# Instant hit: The rise and rise of buy now, pay later

*An analysis of consumer attitudes to buy now, pay later services and traditional credit, and how these retail payment platforms are set to evolve in a post-pandemic world*


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# Introduction



There's nothing new about deferred payments, but several innovative "buy now, pay later" (BNPL) disruptors offering interest-free instalments are becoming a significant force in UK shopping.

BNPL is the fastest-growing online payment method in the UK - at double the growth rate of bank transfers and more than three times that of digital wallets, according to a February report by the payment processor Worldpay.

While it's popular among a range of consumers, BNPL has highlighted a generational rift that is bad news for the credit card industry. Barely half of the millennial generation (born between 1981 and 1996) owns a credit card (51%) against 71% of generation X (born between 1965 and 1980), according to a YouGov study from 2019. Of those millennials who don't have a card, 93% never plan to take one out. Instead, this young generation appears to be more interested in newer, alternative ways to delay payments.

New research from Finder, carried out in July, confirms this: 35% of millennials used BNPL schemes more during lockdown to help fund their online spending. What's more, 30% of millennials who used BNPL more in lockdown cited not wanting to use a credit card as a key factor in their decision. One behavioural expert we spoke to cited a "psychological optimism bias" prevalent among younger people, which fuels a snap purchase, pay-for-it-later mentality - made possible with BNPL services.

But with the promise of interest-free instalments, BNPL firms have been criticised for encouraging users to overspend. So how are the likes of Klarna and Clearpay addressing this?

In this paper, we've published our new research, analysed how the pandemic has affected the use of BNPL services across generations, and gathered expert views on what lies ahead for these flexible payment platforms.

## Contents

Online purchases using BNPL are growing at a rate of 39% a year, with market share set to double by 2023, according to a February report from Worldpay. The convenience it offers is clear. Shoppers dub it “try before you buy” because they can order clothes and shoes online, try them and return any they don’t want - in many cases before they’ve paid anything. They are increasingly aware of BNPL brands, too, having been exposed to high-profile ads such as “No drama, just Klarna” from the Swedish disruptor. This campaign launched in 2019 across six UK cities and helped drive growth in branded searches. Google Trends data shows interest in “Klarna” in the last week of July 2020 was 96% up on the same week in 2019. British competitor Clearpay saw a 141% surge in this period.

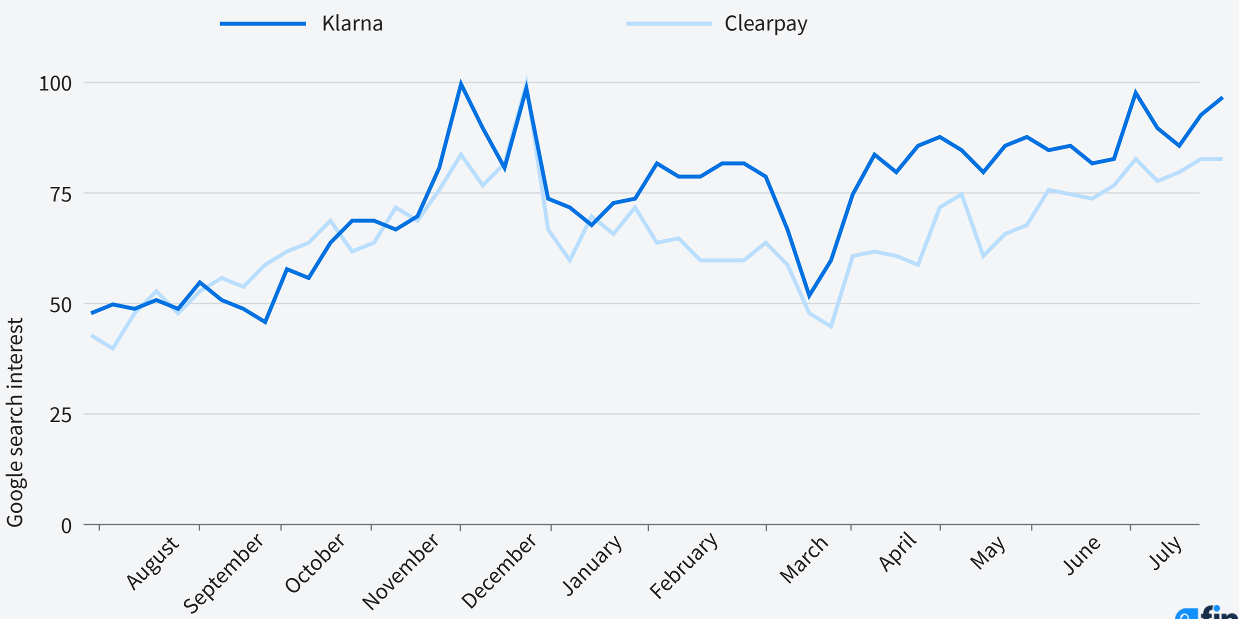
BNPL is also good for partner retailers - it’s proven to help increase customer loyalty and basket conversions, boosting sales by up to 30%, according to a European Payments Council report in June 2019. In fact, nearly 9.5 million Brits said they avoided buying from retailers which don’t offer BNPL options at the checkout, according to February data from market research hub Harris Interactive.

But the growth in paying later has also understandably attracted the interest of the Financial Conduct Authority - which set out new rules for BNPL credit in 2019 - and BNPL has drawn criticism from national media; we explore this later in our paper. The basis for BNPL’s controversial appeal seems to lie in people’s emotions when parting with money.

“Neuroscientists have found that asking people to pay money activates the same brain regions as physical pain - we have learned to be wary of paying for things in the same way as we avoid hot cookers or electrical sockets,” says Leigh Caldwell, behavioural economist and author of The Psychology of Price.

“But anything that still allows us to get the positive reward from buying something, without the negative pain of paying in that moment, will make it easier for people to spend more money,” he adds.

## Search interest in “Klarna” and “Clearpay”, July 2019 - July 2020




Source: Google Trends

# The key players 

Klarna, founded in Sweden, launched in the UK in 2014 and has the UK's most downloaded BNPL app with 986,000 installs between 1 January and 31 July, 2020.

The app from Australian rival Clearpay, known globally as Afterpay, was loaded onto smartphones 298,000 times in the same period.

Klarna offers multiple options; pay interest-free within 30 days, or in 3 instalments, while "Slice It" offers finance for between 6 and 36 months with no interest if payments are on time, otherwise representative 18.9% APR (variable) The platform performs a soft credit check but charges no late fees.

Clearpay, which launched in the UK in 2019, offers to split the cost of an item into four chunks, taken automatically every two weeks. The service is also interest-free but late payment charges of £6 apply if a balance is left unpaid on or after the due date.

## Laybuy, Openpay and Argos

New Zealand's fintech platform Laybuy, which has generated 162,000 installs in the UK, and Australian firm Openpay (44,000 downloads) are also interest-free. Both involve a soft credit check, and both charge late payment fees of £6 and £7.50 respectively.

Certain stores' own pay later schemes are becoming increasingly popular, too.

Google Trends data shows an uptick in search interest for Argos over the last 12 months. The Argos app, My Argos Card, also generated 435,000 downloads between January and July of this year.

My Argos Card allows consumers to shop from the brand online or in-store, with a 3-6 month credit plan (representative 29.9% APR variable). Customers incur interest on this if the balance is unpaid.

## Fly and drive

Pay later has also become an option for travel ("fly now") and in the car market ("drive now") - car service plan provider EMaC partnered with Klarna in June 2018, allowing customers to pay later for repairs and vehicle accessories.

### Top 5 most downloaded BNPL apps in the UK, 1 Jan - 31 July 2020

1. Klarna (986,000)
2. My Argos Card (435,000)
3. Clearpay (298,000)
4. Laybuy (162,000)
5. Openpay (44,000)

Source: Sensor Tower

# A lockdown lift

BNPL services were already giving traditional payment methods a run for their money before the pandemic, but lockdown gave them wings.

As bricks-and-mortar stores closed, Brits turned to online shopping as never before. Figures from the Office for National Statistics (ONS) showed that April set a record for the highest proportion spent online, at 30.7% of total sales in the UK, compared to 19.1% reported in April 2019 (Finder published research on shopping trends in our May report *Shopping in a coronavirus world)*.

## Funding their lifestyle

Amid financial uncertainty, online shoppers became more keen to spread out the cost of online purchases using interest-free instalments. However, many were still buying non-essential fashion and beauty items - Clearpay revealed that among the most popular purchases using its service in lockdown were Nike Air Force 1 trainers, which cost around £85, Ivy skinny jeans (£19.50 from Marks & Spencer), Puma workout leggings (£25) and the Illamasqua angled eyeliner brush from LOOKFANTASTIC (£17).

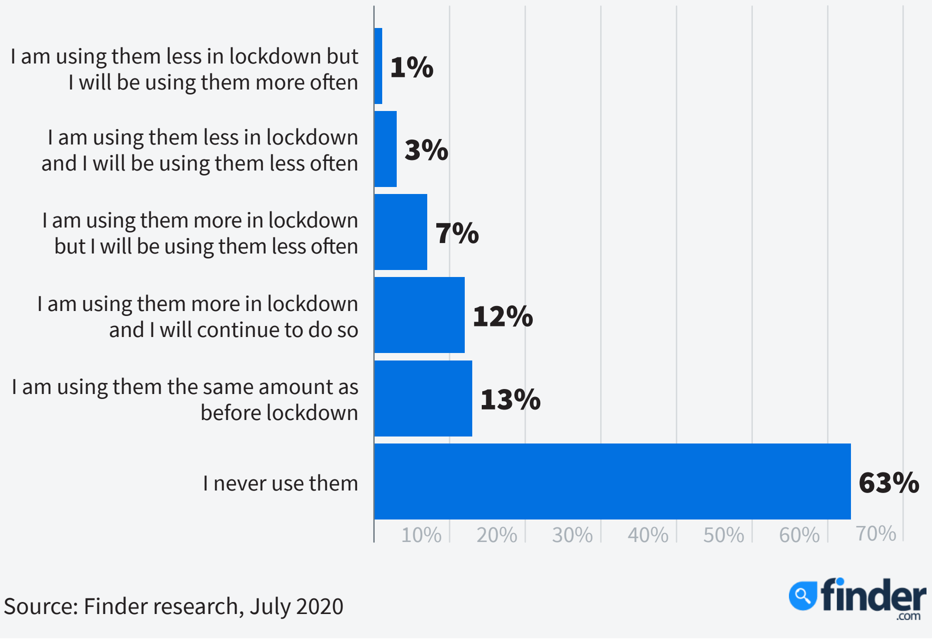
Instead of merely providing instant access to everyday essentials, BNPL gave consumers the "financial means to afford the same lifestyle that they were used to living pre-pandemic," says Hannah Elderfield of trend agency, Canvas8.

Finder surveyed 2,000 Brits in July and found that 24% changed their use of BNPL services during lockdown, with a fifth (19%) claiming to have used these schemes more than usual during this period. Our chart, right, shows how this breaks down, covering both use during lockdown, and shoppers' intentions for using BNPL over the next year.

The shift in payment preferences looks set to stay, with 8.6 million Brits (13%) planning to use BNPL services more in the future.

Unsurprisingly a high proportion of millennials (24%) said they expected to use BNPL more, compared to just 6% of baby boomers (Brits born between 1946-1964).

### Shoppers' use of BNPL services in lockdown & intentions for using them after lockdown




Source: Finder research, July 2020

# A lockdown lift



Consumer demand for BNPL during lockdown was matched by a surge in interest among retailers. Klarna reported a 20% increase in UK brands using its service during April, with an "uplift in revenue of around 20% for new merchants onboarded," according to Klarna UK's general manager, Luke Griffiths.

The lockdown also helped drive growth for Clearpay, which hit 1 million active UK users this year. During May, Clearpay's shop directory contributed over 1.5 million lead referrals to its retail partners - a 50% increase on the rate in February 2020.

Having the option to pay later during lockdown "eased short-term financial burdens for consumers" who'd been "saddled with" these during the pandemic, says Hannah Elderfield of Canvas8.

## Longer repayment periods

As the lockdown dragged on into April, the FCA stepped in to announce a three-month interest payment freeze, which has now been extended until 31 October. It enables individuals using credit - including that from BNPL schemes - more time to pay off their balance.

An April report from pay later app Splitit indicates that more of its users were choosing longer instalment plans in lockdown. The study compared thousands of transactions between 15 March and 10 April with data from the previous 12 months, and found that shoppers were spreading the cost of their items over an average of seven instalments, instead of the previous five.

With job losses and economic uncertainty rife, consumers have been playing it safe with their finances. Credit card spending fell 50% at the start of lockdown, according to the banking and financial services trade body UK Finance. And while the cancellation of holiday plans is one likely reason for the fall, there's evidence for another, which is that a significant number of shoppers were looking to alternative payment options instead.

Finder data shows that 27% of Brits who've been using BNPL more recently, or plan to do so, cited not wanting to use or take out a credit card as a factor in choosing pay later services. Among this group, a third (31%) of generation Z cited this as a reason. Among generation X, the equivalent figure was only around a quarter (23%).

A YouGov study from September 2019 underlines this dislike of credit cards among some generations - it found that barely half of millennials own one (51%) against 71% of generation X. Of the millennials who don't have a credit card, 93% never plan to take one out.

"Millennials and gen Z have definitely shown an aversion to credit and a willingness to adopt alternative payment methods, particularly BNPL. Younger generations look at this payment method like a budgeting tool, and many see credit cards as an easy way to get into debt," says Finder's global fintech editor Elizabeth Barry.

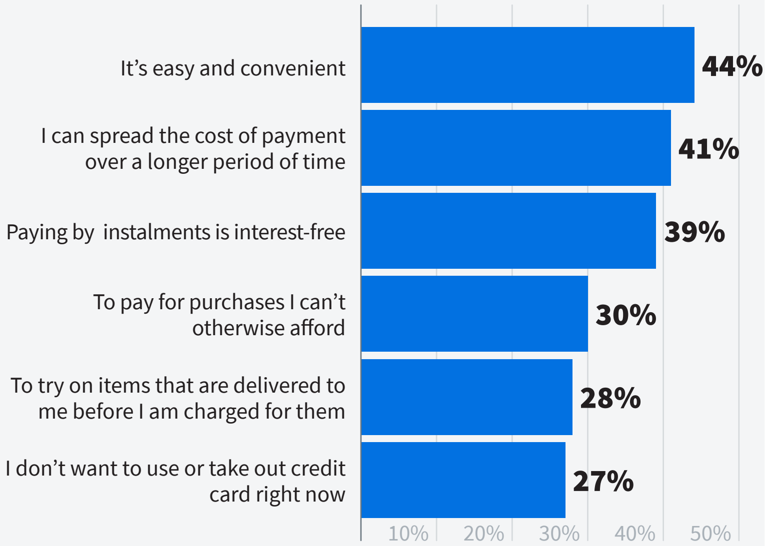
Shane Happach, head of global eCommerce at Worldpay, highlights the ease and convenience of BNPL services compared to traditional credit, which tends to draw seasoned shoppers.

"BNPL delivers a more intuitive level of convenience and access for consumers than traditional credit cards. As digitally savvy gen Z consumers come of age, this is especially significant as younger consumers are more used to making snap purchases and then deciding later if they want to keep it," he says.

For now, at least, it seems unlikely that BNPL will kill the credit card since cards offer different benefits and since the card industry is innovating to secure its future. American Express (Amex), for example, launched its Pay It Plan to US card members in August 2020. With this, users can create monthly payment plans with a fixed fee and no interest, carry a monthly balance with interest, or pay their bill in full from the Amex app.

"BNPL services don't allow you to build credit - providers like Afterpay do not check your credit score or report positive payments. Some credit card providers, such as Amex, have also pivoted to allow cardholders to make payments in instalments, which is the main draw of BNPL," says Barry.

## Why shoppers have preferred BNPL




Source: Finder research, July 2020

It’s no surprise that younger generations can’t seem to get enough of BNPL. Klarna, Clearpay and Laybuy are all highly active on social media, marketing themselves to millennials and generation Z through organic and targeted ads, to great effect.

Jumping on the lockdown trainer hype, Klarna, which boasts a 45.1K following on Instagram, ran a #heartbeats4sneakers competition on the platform in July. Shoppers could enter by placing a fingerprint over their smartphone camera lens to register a “heartbeat”. This was used to launch a week of sneaker deals - giving eager consumers the chance to get as much as 90% off trainers, or win a free pair in the sneaker raffle.

Influencers and reality TV contestants feature regularly, too, with the likes of actor Ashton Kutcher and rapper Snoop Dogg (who now invests in the platform) splashed across its channels. Klarna’s playful pink branding and the famous “Get Smoooth” campaign have landed the firm countless marketing awards, including a YouTube accolade for the best “Winning Hearts” entry in June.

Clearpay also tapped into sneaker season via social media, with six trainer-related Instagram posts in July alone, encouraging shoppers to buy new styles and pay in instalments.

These targeted campaigns are designed to show credit in a new light through relevant and fun ads. After all, 39% of Brits aged 16-34 said that smart and funny advertising was the factor most likely to influence them when choosing where to spend, according to a Klarna report published in April 2020.

This, coupled with a “psychological optimism bias” prevalent among younger people, fuels a “snap purchase, pay-for-it-later mentality” according to behavioural economist Leigh Caldwell.

**35%** **of millennials** used **BNPL** more to help fund their lockdown and **24%** plan to **use it more** afterwards

Appetite for BNPL has grown internationally, and so has the number of brands that have expanded globally.

Spurred by the recent growth of more than 300,000 new customers since March, American platform Sezzle, which currently operates in the US and Canada, announced plans to launch in India by the end of 2020.

Australia's Zip is at 578,000 app installs so far this year, according to mobile analytics firm Sensor Tower, and has plans to launch in the UK.

Digital banking platform Curve is another entering the UK's BNPL space. It's testing a "Curve Credit" feature, ahead of a full launch later this year. With it, consumers will be able to split purchases into interest-free instalments at retailer checkouts via the Curve card.

PayPal also offers BNPL, with financing options in the US, UK and Germany. In June it extended these features to France, allowing consumers to pay in four equal instalments over three months.

Major challenges for BNPL providers include how they can stand out in this increasingly competitive space, while also discouraging overspending and problem debt for customers.

## A crowded market

While the largest chunks of the UK's pay later pie belong to Klarna and Clearpay, other competitors are fighting for their own piece, which leads to further innovation to attract or keep customers.

Klarna is leading the way with the unveiling of Vibe, the platform's own customer loyalty scheme and the first of its kind in the space. The program went live in the US in June 2020, but there are plans to launch in the UK in 2021.

Vibe is a no-fee scheme that applies to all purchases made through the Klarna app, or when using the service through a retail partner. In the US, members earn one Vibe point per dollar spent, which translates into redeemable gift cards for various brands including Starbucks and Uber.

"The program is designed to reward customers who spend responsibly. Members will only earn 'Vibes' once their payments are complete and paid on time, without the penalty of fees or interest often associated with credit card loyalty programs," says Luke Griffiths of Klarna.

> Vibe is designed to reward customers who spend responsibly.
> *Luke Griffiths, UK general manager at Klarna*

## Mindful spending

The offer of interest-free instalments and no hidden fees allows shoppers more flexibility but also can lessen their perceived risk of debt, and lead to overspending and ensuing problems. This has drawn criticism for the BNPL industry from the media and certain charities.

Finder research found that 41% of those who are increasingly using BNPL cited the ability to spread the cost of payment over time as a key factor, while 30% claimed to use it to pay for purchases they can't otherwise afford.

To that end, it's not difficult to see how shoppers may be tempted by an impulse buy, adding more to online baskets than they may realistically be able to afford in the long run.

"It's a fine line that pay later firms need to tread to ensure they're not seen as an irresponsible lender. Their message needs to ensure people don't make frivolous purchases that increase debt," says Ian Rhodes, founder of consultancy Ecommerce Growth Co.

Both Klarna and Clearpay have been addressing the issue of mindful spending. KlarnaSense, which launched in July 2020, is a campaign aimed at educating shoppers on the "rule of three": "Do I love it? Will I use it? Is it worth it?" The campaign includes an online hub featuring quizzes, blog posts and advice.

Clearpay's safeguards include setting payment limits per customer, sending reminders for upcoming instalments and notifying the shopper if payments fail.

The FCA is not currently regulating BNPL services (beyond those offering finance) but has said that consumer credit is one of five priorities for its Business Plan in 2020-21, so it is likely to be monitoring what happens in this area.

> "It's a fine line that pay later firms need to tread to ensure they're not seen as an irresponsible lender."
>
> *Ian Rhodes, founder of Ecommerce Growth Co.*

### Luke Griffiths, Klarna

"Instalment offerings are more relevant than ever and are clearly resonating with shoppers and retailers. ...We are increasingly seeing competition for share of checkout, and we expect to see more acquisition within the industry... Looking ahead, Klarna will focus on expanding globally and into new markets, including the luxury and high-end fashion segment. We know from our own research that 46% of consumers say they would be more likely to buy luxury items if retailers gave them the option to pay for it in instalments."

### Hannah Elderfield, Canvas8

"Point-of-sale credit has given many consumers the financial flexibility they want and need, which means retailers have benefited from these schemes during lockdown, too. But as we emerge amid a precarious economic situation, financial brands - including BNPL schemes - have a responsibility to educate users on how to spend wisely and use these platforms safely. It's about offering genuine help rather than adding to money worries. Klarna has started to make moves in that direction by promoting mindful shopping and discouraging impulse buying."

### Ian Rhodes, Ecommerce Growth Co.

"To stand out in an increasingly saturated space...pay later firms will need to focus on specific markets and continue to build strategic relationships with suited retail partners. They must also educate both retailers and consumers to the benefits of their payment schemes, both responsibly and ethically."

### Elizabeth Barry, Finder Australia

"We will definitely continue to see growth in BNPL over the next 12 months. Some platforms, such as Klarna, allow you to shop anywhere. This move to a more ubiquitous payment method will help make BNPL a strong credit card competitor. However, credit cards can easily make a return again by offering new features, such as the ability to pay in instalments, or leveraging their added benefits, such as frequent flyer and rewards programs."

## Conclusion

Financial uncertainty arising from the pandemic has prompted consumers to change their spending habits, and the shift to online has given interest-free BNPL platforms the chance to gather more customers - most notably millennials and gen Z. Amid an economic downturn, pay later platforms must continue to innovate if they are to stand out, and must also continue to discourage irresponsible spending to avoid criticism, and, potentially, regulation.

## About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (Source: Experian Hitwise).

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## About the author

Amelia Glean is a writer at Finder specialising in shopping and travel. She has an MA in Newspaper Journalism and a BA in History and Politics from the University of East Anglia.

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