Buy Now, Pay Later (BNPL) and the new economic landscape

An assessment of the market impact, benefits and challenges of BNPL for consumers and retailers

A confidential report for Klarna

CAPITAL ECONOMICS

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CAPITAL ECONOMICS

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Foreword

Consumers turn to BNPL for flexibility and security as retail readies for recovery

As we stand here in early March, with spring in the air and the vaccine roll out reaching over 20 million people, there are at last reasons for the retail sector to be more hopeful.

Retail is vital for the UK economy; it is the largest sector for employment, with over 3 million jobs and generates £447 billion in turnover. But it will be a very different consumer who emerges onto the high street this spring.

For years, consumers have been gradually adopting online shopping in greater numbers and embracing new ways to make payments. In 2020 these trends went into overdrive. Online shopping leapt from 20% to 30% of overall retail sales and monthly credit card lending fell by 47% from £18 billion in February last year to a low of £10 billion in April. Overall, household savings increased to £300 billion last year compared to £100 billion in 2019.

Those consumers who have been able to increase their household savings and are still in relatively secure jobs will be vital to the recovery. But they will, rightly, be cautious. Now, more than ever, they will be looking for security, flexibility and ways to avoid unnecessary costs.

Increasingly, we see consumers turning to alternative payment methods like buy now pay later. Over 10 million people (one fifth of the UK's adult population) used BNPL to purchase goods online in 2020, with the payment method accounting for nearly 4% of online retail sales in 2020.

A primary reason for using BNPL is to better manage finances, with 64% of adults saying it has helped them do this.

To understand how people are using BNPL, we asked consumers to consider what they would have done had BNPL not been available at the time of purchase. About a third of purchases would have been made using an alternative form of credit, some of which would be higher cost. Capital Economics estimates that if customers had used credit cards instead of BNPL for their purchases in 2020 they would have paid approximately £76 million in interest fees.

A further third would have purchased without using credit at all, indicating that customers enjoy benefits other than deferring payment such as helping with returns. A further third of purchases would not have been made at all had BNPL not been available, perhaps because they were concerned about shopping with an unfamiliar retailer. 78% of respondents noted that the security provided by BNPL when buying from an unknown seller was 'fairly' or 'very' important when choosing to use BNPL.

While BNPL still only represents approximately 1% of total credit card transactions in the UK, it is undoubtedly set to continue on its path to growth. As use grows, the benefits accrued for consumers will also increase. But the BNPL industry must also address some of the challenges which affect all new and fast-growing sectors. One key factor is the entry into the market of an increasing number of new players and offers from older, established businesses. We must as a sector provide consumers with the information they need to make the right choices and ensure they are protected when things don't go according to plan.

At Klarna we are committed to working with the sector, the retail industry and also government and regulators to ensure that buy now pay later continues to provide consumers with low-cost, flexible and secure ways to pay.

Alex Marsh

Head of Klarna UK

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Executive summary

Capital Economics, an independent economics research consultancy, has been commissioned by Klarna to produce a report on the outlook for the UK economy and the scale, benefits and challenges of Buy Now, Pay Later (BNPL) options for consumers and retailers. BNPL services are not well defined or uniform; in this report we define BNPL as 'a type of credit payment that allows consumers to purchase goods online but pay for them either later or by instalments'. Where appropriate, we present figures for a subset of companies that fall within this definition.

Our key findings are:

The way consumers spend and save their money is changing

- Employment and incomes have been sheltered by government policy from an enormous decline in the size of the economy. Unemployment will rise in 2021 as the furlough scheme ends but remain relatively low by past standards. That said, a return to normal working and wages will boost incomes for many which, along with accumulated savings, will see consumer spending lead the economic rebound.

- In aggregate, households' savings increased last year as incomes rose and spending fell sharply, equivalent to households saving about £300bn in 2020, compared to £100bn in 2019. Of course, not all households have been able to add to their savings and some have become more financially vulnerable as a result of the pandemic.

- Consumers are doing more of their spending online and this trend is set to continue; online sales comprised over twenty per cent of retail sales by the end of 2019 compared to under five per cent in 2006 and increased sharply in 2020 to over 30 per cent as a result of the pandemic.

- The use of cash is decreasing while the use of debit cards is increasing, and mobile and digital payments are becoming more popular.

- Consumer credit from sources other than credit cards has grown at an average of 9.3 per cent annually over the past decade compared to 5.5 per cent for credit card lending. Evidence suggests that younger consumers are becoming more reluctant to use credit cards and more willing to explore other options.

- One fifth of the UK adult population, or 10.4 million people, have used a BNPL service to purchase a good online in the past year. In total, we estimate that £4.1 billion was spent by consumers in the UK using a BNPL service in 2020, which represents 1.0 per cent of all retail sales excluding automotive fuel and 3.6 per cent of retail sales that were made online.

Retailers face challenges from the pandemic and adapting to new consumer trends

- The retail sector is a key sector for UK prosperity; retail provides jobs for over three million people and accounts for twelve per cent of the UK's total private sector employment.
- Fewer opportunities to eat out, more time spent at home and food retailers remaining open underpinned a four per cent increase in retail sales of food items in 2020. Prolonged closure of 'non-essential' stores contributed to non-food retail sales falling by thirteen per cent.
- Small businesses are vulnerable as a result of the pandemic, particularly once government support is withdrawn. Once the current moratorium on insolvencies ends on 31st March and other government support for businesses starts to be withdrawn, we expect the number of insolvencies to surge. The latest Small Business Index from the Federation of Small Business suggests that, without further support, 250,000 small businesses are set to fold in the next year.
- Retailers face a changing landscape in terms of spending patterns. Social distancing measures and lockdowns kept shoppers away from high streets, leading to a 32 per cent increase in online retail sales in 2020 as a whole.
- As more people spend online, methods of payments are changing with increasing use of smartphones, contactless cards, mobile wallets and mobile banking. Retailers can increase choice for consumers by offering BNPL options and transfer the risk of late or non-payment to the BNPL provider.
- Electrical and technology goods were the most common BNPL purchases since the start of COVID-19, while fashion and home and garden purchases were also popular.

There are benefits to BNPL and challenges to address

- 78 per cent of UK consumers that have used BNPL services identified a flexible return policy and the security it provides when buying from unknown sellers as ‘very important’ or 'fairly important' in their purchase decision.
- 81 per cent UK consumers that have used BNPL services identified ease of use as 'very important' or 'fairly important' in their purchase decision, while the figure was 71 per cent for deferred payment.
- 64 per cent of adults that have previously used a BNPL service thought it had helped them manage their finances ‘a lot’ or ‘a little’.
- Two thirds of the value of purchases made through BNPL in the past year would have been made regardless of the option to defer payment through a BNPL service. Around one third would have been made without using any other source of credit, suggesting that these customers use the service to enjoy the benefits that it provides but have no financial necessity to do so. A further one third would have been made using means including other types of credit and borrowing from friends and family.
- Credit cards are the most common alternative to BNPL services; equivalent spending on credit cards could lead to £76 million of interest charges for consumers.
- As with traditional credit providers, BNPL providers face challenges in terms of appropriately managing credit risks. Meanwhile, BNPL providers need to manage the risks to retailers that come with evolving payment and credit options including the different approaches to transparency, fees, payment cycles and consumer protection.

Introduction to BNPL

In this section we outline the BNPL business model and how we refer to BNPL in this report.

New ‘Buy Now, Pay Later’ services have emerged as an option for consumers

Buy Now, Pay Later is a new way to purchase goods online

In recent years a new payment method has emerged which allows consumers to make online purchases at selected retailers with a deferred payment, usually with zero interest. It is known as ‘Buy Now, Pay Later’ (BNPL). Retailers partner with a BNPL provider and customers can select the option at checkout. Provided that the customer qualifies through a real-time eligibility check, the finance provider then transfers funds to the retailer. The retailer pays a fee for the service.

There is not a uniform definition of BNPL services and providers offer lending with different eligibility criteria, terms and fees. However, there are some characteristics that are generally shared across the market:

- Easy/quick to use at point of sale with real time eligibility checks
- Items can be tried and returned without upfront payment
- Interest free credit if repayments are made on time
- Repayments either in full or split in instalments over a period generally between 4 and 8 weeks
- Purchase value and total credit limits imposed on customers

BNPL providers aggregate demand to offer zero or low rates

The idea behind the business model is that by aggregating demand, BNPL providers can borrow at low rates to lend on a short-term basis. Providers provide credit for relatively low value items using technology to determine eligibility and credit limits in real time. Retailers get paid upfront from BNPL providers the price for the good, minus fees. They are not taking credit risks nor are they bearing the administration costs of running a loan programme. Meanwhile, consumers get a convenient method of spreading payments for online purchases without incurring interest charges.

Summary of BNPL process

1. **Consumers apply for checkout with BNPL**
2. **Retailers pass request to BNPL provider**
3. **Real time check on consumer eligibility**
4. **Funds transferred from BNPL provider to retailer if approved**
5. **Fee paid by retail to BNPL provider**
6. **Retailer delivers goods to customer**
7. **Consumer pays BNPL provider at agreed repayment dates (typically 0% interest)**

Source: Capital Economics

There are a variety of BNPL providers

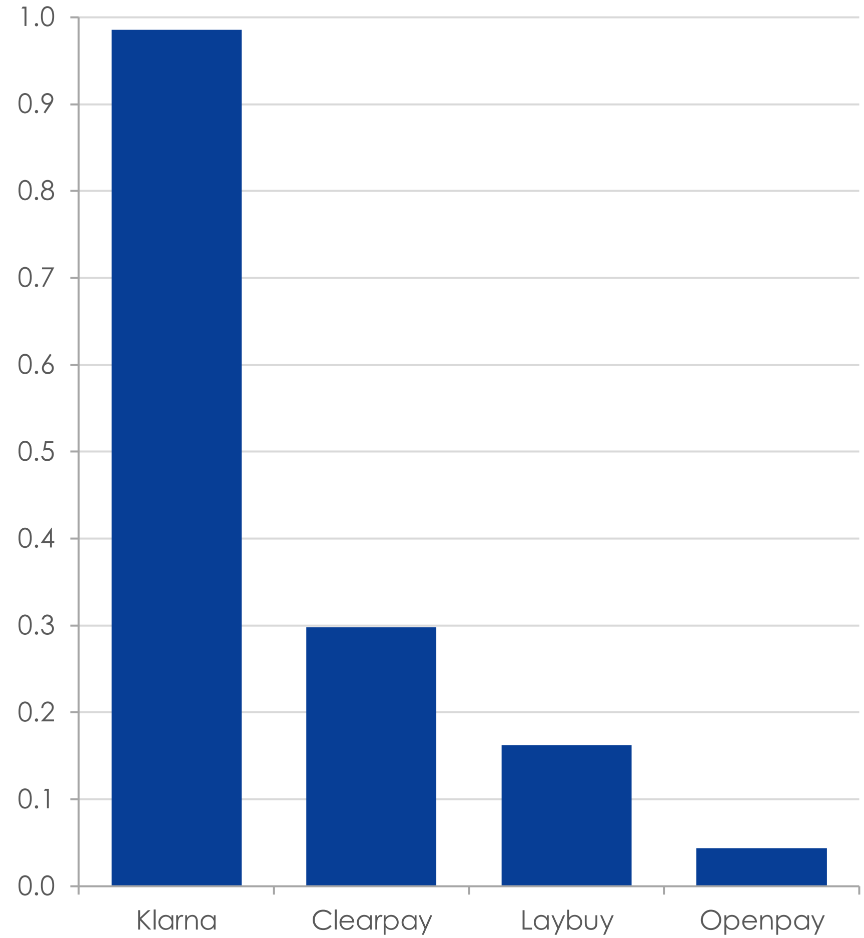
Defining the BNPL market in the United Kingdom

In this report we focus on BNPL companies which generally adhere to the characteristics described on page nine. Much of the analysis contained in this report is based on a survey of GB consumers conducted by YouGov in January 2021. In that survey, BNPL was defined as 'a type of credit payment that allows consumers to purchase goods, but pay for them either later or by instalments (e.g. Klarna, Clearpay, etc.)'. Given that regional differences in results were relatively small, we have assumed throughout the report that GB averages apply to Northern Ireland to scale up to the UK.

It is possible that within this definition some payment options are captured that do not meet some of the characteristics laid out on page eight. As such, we have also reported on aggregated responses from consumers that had used one of what we believe to be the key players in the UK BNPL market: Klarna, Clearpay, Laybuy, Openpay and Zip. Where appropriate, we present these data against the aggregation of all responses which include responses for which the consumer did not know which provider they had used or had identified the provider as 'other' when presented with the five options above. There are a number of other start-ups and new entrants in the market trying to gain market share. We present an aggregated picture of 'BNPL' spending. However, we recognise that the market is not uniform and even within the key players identified there are some key differences in the products and services offered including:

- Terms of repayment including length of repayment period
- Eligibility criteria
- Consumer protection
- Whether charges and fees for late or missed payments are imposed and the scale of these

Number of app downloads of selected BNPL providers, United Kingdom, million, January-July 2020



Sources: Capital Economics and Finder. Note: Definition of BNPL used by Finder is 'a service that allows consumers to shop online and place and receive orders while paying for them later'

1: Consumers

In this section we assess how BNPL fits into consumers' changing preferences for payment options and credit in the UK in the context of the impact of the COVID-19 pandemic.

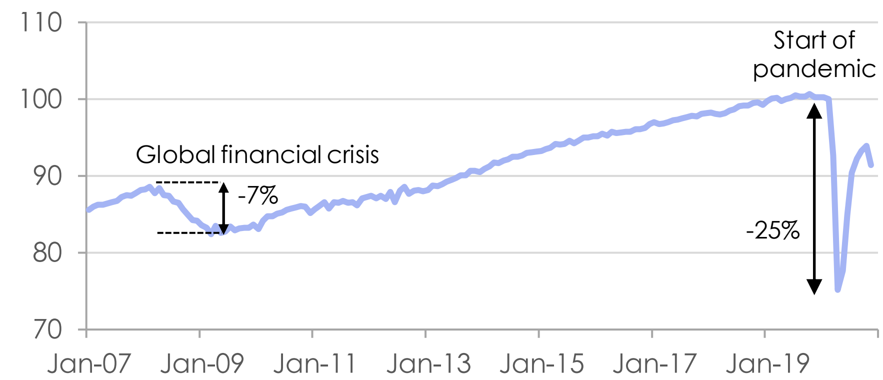
- Employment and incomes have been sheltered by government policy from an enormous decline in the size of the economy. Unemployment will rise in 2021 as the furlough scheme ends but remain relatively low by past standards. That said, a return to normal working and wages will boost incomes for many which, along with accumulated savings, will see consumer spending lead the economic rebound.
- In aggregate, households' savings increased last year as incomes rose and spending fell sharply, equivalent to households saving about £300bn in 2020, compared to £100bn in 2019. Of course, not all households have been able to add to their savings and some have become more financially vulnerable as a result of the pandemic.
- Consumers are doing more of their spending online and this trend is set to continue; online sales comprised over twenty per cent of retail sales by the end of 2019 compared to under five per cent in 2006 and increased sharply in 2020 to over 30 per cent as a result of the pandemic.
- The use of cash is decreasing while the use of debit cards is increasing, and mobile and digital payments are becoming more popular.
- Consumer credit from sources other than credit cards has grown at an average of 9.3 per cent annually over the past decade compared to 5.5 per cent for credit card lending. Evidence suggests that younger consumers are becoming more reluctant to use credit cards and more willing to explore other options.
- One fifth of the UK adult population, or 10.4 million people, have used a BNPL service to purchase a good online in the past year. In total, we estimate that £4.1 billion was spent by consumers in the UK using a BNPL service in 2020, which represents 1.0 per cent of all retail sales excluding automotive fuel and 3.6 per cent of retail sales that were made online.

The labour market has been sheltered from an enormous decline in the size of the economy

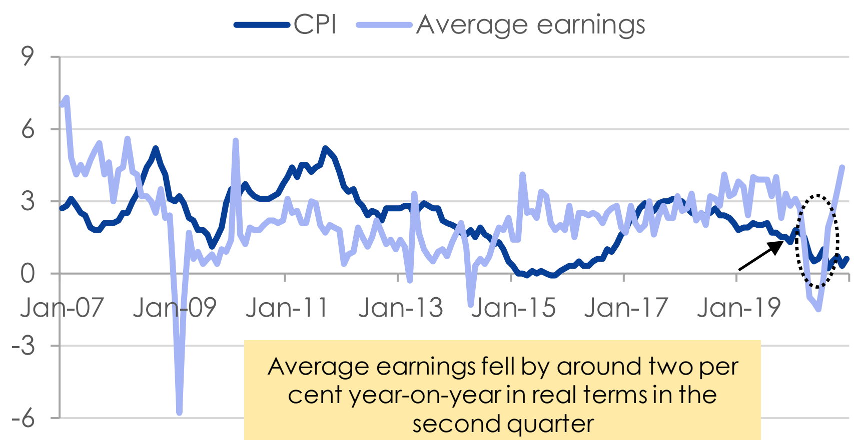
The COVID-19 pandemic meant that 2020 was an unprecedented year for the UK economy. The economy shrank in size by a record 25 per cent between February and April as the virus outbreak developed. This decline was more than three times the size of the contraction in the whole of the global financial crisis. After a rapid rebound over the summer when virus-related restrictions were eased, renewed lockdowns late in the year meant that the economy finished 2020 about nine per cent smaller than it started it.

Workers have been sheltered from the worst of the downturn by the government furlough scheme and income support grants. Employment has fallen by just 1.7 per cent and unemployment risen to a relatively modest 5.0 per cent. The economic downturn kept inflation below one per cent for most of last year. With the exception of the April to June period, average earnings growth has been in excess of inflation, boosting workers spending power in real terms.

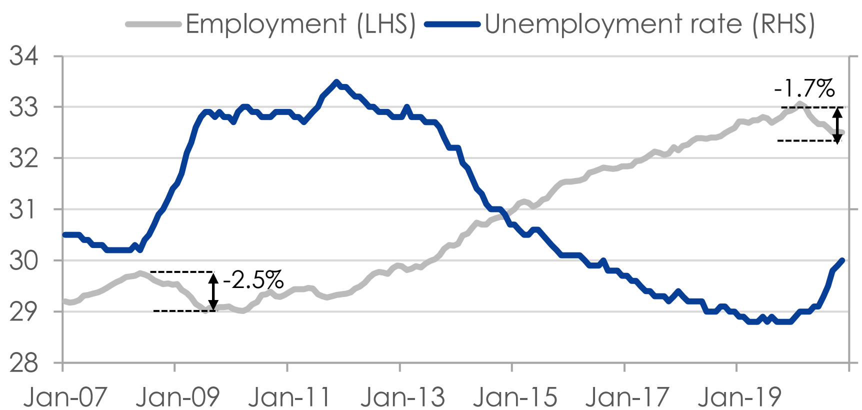
Real gross domestic product, index, 2016 = 100



CPI inflation and nominal average earnings, year-on-year change, per cent



Employment, millions, and the unemployment rate*, per cent



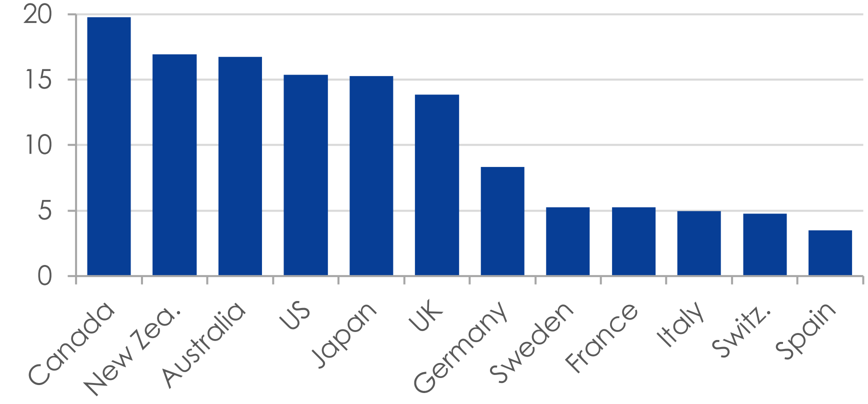
Sources: Capital Economics and Refinitiv. Note: the unemployment rate is the International Labour Organisation definition.

Fiscal and monetary policies are likely to remain loose over the next couple of years

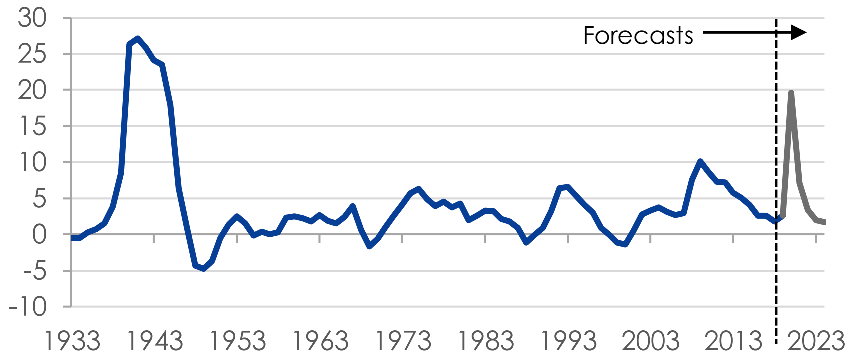
Since the start of the pandemic, the government has announced direct support for the economy worth £285bn (fourteen per cent of GDP), which is large by the standards of most other European countries. The support provided along with the impacts of the economic downturn on tax revenues and government spending have blown a hole in the public finances. Government borrowing in the 2020/21 financial year of nearly twenty per cent of GDP will be the highest since the Second World War. However, we expect the economic rebound will return the public finances to a sustainable position without the need for tax hikes or spending cuts.

If inflation and the economy perform as we expect, the Bank of England should leave its policy interest rate at 0.1 per cent for some time. This will help keep market interest rates at historically low levels. The upshot is that mortgage rates are also likely to remain subdued, supporting consumers discretionary spending power.

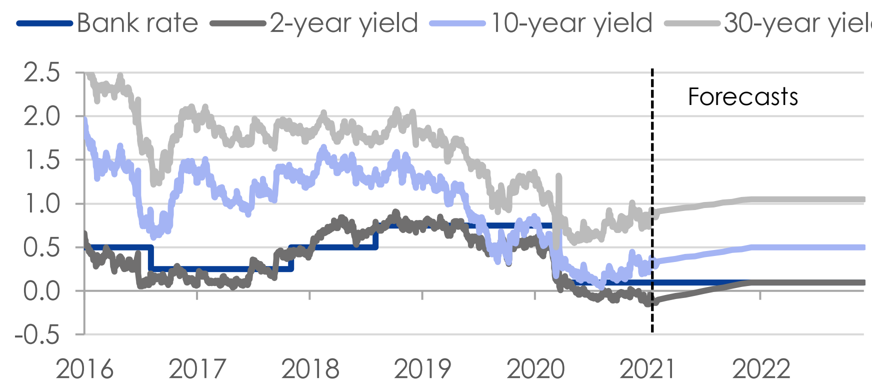
Direct policy support in response to the COVID-19 crisis, share of gross domestic product, including measures up to 2023, per cent



Public sector net borrowing, excluding banks, as a share of gross domestic product, per cent



Bank rate and gilt yields, per cent



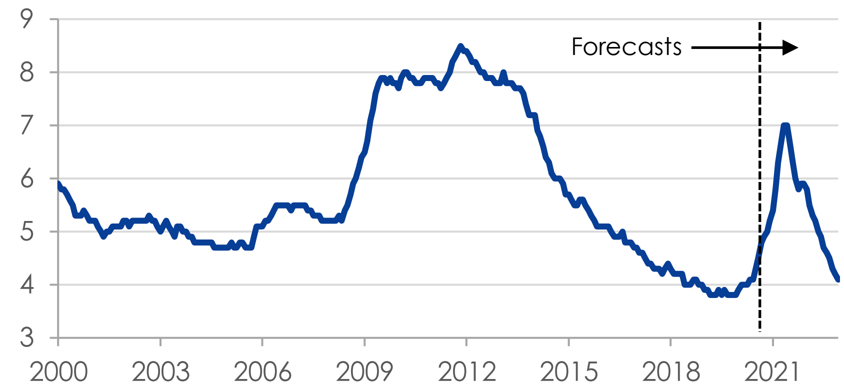
Sources: Capital Economics, Office for Budget Responsibility, Bank of England, International Monetary Fund and Refinitiv.

Labour market will weaken this year as furlough scheme ends, then recover with GDP

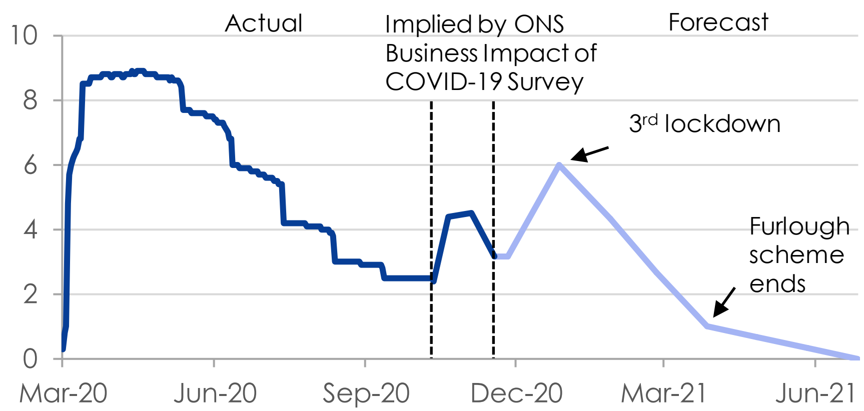
The impressively small fall in employment compared with the slump in GDP in 2020 is a testament to the success of the government's furlough scheme. If many COVID-19 restrictions stay in place until June, as we expect, there may be lingering policy support for jobs after the extended furlough scheme ends on 30th April.

Once the government's support for the job market expires, though, employment will need to fall back in line with GDP. We expect the 1.7 per cent fall in employment so far to turn into a 3.0 per cent fall by July, a total decline of one million. Beyond July, employment should spring back in line with the recovery in activity, as the reopening of the economy allows demand for labour to recover. We expect a rise in the jobless rate from 5.0 per cent in November to a peak of about 6.5 per cent by the end of 2021, before falling back to 5.0 per cent by the end of 2022.

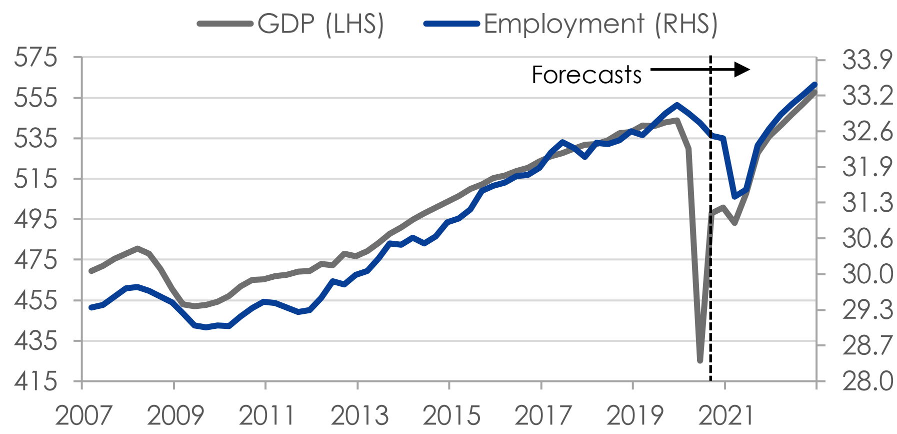
ILO unemployment rate, per cent



Number of people on furlough scheme, million



Employment, million, and gross domestic product, £ million, in the United Kingdom



Sources: Capital Economics and Refinitiv.

Rising incomes and accumulated savings for some will see consumers lead the economic rebound

Households' savings surged to £300 billion over past year

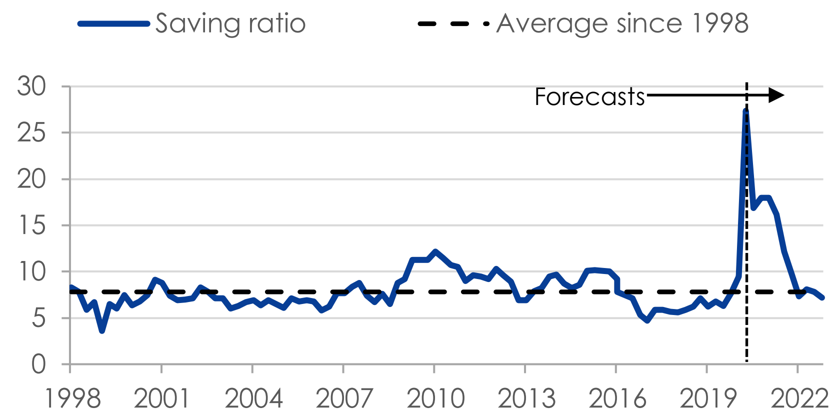
In aggregate, households' savings increased last year. Thanks to the unprecedented government support, which has focused on household incomes, nominal average earnings probably rose by 1.4 per cent in 2020, while spending fell sharply. As a share of income, savings grew sharply to 27.4 per cent in the second quarter of 2020 and due to the third lockdown may still be almost 20 per cent now. That's equivalent to households saving about £300bn in the past year, compared to £100bn in 2019. Indeed, the amount of cash households are holding in their bank accounts has risen by more than £120bn since February 2020. If households spent all that £120bn, it could boost GDP by around six per cent.

As employees come off the furlough scheme, most will return to their previous jobs and their previous salaries, boosting average wages. This rise in spending power should offset the drag on real incomes from those that lose their jobs. In 2022, employment growth should strengthen but the rise in real wages is likely to slip back. The upshot is that households' disposable incomes could rise in real terms by 2.5 per cent in 2021 and by about 1.2 per cent in 2022.

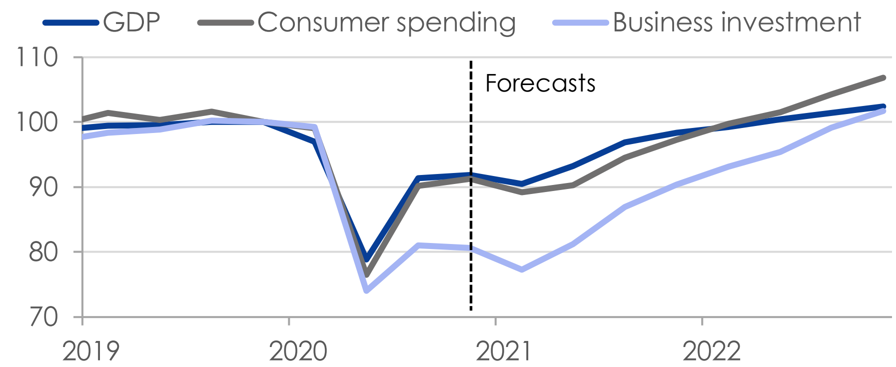
Not all households have been able to build savings

Of course, not all households have been able to add to their savings. Job losses have been concentrated in the lowest-paid sectors, such as restaurants and events. Higher debt levels amongst low income households may mean that consumption doesn't rebound as much as the large pool of savings imply. However, on aggregate at least, consumers' finances are looking healthier than before the crisis. Overall, households are in a good position to quickly ramp up spending on services once COVID-19 restrictions are eased. Admittedly, this will be partly offset by less spending on goods, so retail sales growth may tail off. But consumer spending in aggregate will still lead the recovery and be back to its pre-crisis level in early 2022.

Household saving ratio, share of disposable income, per cent



Gross domestic product components, Q4 2019=100



Sources: Capital Economics and Refinitiv.

Consumers are increasingly spending online and use of cash is falling

Online sales continue to increase as a share of total sales

The share of sales made online in the United Kingdom has been on an upward trend for the past fifteen years; online retail sales comprised over twenty per cent of retail sales by the end of 2019 compared to under five per cent in 2006.

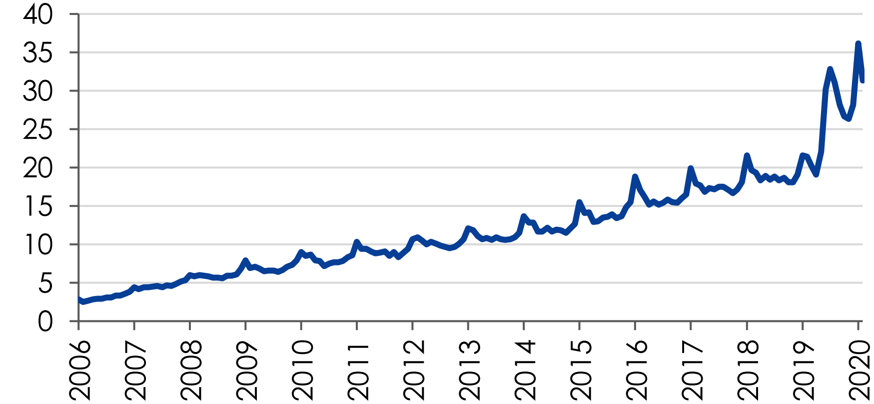
During the COVID-19 pandemic, social distancing measures and lockdowns have kept people away from the high streets. This has boosted online shopping with online sales as a share of total sales rising sharply to over 30 per cent during 2020. While some of the recent increase in online sales will be reversed as things go back to normal, online sales will continue to make up a higher share of retail sales than before. The fallout from the pandemic is likely to mean that people continue to work from home more and make greater use of technology both in the workplace and at home.

A report by Worldpay states that the UK's e-commerce market is currently the third largest in the world and they expect it to grow by 37 per cent by 2024.[1]

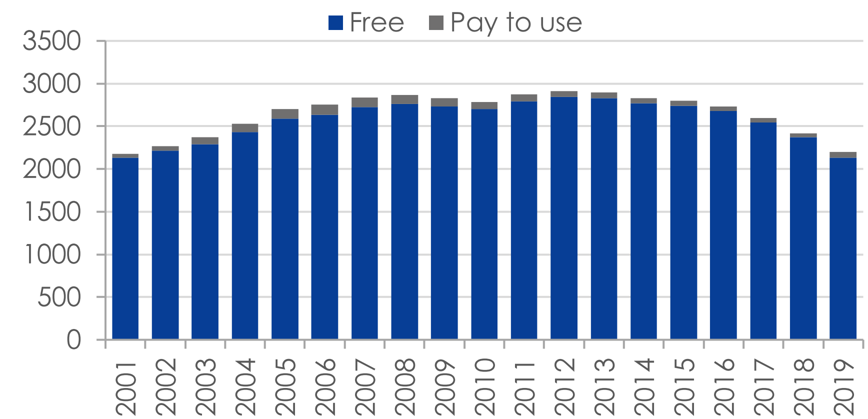
The use of cash has been on a downward trend since well before the pandemic

The number of cash withdrawals in the United Kingdom has been on a downward trend since 2012, falling by 24 per cent between 2012 and 2019. The data from LINK show that there have been sharper falls since the onset of the pandemic and the associated lockdowns. The volume of ATM transactions fell by around 50 per cent between February and April 2020 during the first lockdown and levels in January 2021 remain almost 50 per cent below the volumes seen in the same month a year earlier.

United Kingdom online sales as a share of total retail sales, per cent



Total cash withdrawal volumes, United Kingdom, millions



Sources: Capital Economics, Office for National Statistics and LINK

The way consumers make payments is changing

Cards have overtaken cash as most used payment method

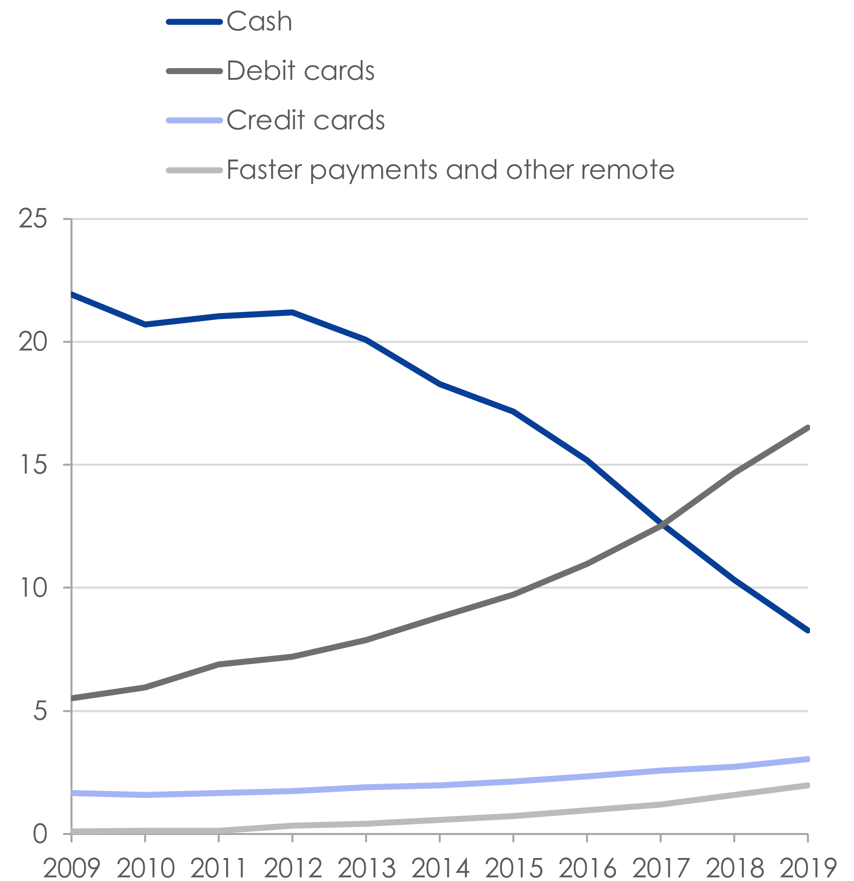
Payments in the UK have seen rapid change over recent years as people have been increasingly using card, mobile and electronic wallets to make payments. Since 2009 the most rapid growth among cashless payments has been in faster payments and other remote payments which grew from just around 100 million transactions in 2009 to around 2.5 billion in 2019.

Consumers are increasingly using online and mobile banking to make payments while contactless cards have increased from three per cent of payments in 2015 to 21 per cent in 2019. In addition to contactless cards, consumers can use other devices such as mobile phones and watches. Around ten million people were registered for mobile payments in 2019 through applications such as Apple Pay, Google Pay or Samsung Pay. These are utilised more by younger consumers; almost 40 per cent of 25 to 34 year olds were registered for mobile payments compared to less than five per cent of over 65s.[2]

Debit cards are the most frequently used payment method

Debit cards accounted for four in ten payments in 2019. Payment volumes via debit card have increased significantly as more people use them to make day-to-day payments; volumes using debit cards have increased threefold from just over five billion in 2009 to around seventeen billion in 2019. This has been driven by the move away from cash, the introduction of contactless, the increased speed of payments and the shift towards online spending.[1]

Number of payments by selected method of payment, United Kingdom, billions



Sources: Capital Economics and UK finance. Note: Chart has been recreated without access to underlying data and therefore may not fully reflect the numbers described in the text. The chart includes only some selected methods of payment so does not sum to UK total

Credit card lending has grown more slowly than other consumer credit over the last decade

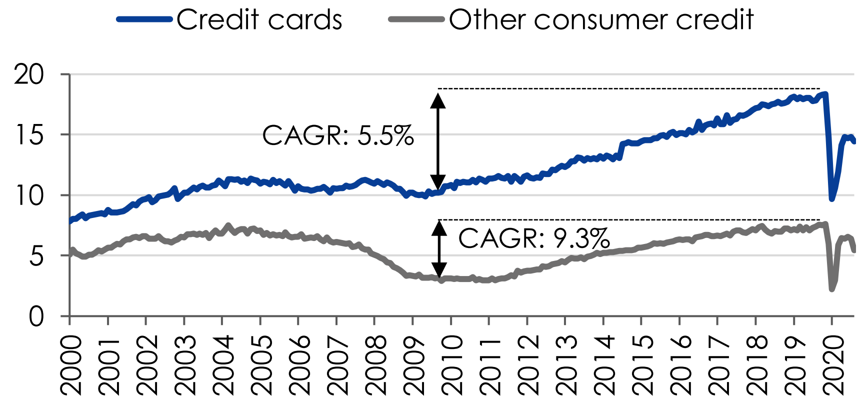
Consumer credit lending has fallen sharply in 2020

Gross consumer credit lending to individuals fell sharply in 2020 as a result of the pandemic and accompanying recession. Monthly credit card lending fell by 47 per cent from £18 billion in February last year to a low of £10 billion in April. Similarly, other forms of consumer credit fell by 71 per cent over the same period. Both have recovered since their lows in April, but they remained 21 and 29 per cent below their February peaks respectively in November 2020. In large part, the sharp fall is a result of the nature of the crisis which restricts consumers' ability to spend on services such as hospitality, leisure and travel.

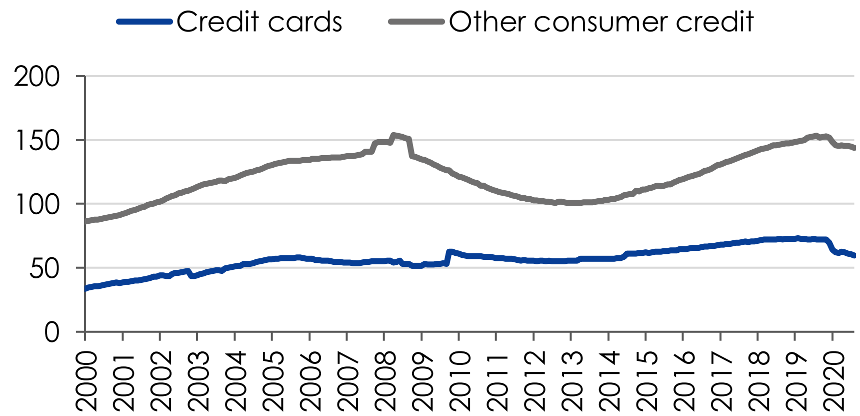
Non-credit card lending has grown more quickly in the last decade

Before the pandemic, there had been a gradual shift towards credit in forms other than credit cards. Between 2010 and February 2020, gross credit card lending grew at an average of 5.5 per cent annually compared to 9.3 per cent for other consumer credit. Other credit sources include, but are not limited to, personal loans, payday loans and store cards. Meanwhile, the stock of outstanding credit card debt grew at an average annual rate of 1.4 per cent over the same period compared to a rate of 2.1 per cent for other forms of credit. Differences in net and gross lending are explained by the extent to which the credit is repaid.

Gross monthly consumer credit lending to individuals, United Kingdom, £ billions



Amounts outstanding of net consumer credit lending to individuals, United Kingdom, £ billions



Source: Bank of England

Attitudes towards credit cards are changing

Younger people seem more reluctant to use credit cards

The limited data on BNPL lending makes comparisons with other forms of credit difficult. However, there is evidence that the use of BNPL is growing and some evidence both in the UK and internationally that particularly younger generations are more reluctant to use credit cards and other forms of debt.

A survey of consumers in the US found that on average, 44 per cent of people below the age of 50 had used BNPL, while only 21 per cent of people over 50 had. They found that 39 per cent of the people that used BNPL did it to avoid credit card interest.

In the United Kingdom, 27 per cent of consumers who've been using BNPL, or plan to do so, cited not wanting to use or take out a credit card as factor in their choice. This driver was more prevalent in younger age groups, with 31 per cent of Generation Z (aged 18 to 24) citing it compared to 23 per cent of the older Generation X (aged 41 to 56).

BNPL being used by consumers who would otherwise use credit cards

According to the YouGov survey of consumers, almost 70 per cent of consumers that used BNPL but would have used another form of credit as an alternative to make the purchase, said they would have used a credit card. This suggests a shift in preference for a segment of consumers who would rather spend using BNPL services than put more on, or take out, a credit card.

Selection of research findings on credit cards and BNPL usage by younger customers

Source	Findings
Money expert[3] *Coverage: UK consumers*	• British millennials are less likely to own a credit card than older customers
Finder[4] *Coverage: UK consumers*	• In August 2020, 27% of consumers who've been using BNPL, or plan to do so, cited not wanting to use or take out a credit card as factor in choosing BNPL • Among this group, 31% of generation Z cited this as a reason. The figure drops to 23% of the older Gen X
Ascent survey[5] *Coverage: US customers*	• On average, 44% of people below 50 had used BNPL, while only 21% of people over 50 used BNPL • 39% of the people that used BNPL did it to escape credit card interest
Morningstar[6] *Coverage: Australian customers*	• During the pandemic, millions of consumers have used the BNPL option rather than credit cards, given its convenience and cost-effectiveness • Millennials and the Generation Z are leading the move to BNPL and digital wallets
Financial Review[7] *Coverage: Australia consumers*	• BNPL substitution effect for credit cards for millennials • In May 2020 spending on credit cards was flat year-on-year while spending on debit cards, linked to BNPL, was up 11%
Experian[8] *Coverage: Global consumers*	• In Q2 2019, baby boomers (aged 56 to 74) carried an average of 4.8 credit cards while millennials and Gen Z had 3.2 and 1.8 credit cards, respectively

Source: Various, see bibliography

One fifth of adults made a purchase using BNPL in 2020

One fifth of adults made a purchase using BNPL in 2020

Approximately 20 per cent of adults in the United Kingdom have used a BNPL option to purchase a good online at some point in the past year. This equates to 10.4 million people. Around half of these people were either between 25 and 34 or over the age of 55. Around ten per cent of users, or 1.2 million users, were between the ages of 18 and 24. The remaining 40 per cent of users were between 35 and 54 years old.

Looking beyond the past year, 32 per cent of the adult population have used a BNPL option to purchase a good online at some point in the past, equivalent to seventeen million people.

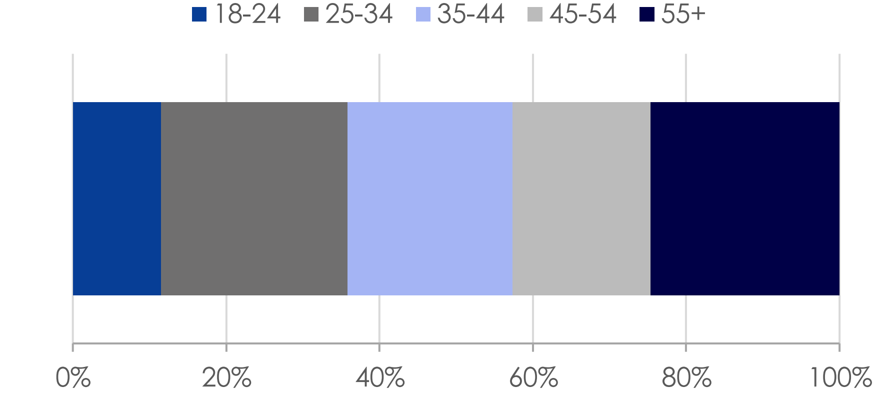
Most shoppers purchase fewer than five items per year

In 2020, 71 per cent of consumers that used BNPL to purchase a good online did so less than five times. Around one third purchased just one item and 38 per cent purchased between two and four items. On average, each customer purchased 4.8 items.

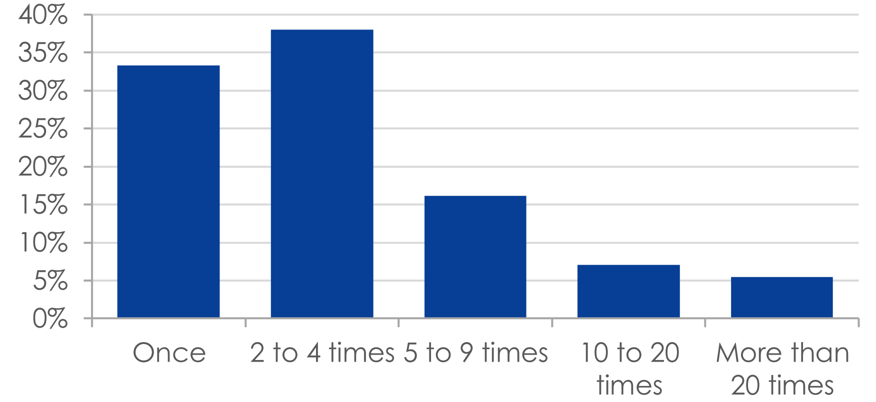
50 million transactions made using BNPL in 2020

Based on the survey results, we estimate that there were almost 50 million transactions using BNPL in 2020. In comparison, 3.1 billion purchases were made using UK credit cards in the twelve months to October 2020.[2] The number of BNPL purchases is equivalent to 1.6 per cent of the total credit card purchases.

Age distribution of all adults that have used BNPL services in the past year, 2020



Share of adults that have used BNPL service in the last year by number of purchases they have made, 2020



Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'don't know' answers from the sample and distributed in proportion to the other answer options.

Over £4 billion spent on online purchases using BNPL in 2020

BNPL purchases represent one per cent of retail sales

By analysing and scaling results from a YouGov survey of GB consumers conducted in January 2021, we estimate that spending online with a BNPL service totalled around £4.1 billion in 2020. This represents 1.0 per cent of all retail sales excluding automotive fuel and 3.6 per cent of all retail sales that were made online.

In the twelve months to October 2020, the total value of purchases made on UK credit cards was £155 billion. Although the time lag in data doesn't allow for a direct comparison, the amount spent through BNPL in 2020 was equivalent to 2.6 per cent of purchases using UK credit cards in the year to October 2020.

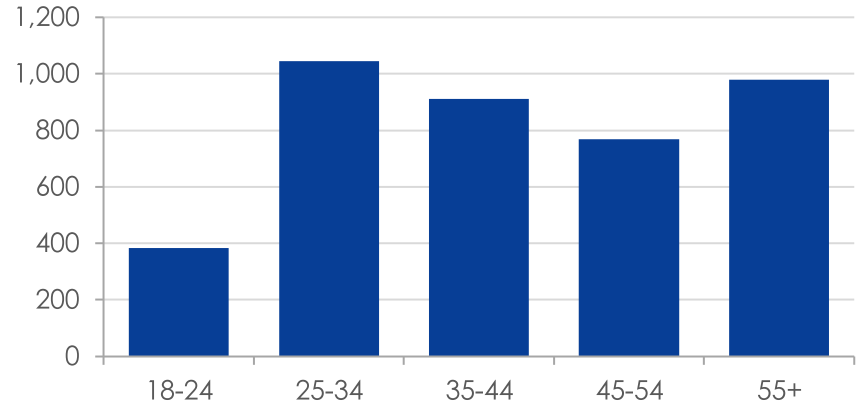
People aged 25 to 34 were the biggest spenders

Adults aged 25 to 34 were responsible for over one quarter of spending using BNPL, totalling just over £1 billion. Users aged between eighteen and 24 spent a little under £400 million. Those over the age of 55 used BNPL at a lower rate but, given the greater number of people in that age range, still represented almost one quarter of total BNPL spending.

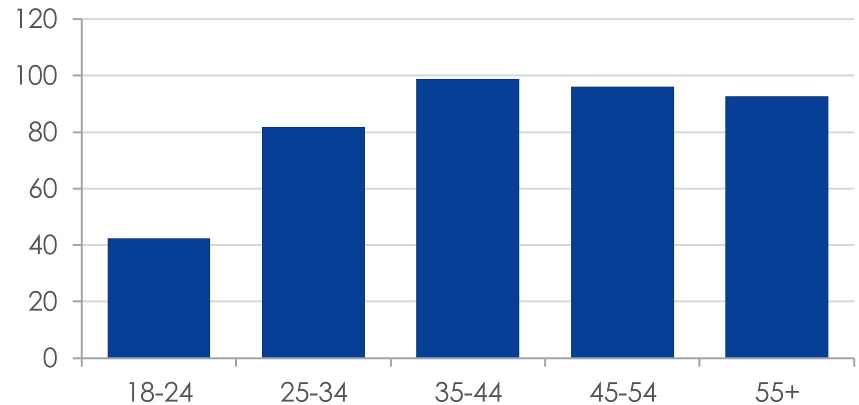
The average order is lower for the youngest users

Based on analysis of the survey of consumers, we estimate that the average order value for those between eighteen and 24 was £42, which is almost half that of all other age groups. The average order value for consumers aged between 25 and 34 was £82 compared to between £90 and £100 for users over the age of 35.

Total spending in United Kingdom through BNPL options, £ millions, 2020



Average spend per order by age group, £, 2020



Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021 and Office for National Statistics. Note: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK.

2: Retail

In this section we assess the challenges that retailers face from the pandemic as well as the shifting spending patterns of consumers. We then consider the potential impact of BNPL.

- The retail sector is a key sector for UK prosperity; retail provides jobs for over three million people and accounts for twelve per cent of the UK's total private sector employment.

- Fewer opportunities to eat out, more time spent at home and food retailers remaining open underpinned a four per cent increase in retail sales of food items in 2020. Prolonged closure of 'non-essential' stores contributed to non-food retail sales falling by 13 per cent.

- Small businesses are vulnerable as a result of the pandemic, particularly once government support is withdrawn. Once the current moratorium on insolvencies ends on 31st March and other government support for businesses starts to be withdrawn, we expect the number of insolvencies to surge. The latest Small Business Index from the Federation of Small Business suggests that, without further support, 250,000 small businesses are set to fold in the next year.

- Retailers face a changing landscape in terms of spending patterns. Social distancing measures and lockdowns kept shoppers away from high streets, leading to a 32 per cent increase in online retail sales in 2020 as a whole.

- As more people spend online, methods of payments are changing with increasing use of smartphones, contactless cards, mobile wallets and mobile banking. Retailers can increase choice for consumers by offering BNPL options and transfer the risk of late or non-payment to the BNPL provider.

- Electrical and technology goods were the most common BNPL purchases since the start of COVID-19, while fashion and home and garden purchases were also popular.

Economy is forecast to return to pre-pandemic size in early 2022

Vaccine will boost economic recovery from Q2 2021 onwards

This January's third COVID-19 lockdown will leave GDP about ten per cent below its pre-crisis peak. But if the promising start to the rollout of vaccines is maintained, then at least some easing in COVID-19 restrictions in the second quarter and a major easing after June should allow GDP to start rebounding rapidly from April.

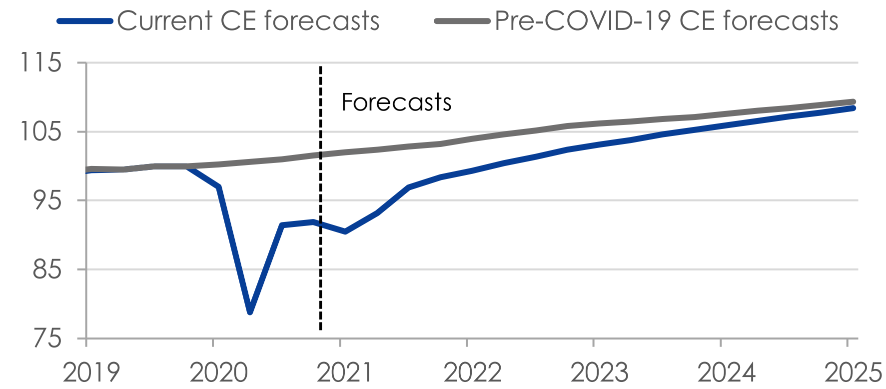
Capital Economics are more optimistic than most by expecting COVID-19 vaccines to allow the economy to return to its pre-crisis peak in early 2022 and to its pre-crisis trend in 2025. Our view that people will quickly go back to the pubs and restaurants and that the economy's supply potential won't be permanently damaged by the crisis explains why, unlike most forecasters, we think that by 2025 GDP will be back to where it would have been had COVID-19 never existed.

Inflation rise but mostly remain below two per cent target

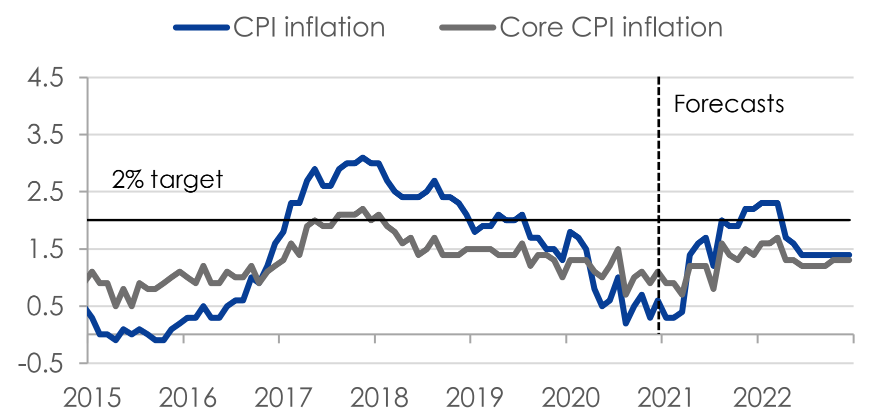
Headline inflation is likely to rise sharply from 0.6 per cent in December last year to a peak of 2.3 per cent at the start of 2022 for three reasons. First, agricultural commodity prices have increased strongly and will feed through into food prices. Second, oil prices have more than doubled since their low point in April last year and will push up fuel prices. Third, the declines in consumer prices triggered by the temporary VAT cut and the government's Eat Out to Help Out restaurant scheme for the tourism and hospitality sectors will fall out of the annual comparison in April and September this year respectively.

That said, significant spare capacity in the economy will keep underlying inflationary pressures subdued. When the three temporary factors pushing up inflation have passed by mid-2022, headline inflation is expected to drop back to a little under 1.5 per cent.

Quarterly real gross domestic product, Q4 2019 = 100



CPI inflation, per cent



Sources: Capital Economics and Refinitiv.

Speed and effectiveness of vaccination rollout the key short-term risk

Vaccines could enable a larger rebound in UK GDP

The speed and effectiveness of the vaccine rollout could have a significant impact on economic prospects this year. The UK economy experienced a large decline compared to most other larger economies last year. If the vaccination enables a swifter easing of restrictions and return to 'normal' than built into our forecasts, there is significant scope for a larger rebound in activity this year. On the other hand, if restrictions on economic activity have to remain in place for longer than anticipated, the economy could be stuck at a relatively low level of activity for longer than projected.

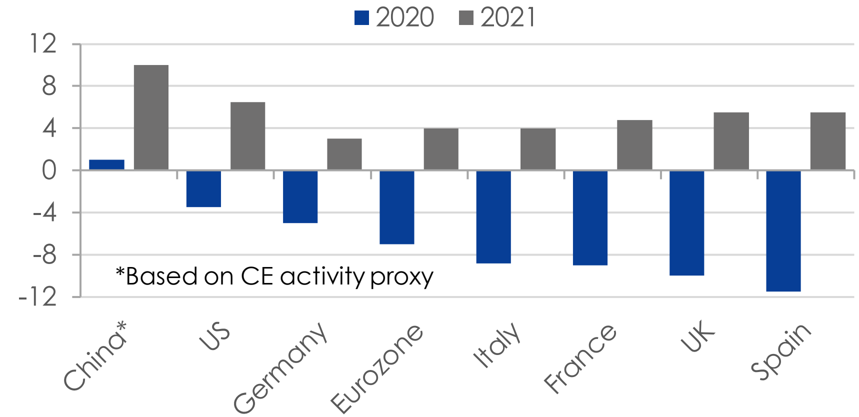
Fewer overseas nationals could leave economy permanently smaller

Brexit is an additional headwind for the economy, particularly in the early part of this year as firms adjust to the new trading arrangements. That said, the negative impact of the UK's departure from the EU is likely to be overshadowed by the path of the pandemic.

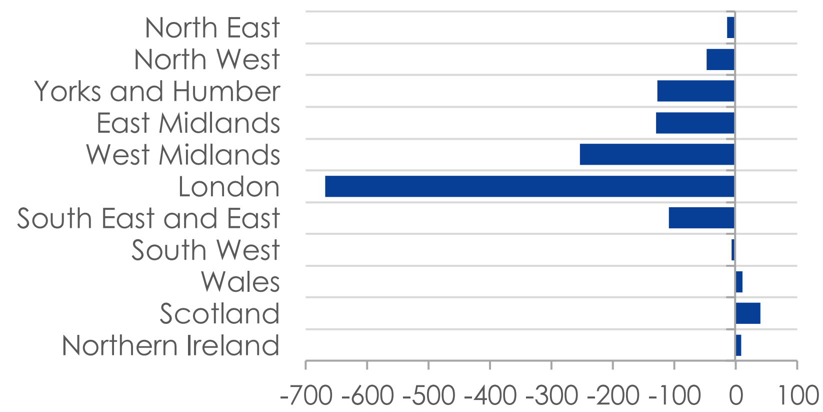
The combination of COVID-19 and Brexit appears to have resulted in a large exodus of overseas nationals from the UK in 2020. If true, and if those that left have done so permanently, the economy will struggle to recover to its pre-pandemic path. This would result in a smaller economy than would otherwise have been the case, a likely hole in the public finances that would need filling by tax rises or spending reductions and probable upward pressure on inflation due to the reduced size of the workforce.

There are two other risks that mean inflation could be higher than expected in the years ahead. First, the large amount of stimulus supplied to the economy could eventually feed through into price pressures. Second, government could opt to allow higher inflation in order to erode the real value of the debt that has been amassed.

Real gross domestic product annual change, per cent



Estimated change in non-UK born resident population Q3 2019 to Q3 2020, thousands



Sources: Capital Economics, Refinitiv and ESCoE.

The retail industry is a key driver of UK economic prosperity

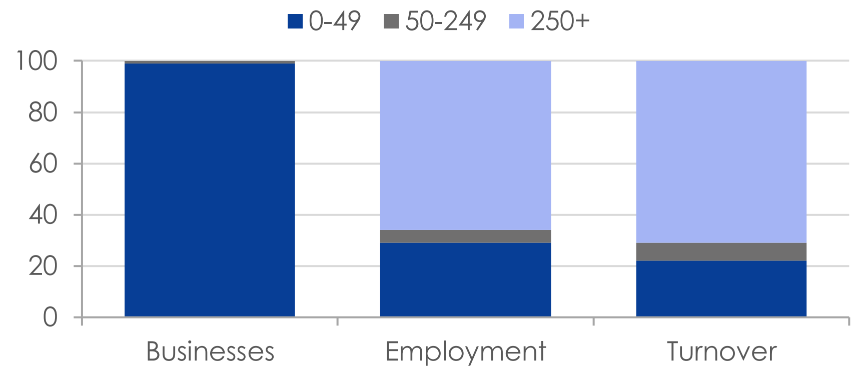
Retail sector employs over three million people

There were 310,000 retail businesses in the UK in 2020 and the sector generated £447 billion of turnover.

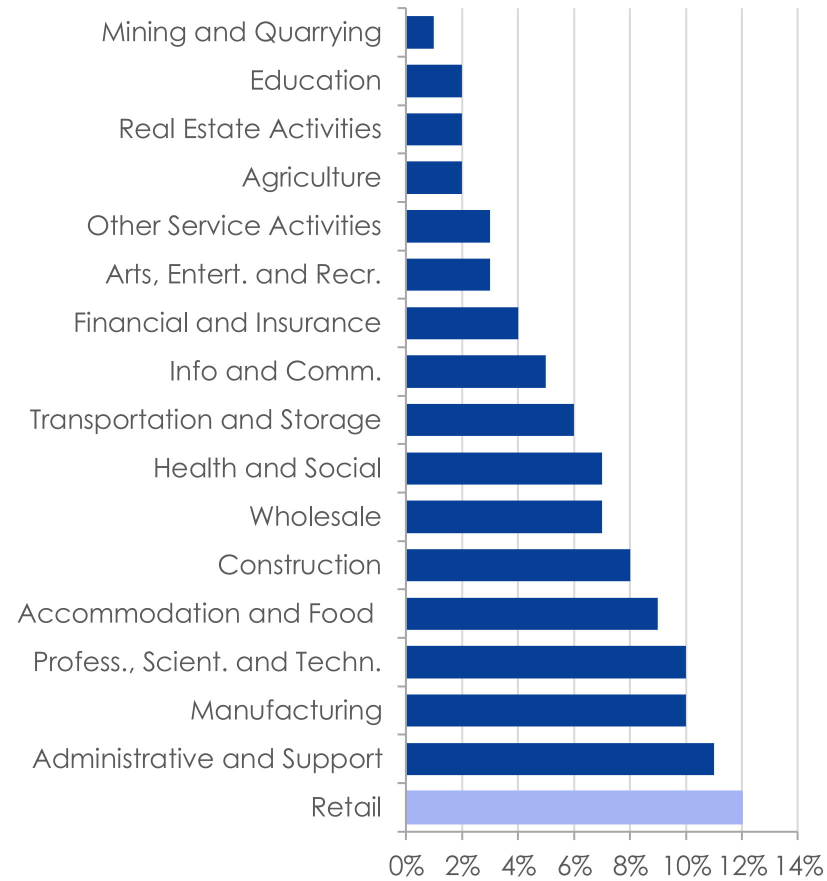
The retail sector provides jobs for over three million people and accounts for twelve per cent of United Kingdom total private sector employment. This is the largest employing sector based on the broad sector definitions. The largest sub-sector in terms of employment is non-specialized stores selling foods, beverage or tobacco (36 per cent in 2018).

SMEs (businesses with less than 250 employees) account for nearly all of the number of businesses in the sector and account for one third of the employment.

Retail businesses, employment and turnover by business size, per cent, start of 2020



Employment in the private sector by industry, per cent, start of 2020



Sources: Capital Economics and Office for National Statistics.

COVID-19 has put pressure on retailers

Sharp falls for non-food retail in 2020

Last year's deep economic downturn was reflected in a twelve per cent decline in consumer spending in the first three quarters compared to 2019. However, the impact was unevenly spread. Closures of leisure and hospitality businesses to limit the spread of the virus caused consumer spending on services to be particularly hard hit and fall by about fifteen per cent.

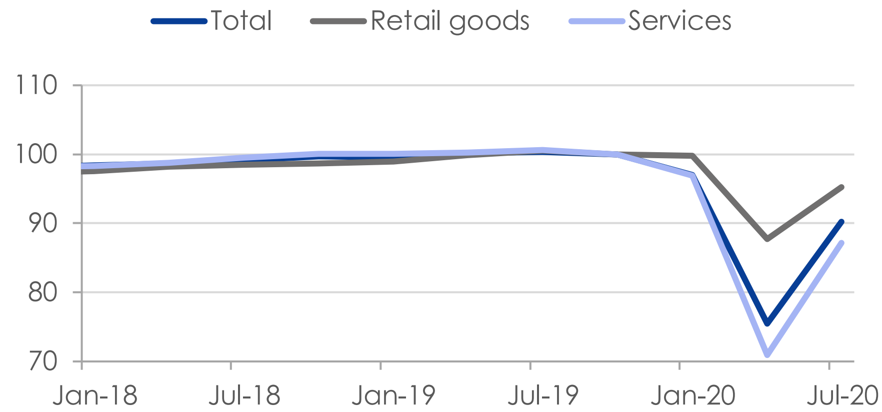
Fewer opportunities to eat out, more time spent at home and food retailers remaining open underpinned a four per cent increase in retail sales of food items in 2020. Prolonged closure of 'non-essential' stores contributed to non-food retail sales falling by 13 per cent.

Overall consumer spending remains almost ten per cent below its level at the end of 2019.

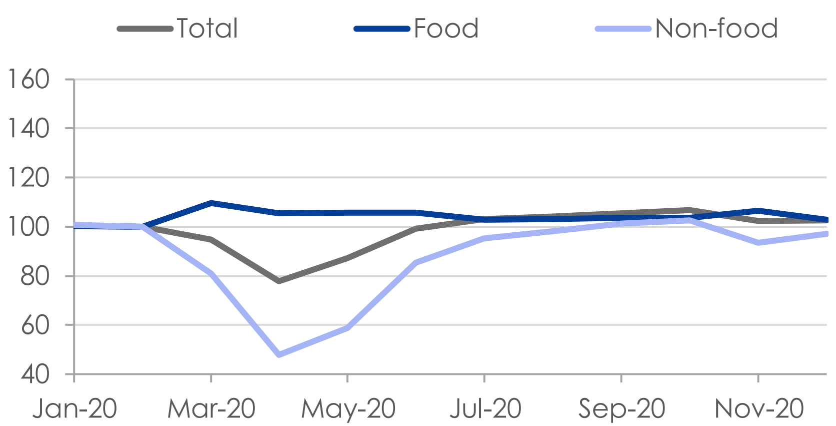
SMEs are vulnerable

The government's ban on some forms of insolvency means that the number of businesses going bust has actually fallen since the start of the crisis. But once the moratorium on insolvencies ends on 31st March and other government support for businesses starts to be withdrawn, we expect the number of insolvencies to surge. The latest Small Business Index from the Federation of Small Business shows confidence at its second lowest ebb in report's ten-year history in the fourth quarter of 2020. They expect that, without further support, at least 250,000 small businesses are set to fold in the next twelve months.[9]

Consumer spending, Q4 2019=100



Food and non-food retail sales, February 2020 = 100



Sources: Capital Economics and Refinitiv.

Retailers having to adapt to shift to online spending

The pandemic has accelerated shift to online spending

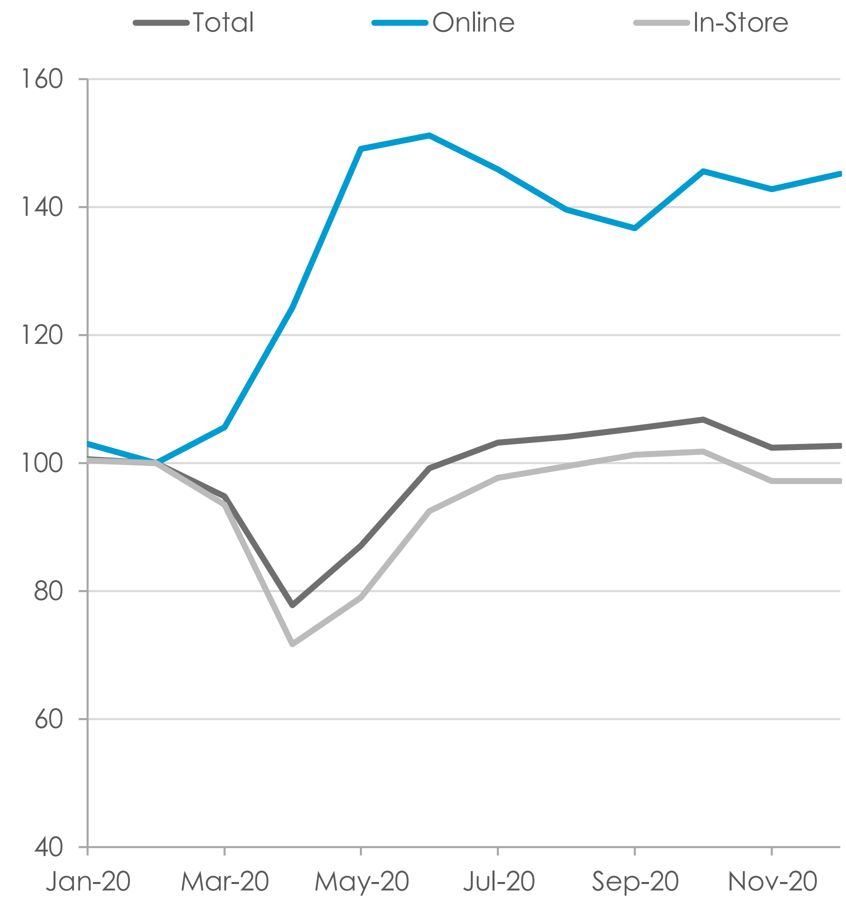
Online retail is providing an outlet for consumers as restrictions curtail face-to-face spending. Social distancing measures and lockdowns kept shoppers away from high streets, leading to a 32 per cent increase in online retail sales in 2020 compared to 2019. Instore retail sales dropped by 6.5 per cent in 2020 as a whole and ended the year 3.2 per cent lower than they were in January.

Retailers need to adapt to new landscape

Although, the share of online sales will fall back once restrictions are lifted, after a sharp rise in 2020, the trend towards more online spending will continue. What's more, retailers need to adapt to the new ways in which consumers are paying for goods and services.

New technologies and innovations continue to emerge giving consumers greater choice in how they pay for things. These include smartphones, contactless cards, mobile wallets and mobile banking. A report by UK Finance also highlights the potential further changes over the next decade. These include Open Banking, the advent of Payment Services Directive 2 (PSD2), Strong Customer Authentication and the anticipated New Payments Architecture for the UK.[10]

Online and Instore retail sales, February 2020 = 100



Sources: Capital Economics and Refinitiv.

In the long term, some structural changes already underway will be accelerated by the crisis

Changes related to social distancing are likely to be temporary

As long as social distancing isn't practiced for many years, then those behavioural changes triggered specifically by the coronavirus crisis, such as fewer employees in the workplace at one time, fewer customers in pubs and a greater reluctance to travel, will probably prove temporary. That's partly because the desire to socialise is strong. But it is also partly because online replacements for some of these activities are imperfect substitutes.

Changes more likely to stick are those already underway

The behavioural changes that are much more likely to be permanent are the ones that were already underway and have been accelerated by the crisis. They include spending online, the reduction in the use of cash, the greater use of technology in the workplace and a shift towards working from home. These trends are likely to stick as, by and large, households and businesses want them to.

People want the flexibility of being able to work from home and businesses want to reduce travel, and incorporate technology to cut costs, boost productivity and raise profits. There is a clear commercial desire for existing trends to continue, precisely because they do enhance productivity. This supports the idea that the coronavirus may not significantly reduce the economy's potential rate of growth. In some ways, it could even boost it.

Retailers need to adapt to long term trends

Changes will provide opportunities and challenges for retailers. High street stores and those servicing city workplace centres will suffer from increased online spending and working from home. The reduction in use of cash intensifies the need for retailers to adapt to digital payment methods. Meanwhile, retailers can benefit from incorporating productivity enhancing use of technologies.

Trends resulting from COVID-19 pandemic

	Temporary	Permanent
Social/ spending habits	• Increased local communities spending • Less spending on consumer goods and services • Socialise online rather than in person • Increase in leisure activities at home • Less leisure travel and overseas holidays	• Rise in online spending/decline in bricks and mortar retail spending • Reduction in the use of cash • Shift in demand for residential property away from cities
Working habits	• Work less and play more • Fewer employees/customers in the workplace • Relocation to office parks outside cities • Shift in amenities from cities to regional towns	• Less business travel • More working from home • Lower demand for commercial property • Greater use of technology/robots/AI in the workplace

Sources: Capital Economics

3: Benefits and challenges

In this section we assess the benefits of BNPL and identify the challenges for the industry.

- 78 per cent of UK consumers that have used BNPL services identified a flexible return policy and the security it provides when buying from unknown sellers as ‘very important’ or 'fairly important' in their purchase decision
- 81 per cent UK consumers that have used BNPL services identified ease of use as 'very important' or 'fairly important' in their purchase decision, while the figure was 71 per cent for deferred payment.
- 64 per cent of adults that have previously used a BNPL service thought it had helped them manage their finances ‘a lot’ or ‘a little’.
- Two thirds of the value of purchases made through BNPL in the past year would have been made regardless of the option to defer payment through a BNPL service. Around one third would have been made without using any other source of credit, suggesting that these customers use the service to enjoy the benefits that it provides but have no financial necessity to do so. A further one third would have been made using means including other types of credit and borrowing from friends and family.
- Credit cards are the most common alternative to BNPL services; equivalent spending on credit cards could lead to £76 million of interest charges for consumers.
- As with traditional credit providers, BNPL providers face challenges in terms of appropriately managing credit risks. Meanwhile, BNPL providers need to manage the risks to retailers that come with evolving payment and credit options including the different approaches to transparency, fees, payment cycles and consumer protection.

Offering BNPL options can transfer risk and expand customer base for retailers

Reduced risk to retailers by using BNPL

Retailers who partner with BNPL providers pay them a fee (usually around two to six per cent of the transaction plus a fixed fee) to use their online and in-store checkout services. Retailers get paid upfront by the BNPL provider once the purchase is approved, meaning that retailers transfer the risk on late or non-payment to the BNPL provider.

Retailers benefit from increased purchase options

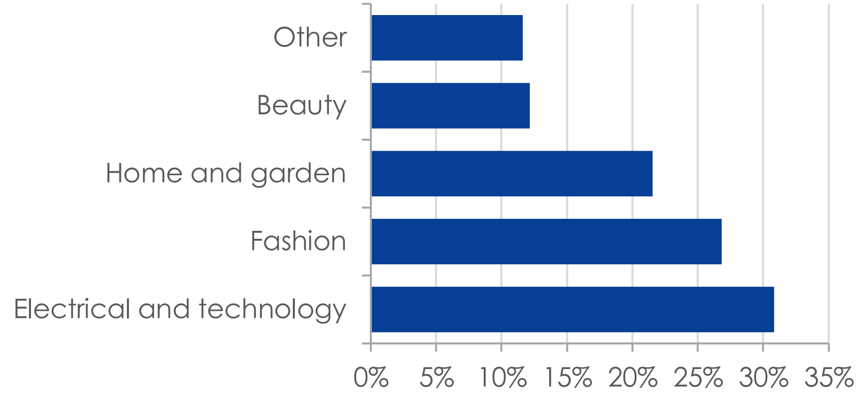
As the way people purchase goods evolve, more customers value flexibility and choice. Results from a survey by Finder in 2020 indicate that 9.5 million people in the UK avoided buying from retailers that don't offer buy now, pay later options.[11]

Electrical and technological goods are most popular with BNPL

The YouGov survey of consumers indicated that over 30 per cent of consumers that have bought something with BNPL in the last year have purchased an electrical or technology good since the start of the pandemic that they would not have otherwise purchased. In part, this may reflect the nature of spending during the lockdowns in which people are more likely to purchase goods that provide entertainment at home. Fashion items and home and garden products were the next most popular, with 27 per cent and 22 per cent respectively having purchased an item since the start of COVID-19.

On average, those that bought a home and garden product with BNPL that they wouldn't have otherwise purchased have spent a total of £503 on these items since the start of pandemic. This equates to an average of £97 per purchase. Each shopper has spent £378 on electrical and technology products at an average of £77 per purchase. The average purchase of fashion and beauty products using BNPL is significantly lower at £31 and £15 respectively.

Share of users of BNPL in the past year that have made a purchase since the start of COVID-19 on the following types of product that they would not have made otherwise



Average spend on purchases using BNPL since the start of the COVID-19 pandemic that would not have been made without BNPL option, £

	Per person	Per purchase
Electrical and technology	378	77
Fashion	179	31
Home and garden	503	97
Beauty	99	15

Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'don't know', 'prefer not to say' and 'not applicable' answers. Does not add to 100% as respondents could pick more than one option.

Purchasing through BNPL can provide a range of benefits to customers

Flexible returns policy a key attraction

Half of all respondents that had ever used a BNPL option said that flexible returns was 'very important' and a further 28 per cent said it was 'fairly important'. This is likely to have been particularly valuable to consumers that could not, or did not want to, go shopping instore to see or try on items.

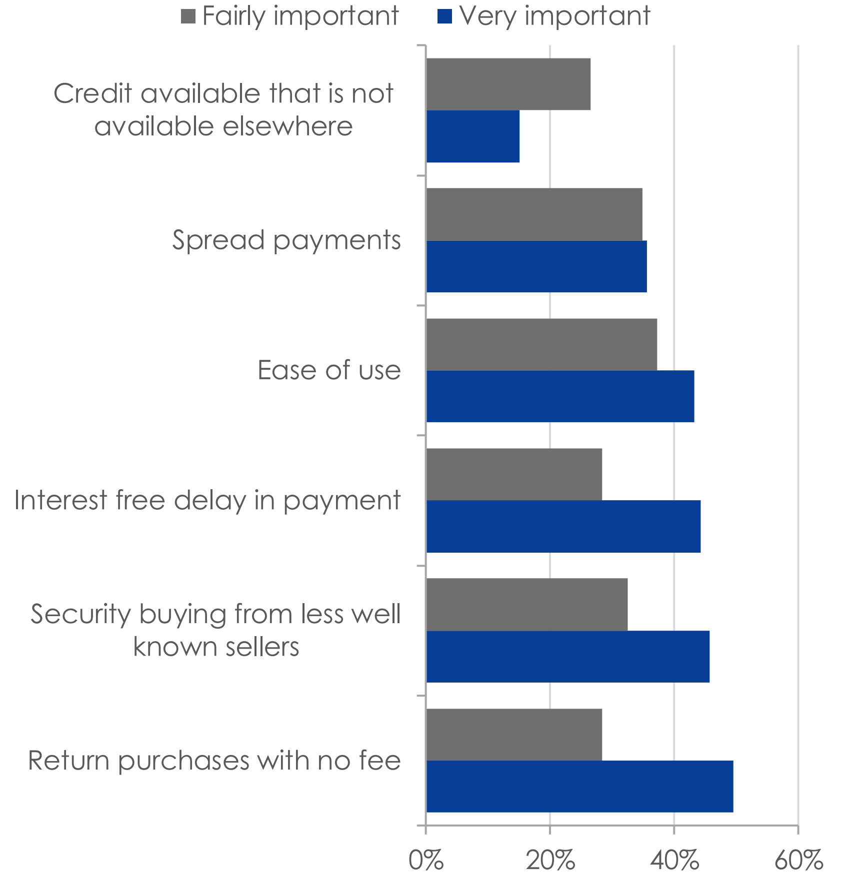
A range of other benefits identified by a majority of consumers

Over 70 per cent of consumers that have used BNPL said that the ease of use, ability to spread and delay payments without incurring interest charges and feeling more secure in their purchases from smaller and less well-known sellers were either 'fairly important' or 'very important' in their purchasing decisions. The BNPL model provides consumers with a flexible purchasing method that, when paid back on time, avoids many of the biggest downsides of using other forms of credit such as interest rates, annual fees and lengthy or complicated applications. Of course, the benefits identified are not exclusive to BNPL services.

Consumers generally don't use BNPL to get credit they can't get elsewhere

Just fifteen per cent of respondents stated that the ability to get credit that is not available elsewhere was 'very important' to them. This suggests that in the majority of cases people with poor credit scores are not using the BNPL offer to gain access to credit that they are unable to do through other forms of credit.

Share of adults that have used BNPL that cited the following characteristics of BNPL as 'very important' or 'fairly important' in their decision to use it for online payments



Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'don't know' answers from the sample and distributed in proportion to the other answer options.

Ability to delay and/or spread payments can help consumers to manage their finances

Majority of consumers think BNPL helps them to manage their finances

Based on analysis of the YouGov survey of consumers, we estimate that 42 per cent of adults that have previously used a BNPL service thought that the flexibility had helped them manage their finances a little and a further 22 per cent thought it had helped a lot.

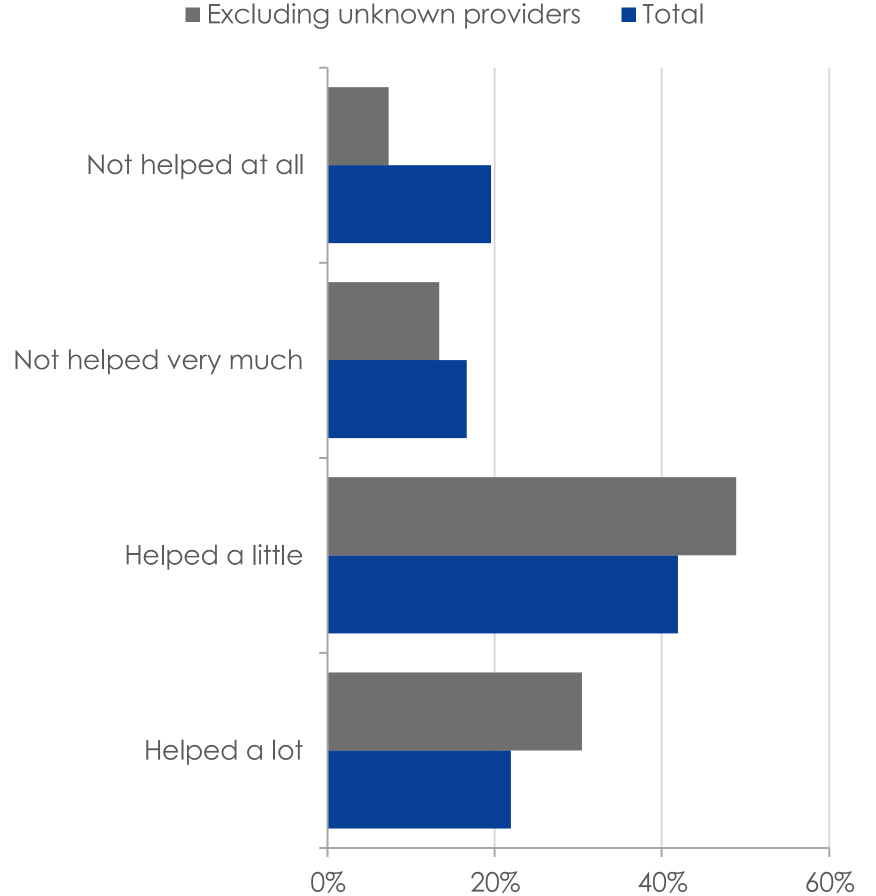
For those respondents for which we could identify a provider, almost 80 per cent said it had 'helped a little' or 'helped a lot'. Just seven per cent said that it had not helped at all.

Many customers do not need the credit but enjoy other benefits

Based on asking consumers what they would have done if BNPL option had not been available, we estimate that two thirds of the value of purchases made through BNPL in the past year would have been made regardless of the option to defer payment through a BNPL service.

Capital Economics estimates that around one third would have been made without using any other source of credit, suggesting that these customers use the service to enjoy the benefits that it provides but have no financial necessity to use it. A further one third would have been made using means including other types of credit and borrowing from friends and family.

Share of users of BNPL by the extent to which they think that it helped them manage their finances



Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'don't know' answers from the sample and distributed in proportion to the other answer options.

BNPL provides confidence to some consumers to purchase from unknown sellers

Some shoppers more confident purchasing from unknown sellers

One benefit of purchasing goods online through a BNPL provider is that it can provide confidence in spending with smaller and less well known sellers. Some consumers are reluctant to spend on these types of retailers either through marketplaces or directly if they have to pay the money upfront. The evidence from analysis of the survey on how BNPL services impact confidence is mixed. Around 26 per cent of consumers that have previously used a BNPL option stated that they would be 'a little' or 'much' more confident purchasing using this method than otherwise. However, 23 per cent also stated that they would be less confident.

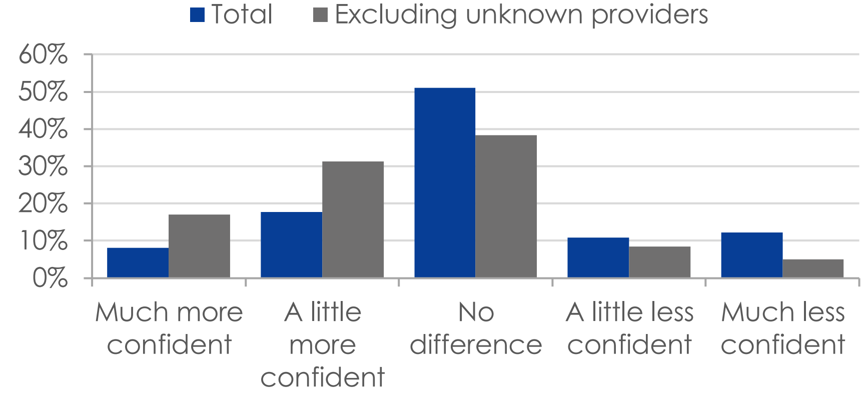
The positive impact on confidence is more evident for consumers surveyed for which we know the BNPL provider that they used. For this group, 48 per cent were 'a little' or 'much' more confident compared to 13 per cent that were 'a little' or 'much' less confident.

Electrical, household and fashion products are most popular

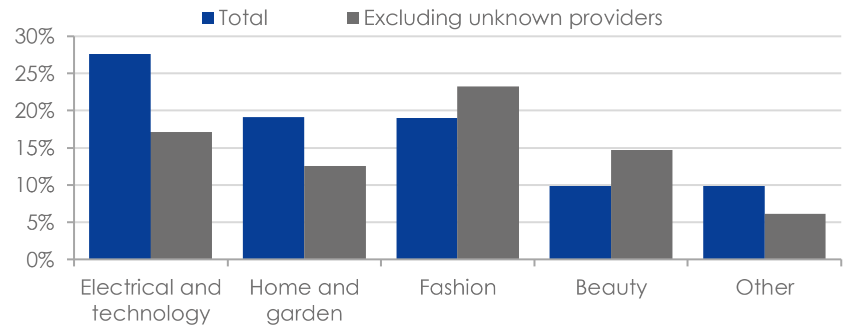
The most common type of products purchased through BNPL from new sellers to the customer were electrical and technological. Around 28 per cent of adults that have used the service had bought something in this category. Home and garden and fashion products were the next most popular; nineteen per cent of adults who used BNPL to purchase from sellers they hadn't purchased from before, bought products in these categories.

When assessing the responses only from respondents who identified the BNPL provider that they used, a greater share had purchased fashion items (23 per cent) and beauty items (15 per cent).

Share of users of BNPL that have ever made a purchase from seller they haven't previously by the extent to which it makes them more confident to do so



Share of users of BNPL that have spent online with sellers that they hadn't previously bought from, by type of product



Source: Capital Economics' analysis of YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'don't know' and 'not applicable' answers. Lower chart does not add to 100% as respondents could pick more than one option.

Credit card spending is the most common alternative to BNPL

Credit cards are the most popular alternative

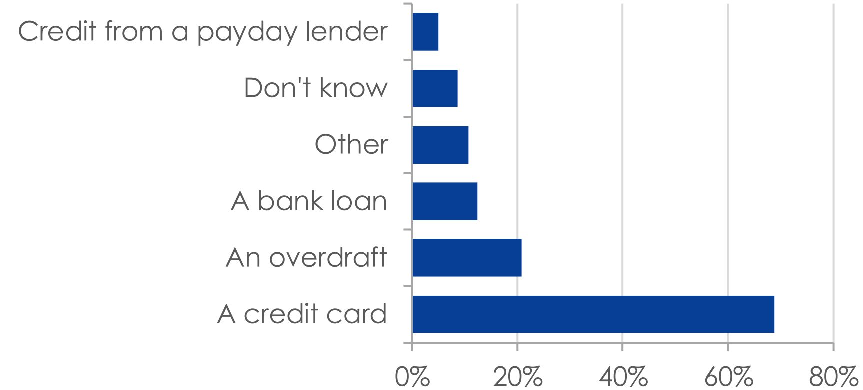
Our analysis of the YouGov survey suggests that 22 per cent of the value of spending using BNPL in the past year would have been done using other, potentially more costly, forms of credit if there was not a BNPL option available. For those consumers who would use another form of credit, almost 70 per cent said that they would have used a credit card instead. Over twenty per cent said they would have used an overdraft and twelve per cent said they would have used a bank loan. Five per cent said that they would have used payday loans. The picture was similar when consumers were asked about the types of credit they would consider in the future if BNPL was not available, outside of those who said they would not use an alternative.

Shifting spending away from other forms of credit saves on costs

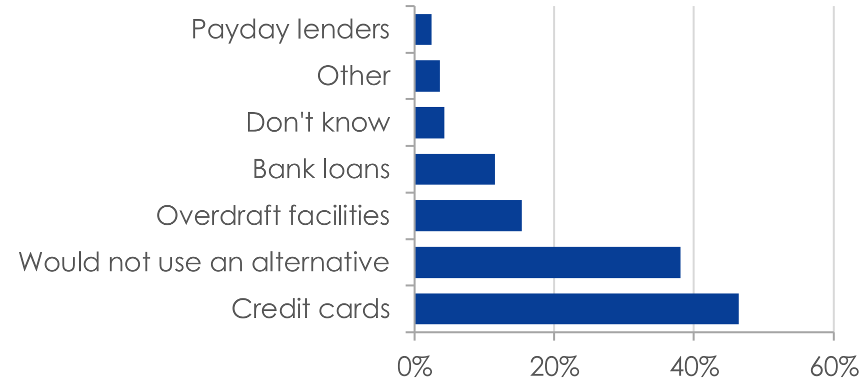
Using interest free options to purchase goods online can reduce costs compared to other forms of credit. There is no blanket comparison as products differ widely in terms of interest rate charges and other fees and penalties. Most credit cards will charge interest on outstanding debt, although often with interest free periods initially when the card is taken out or if the full balance is repaid every month. Bank loans and overdrafts also generally charge interest. In addition, there are potential fees when payments are missed.

We have compared the cost of using a BNPL service to using a credit card. This is an illustrative calculation assuming that the BNPL payment is paid back on time after two months and the credit card payment is paid back after two months, with the minimum fee paid after one month. On this basis, and accounting for the share of debt on interest free credit cards, £4.1 billion of spending would incur £76 million of interest charges on credit cards that would not otherwise of have been incurred using an interest free BNPL service.

Share of those who stated they would have made payments with another form of credit if BNPL was not available by type of credit



Share of users of BNPL that would consider the following options as alternatives if BNPL was not available in the future



Source: YouGov survey of GB consumers conducted in January 2021. Notes: Capital Economics have assumed national averages apply for Northern Ireland to scale up to the UK and have removed 'not applicable' answers. Does not add to 100% as respondents could pick more than one option

Providers need to ensure that consumers can afford the purchases they make

There are risks for consumers

As with other forms of credit, there are risks to the consumer and the BNPL industry in the UK needs to manage these appropriately. Like borrowing from incumbent credit providers, new BNPL services can lead to financial difficulties if not managed appropriately. The method of payment allows consumers to defer and spread their costs, but they still need to pay back the balance at some point in time. Missed payments can result in additional fees, difficulties in repayment and adverse credit scores. In 2020, a survey from CouponFollow, a site providing coupon codes for online purchases, suggested that interest rates and missed payments were the most frequent issues identified.[12]

BNPL does not contribute to financial difficulties for most consumers

Our survey of consumers found that 71 per cent of adults who had ever used BNPL had not got into any of a wide range of financial difficulties as a result, including late payment charges, the need to borrow elsewhere or default.

The most commonly cited difficulty was late payments. Around eight per cent of adults that have used BNPL said that it had led to late payment charges on either their BNPL credit or on other types of credit such as credit cards, overdrafts or personal loans. These results vary depending on the BNPL provider used, with some companies not imposing fees or interest charges on late payments. A separate survey by Compare The Market found that nine per cent of adults have missed a payment in the past 12 months, compared to thirteen per cent recorded in December 2019.[13] We have not found comprehensive data to compare this to other payment options such as credit cards, personal loans or Payday loans but financial difficulties related to credit is not an issue unique to BNPL.

Areas of focus for BNPL providers

The BNPL sector in the United Kingdom is relatively new and fast growing, with many new entrants and start-ups emerging to try to gain market share. As a fledgling industry, it is unsurprising that the market is far from uniform. There are differences in the offer to consumers and the standards and practices deployed.

With many providers available it can be confusing for consumers and there needs to be clarity and transparency on the terms (interest rates, any late fees, payment schedule etc.) that they are committing to when opting for a BNPL service.

In addition, there are differences between providers on a range of factors that impact the risk to consumers:

- The eligibility checks that are carried out to determine whether a customer can pay for the purchase
- Payment schedules – some providers require payment weekly, every two weeks or monthly
- Fees and interest
- Levels of consumer protection relating to the quality of the product, right to return purchase or help available for unexpected financial hardship
- The complaint handling process

Retailers need to adapt to the new world of online and digital payments

There are costs for retailers to weigh against the benefits

BNPL companies charge a fee to retailers for processing payments. This typically comes in the form a percentage of the sale plus a fixed transaction fee. It is difficult to get like for like comparisons of BNPL fees versus different payment methods because of a lack of public data, differences in how the fees are structured and hidden fees such as minimum monthly fees or PCI compliance costs. For BNPL, the fee varies by provider and retailer, generally ranging from two to six per cent of the purchase amount while the flat fee can amount to around 20 pence per transaction.[14] In comparison, a typical credit card rate ranges between one and three per cent plus one to three pence authorisation fee.[15] In addition to the costs of the transaction, a high rate of returned items can add to retailers' costs.

Lack of clarity can negatively impact customer experience

As well as being a risk to the consumer, a lack of information and clarity on BNPL adoption by retailers can negatively impact consumers' perceptions. There can be confusion at different points in the process relating to the eligibility/credit checks that will be carried out, the applicable interest rates, any fees payable and the repayment schedule at different points in the process.

Fraud is an issue for online payment providers

Identity theft, which happens when fraudsters access enough information about someone's identity to commit identity fraud, is an issue which affects the retail industry and is not unique to BNPL purchases. It is estimated that the total fraud losses on UK issued debit and credit cards was £620 million in 2019.[16] We have not found any reliable data in order to compare the extent of this activity between different payment methods.

However, knowledge of fraudulent activity could be damaging to the reputation of the BNPL provider and the retailer, as well as the individual who has their identity stolen.

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