—When a Sale Isn't a Sale; and California***

The diverse range of products being marketed under the BNPL banner, as noted in Finding 1, can be a source of consumer confusion. By adopting more consistent practices and policies, BNPL providers can minimize potential risks to users, and provide more clarity and improved outcomes for consumers. This was most evident in our examination of the Privacy Principle.

The range of practices and variations in the way these practices are described are so diverse, complex, and, at times, vague, that it is difficult to impossible for any user to determine what is actually happening with their data. This is sometimes the case even where apps make detailed or clear statements about the collection, sharing, and other use of consumer data. This can prevent an apples-to-apples comparison for consumers who may want to shop across the various BNPL options that are often offered at the point of sale.

We encountered numerous instances of companies clearly and directly stating that they do not sell consumer data, or do not sell or share data for marketing, alongside mitigating and often contradictory language and practices around data sharing and transfer. This was most evident in our review of data endpoints. In most cases, it is challenging for users to glean whether their data is being shared for purposes beyond the use of the product.

Last, we noted that companies consistently offer the strongest consumer privacy rights and controls only to consumers in states where such measures were required. This usually meant that consumers in California had more actionable rights to data controls, data sharing, and user information, and the ability to delete information, than consumers in other states had. In our engagement with companies, a few noted that though their policies clearly stated that certain rights or controls were available only to California residents, they as a practice allowed and would fulfill the same requests made by non-California residents. In one instance where our tester requested such information under this practice, the attempt was unsuccessful. This practice begs the question: In a 24/7 borderless payments environment, should it matter whether a consumer resides in a state that offers more protections and access? If privacy rights and access can be offered to a consumer using an app in one state, surely they could be offered to other consumers.

### ***Recommendations***

In light of these observations, CR recommends that BNPL providers make the following improvements to their app policies, features, and user experiences in order to ensure greater safety, privacy, and transparency for consumers. These would benefit consumers and help establish a new industry standard for fair digital finance:

- BNPL is typically marketed as having no interest and no fees, and consumers are not provided with adequate and clear enough cost and fee information at various stages in engaging with the app to understand that they could incur additional costs. In addition, critical terms of service, including those related to costs, sometimes change with insufficient notice to users. **CR recommends that BNPL companies clearly disclose all costs and fees that consumers may incur throughout their use of the product.**
- Consumers should not bear the burden of noticing and reporting fraud. Companies can and should make clearer whether they proactively monitor for fraud and reduce the burden on consumers to detect and report fraud. **CR recommends that all BNPL companies proactively monitor and report all suspected fraud and vulnerabilities that compromise consumer data, and inform consumers of any cybersecurity breaches that put their information at risk.**
- BNPL companies collect more information than is necessary to deliver the service, and they sometimes sell, transfer, or share data for marketing and targeted advertising. **CR recommends that BNPL companies adopt a data minimization approach for all consumers—not just for Californians, who are entitled to it by law—and that all BNPL app settings default to opting out of data sharing.**
- BNPL apps do not provide meaningful access to and control of user data. **CR recommends that BNPL apps better enable consumers to access, control, and delete their data, and provide these rights for all users, not only those in states that legally require it.**
- BNPL should not limit consumer legal rights. **CR recommends that consumers not be required to agree to use binding arbitration to resolve potential legal disputes, and not be prohibited from joining with other users to bring claims in a court of law.**

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