

The Future of UK BNPL: Giving Credit Where It's Due



What is Driving Consumer Interest in BNPL?

Despite a frail UK economy and an unprecedented global pandemic, Buy Now, Pay Later (BNPL) solutions are an increasingly popular payment method. As consumers forgo credit cards and turn to BNPL, what is driving the surge in consumer interest? Key players like Klarna, Openpay, and PayPal Credit continue to gain ground, with usage stabilising over the last six months of 2020 at 29% of UK consumers.

The biggest draw is not having to pay any interest, with the additional benefit of having more control and less responsibility as opposed to using a credit card.



Recent RFI Research shows that trust and a seamless setup process are top drivers of choice amongst UK BNPL users. Those aged between 25-34 have the greatest awareness and increased use of BNPL services in 2020. Those we surveyed state that the biggest draw is not paying any interest, with the additional benefit of having more control and less responsibility as opposed to using a credit card. Trends between in-store and online are also emerging. In-store BNPL users are significantly more likely to use the service due to an advert or recommendation whereas online users value a great user experience and a seamless checkout process.

Buy Now, Pay Later Services vs Traditional Credit



Baby boomers are also drawn to BNPL payment methods, although they are more focused on fees and simplicity than millennials.

Retail and ecommerce brands are now keen to incorporate BNPL services into their strategy, capturing consumers who previously were unable to purchase items. Why? Many refer to the innovative aspect of BNPL compared to traditional credit solutions. Similarly, BNPL users are turning to the services because they perceive there to be less risk involved and an assurance that they will not fall into a long-term credit plan, making BNPL a more appealing and manageable way for

consumers to borrow. In the coming months, consumer behaviour towards unsecured credit will continue to shift; RFI research found that those using BNPL as a payment method are likely to spend more during a transaction and spend more frequently. It is not only millennials who are drawn to BNPL services. Our research found that baby boomers are also drawn to BNPL payment methods, although they are more focused on fees and simplicity than millennials.

Ethical and Regulatory Considerations

As new entrants penetrate the consumer credit market, regulators are calling for more responsible lending. Their biggest challenge is withstanding the rate at which consumers apply for BNPL services and receive approval. As BNPL becomes the norm, affordability checks will need to become commonplace, ensuring consumers are not borrowing more than they can afford. Our research reveals that whilst 3 in 5 BNPL users do not struggle to meet their repayments, a fifth of BNPL users need help from family and friends to meet their obligations and believe they will need help in the next 12 months.

On average, BNPL users owe providers over £250 in repayments. Going forward, providers will need to ensure that consumers are treated reasonably should they face difficulty when repaying. A fifth of BNPL users have made an overdue payment with their main BNPL provider. Whilst regulation is needed, it is important to recognise that it may increase costs, which could consequently affect core BNPL business models and potentially curb consumer appetite.

A fifth of BNPL users currently need help from family and friends to meet their BNPL obligations and believe they may need help in the next 12 months.

What's Next for UK BNPL?

The deployment of digital wallets and mobile commerce is at the crux of the rise in popularity of BNPL adoption. It is no surprise that BNPL resonates with younger demographics, given its ease of use and readily available apps. What is surprising is the keen interest from older generations which

provides a new opportunity. The surge in BNPL services demonstrates a need for banks and credit card issuers to act promptly to meet consumer demand.

28% of all BNPL users believe that a bank product will be more secure than using a standalone BNPL service.

The costs of traditional credit are steering consumers towards alternative lending solutions and BNPL services allow banks the opportunity to enhance their credit offering. Banks have the advantage of reputation and trust among consumers when it comes to financing and Rfi research shows that 28% of all BNPL users believe that a bank issued product would be more secure than a standalone BNPL brand. Our research also indicates that highly engaged users will continue to use BNPL in the future: a third of PayPal Credit and Clearpay customers already use their BNPL service regularly and this proportion will continue to grow.

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