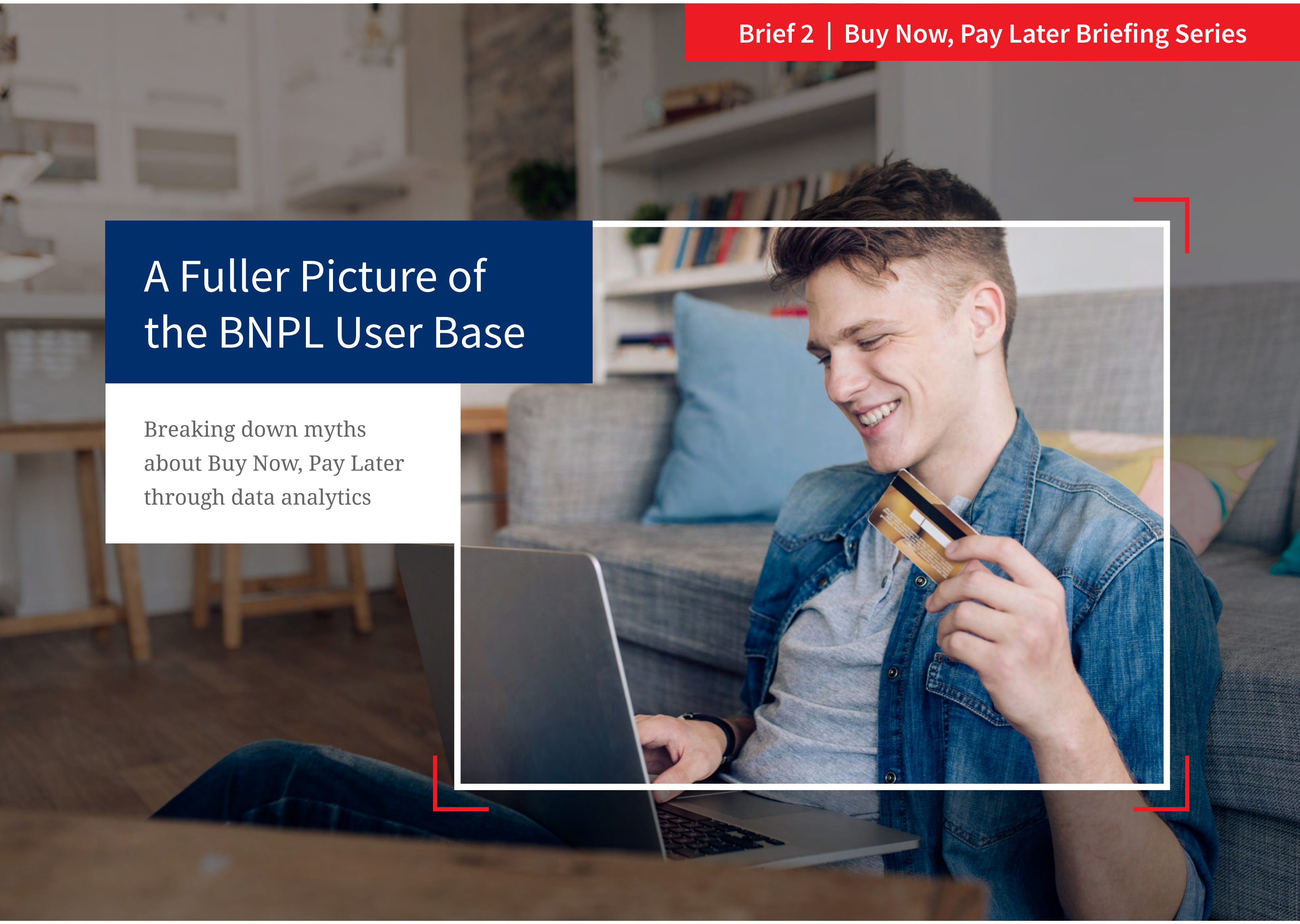
LexisNexis® RISK SOLUTIONS

Brief 2 | Buy Now, Pay Later Briefing Series



A Fuller Picture of the BNPL User Base

Breaking down myths about Buy Now, Pay Later through data analytics

In the last research brief on Buy Now, Pay Later (BNPL), we gained essential insights about the BNPL user base. These consumers are likely to have experience with credit in the past, they span the credit spectrum from subprime to prime, and they are younger than bankcard and retail card applicants on average, yet half are older than 35 years. We cannot assume this group is simply young, credit invisible or subprime consumers that will inevitably use (and potentially abuse) BNPL.

The nuance of this consumer group leads us to question what other factors of their personal and financial backgrounds drive them to using BNPL. This will be the focus of the second installment of our research series Challenging the Perceptions of Buy Now, Pay Later. With the use of BNPL up 30% year-over-year during the 2022 Black Friday shopping holiday, there are no signs of slowing for this industry or the demand from consumers.[1]

Elevated levels of tradeline and public record derogatory events are more likely among BNPL users

BNPL users have higher rates of bankruptcies (13%), liens (43%), and landlord/tenant disputes (118%) than traditional card applicants. The presence of a bankruptcy, lien or landlord/tenant dispute demonstrates these consumers have had significant financial issues in the past. These past events reflect a history of high credit stress which can make it more challenging for a consumer to access traditional credit products — thereby making BNPL more appealing. This offers a partial explanation as to why consumers with derogatory financial histories are more likely to use BNPL products.

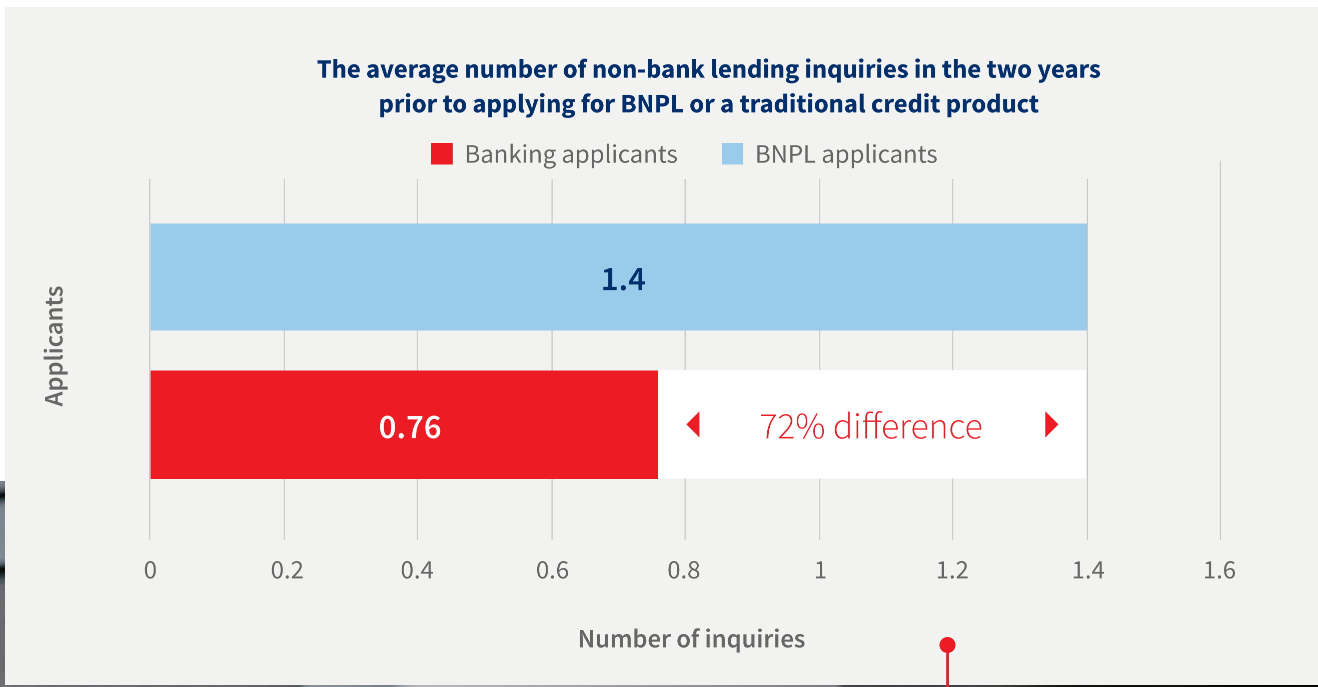
The rate of these three public records are higher among BNPL applicants than traditional card applicants by:

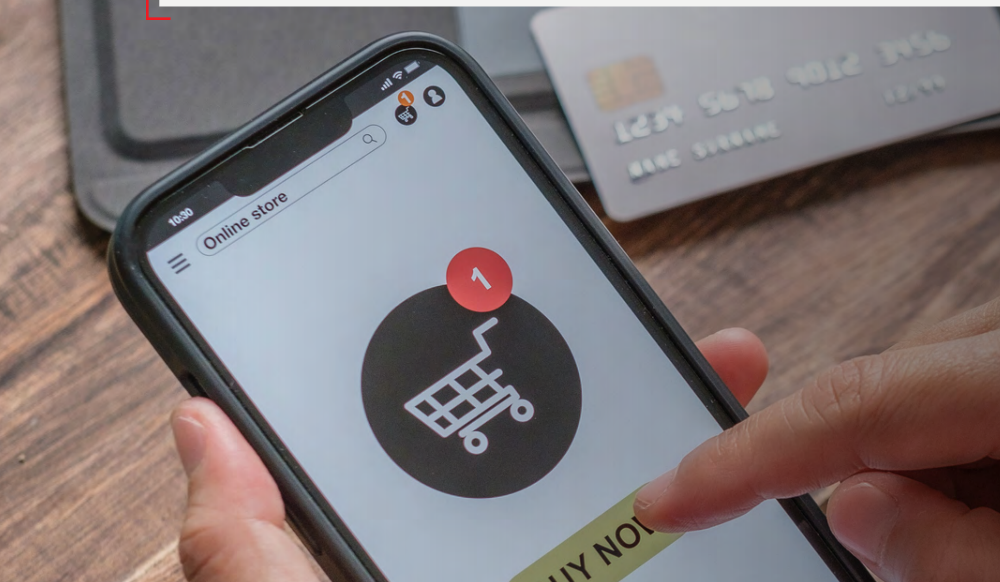
13%	43%	118%
BANKRUPTCY	LIENS	LANDLORD/ TENANT DISPUTES

Credit demand is high among BNPL users, and they are seeking new ways to gain buying power

By looking at the financial past of BNPL users, we can see a history of credit inquiries to non-bank lenders such as FinTechs. On average, BNPL users are 72% more likely to make multiple non-bank lending inquiries prior to applying for a BNPL loan than those applying for traditional credit products (Figure 1). This shows that once BNPL took off in the U.S., the same consumers that made inquiries with FinTech lenders also went after BNPL — likely due to its clearly advantageous APRs and fee structures. BPNL appeals to this younger, on average, consumer group as they seek new financial offerings to increase their credit.[2]

Figure 1: Multiple non-bank lending inquiries in a consumer's recent past are a telling sign they will apply for a BNPL loan.

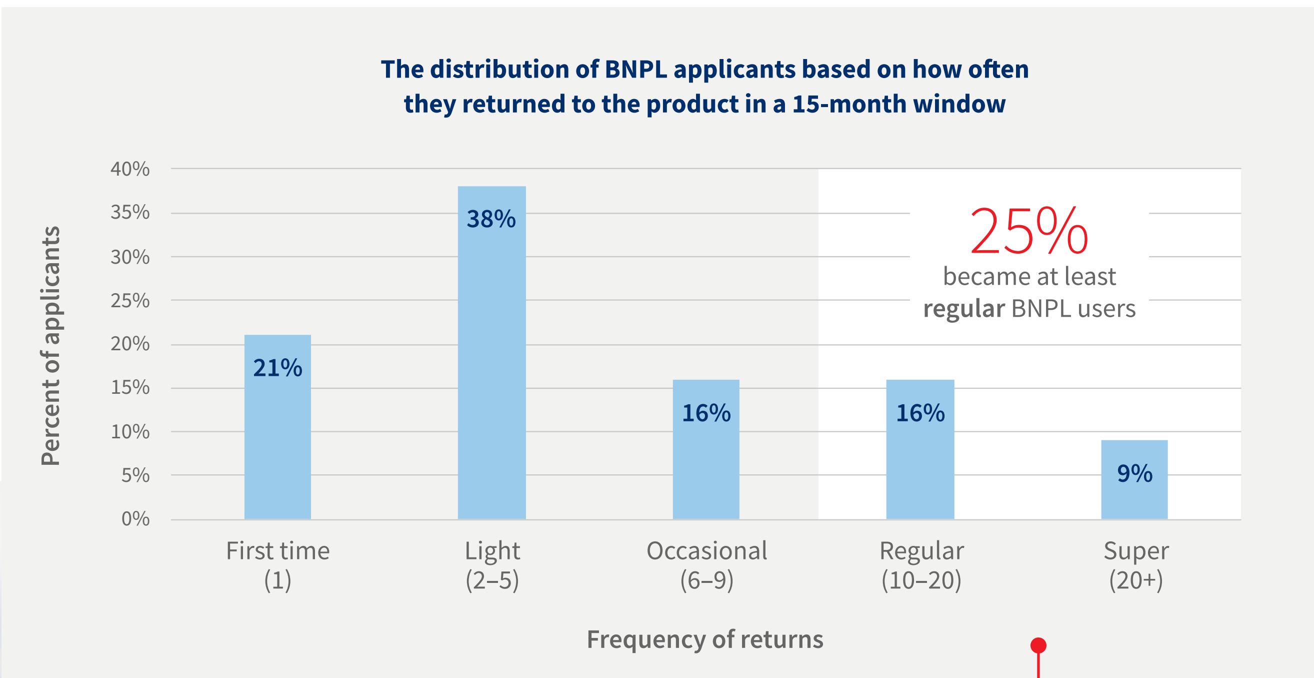




BNPL users are on average 72% more likely to make two or more non-bank lending inquiries prior to applying to BNPL than those applying for traditional credit products.

A review of the types of debt held by BNPL users shows 24% have higher average revolving debts than traditional card applicants, while the reverse is true for asset-related debt. BNPL users are less likely to have debts related to vehicles, mortgages or large installment plans. This finding holds up across age groups, meaning that both younger (35 years and younger) and older (35+) consumers who turn to BNPL are tapping into another “daily needs” form of credit to sustain their lifestyle or to make ends meet. The larger amount of revolving debt among BNPL users may be a sign that this group treats BNPL similar to an all-purpose credit card. In fact, more than 75% of BNPL consumers are likely to be repeat customers, and 25% of customers have used the product 10 or more times (Figure 2).

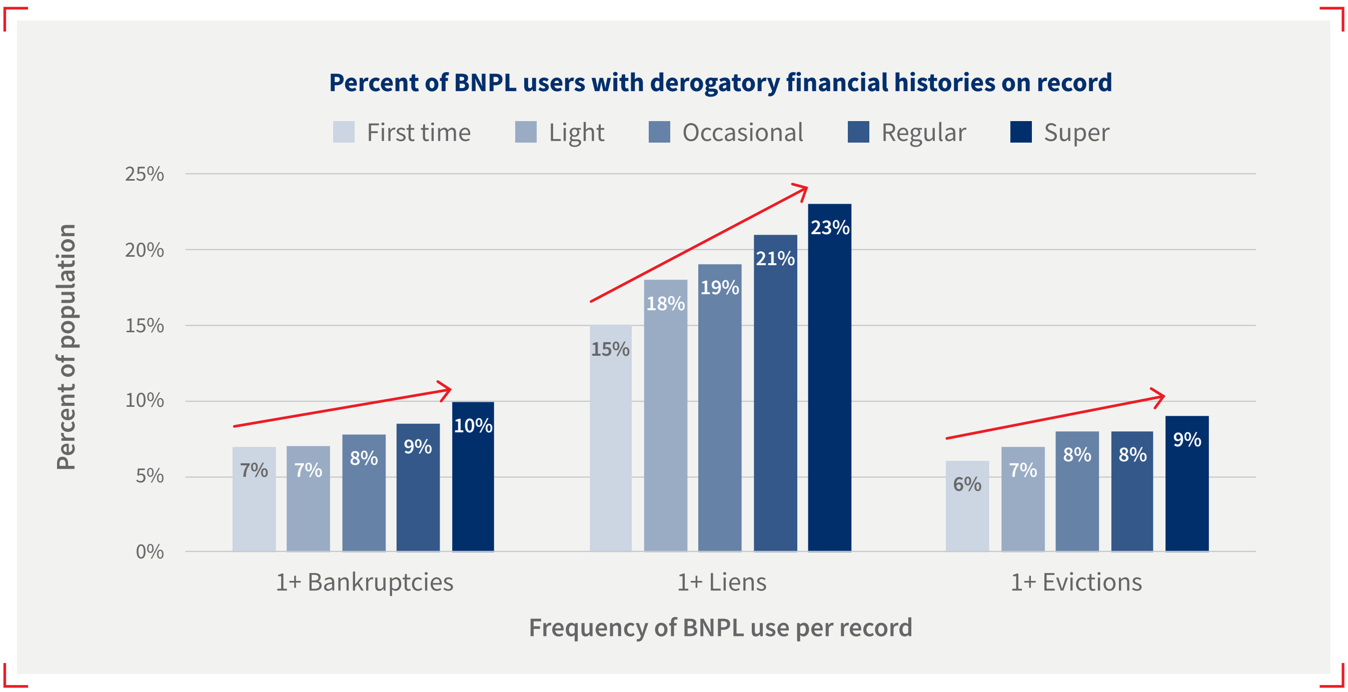
Figure 2: A quarter of consumers who use BNPL once will go on to use BNPL at least 20+ times in just 15 months.



25% of consumers who have turned to BNPL have used the service 10 or more times (Regular and Super Users) during a 15-month study period from October 2020 to December 2021.

It turns out, "Super Users" of BNPL — consumers who applied for a BNPL loan 20 or more times — display some of the most extreme characteristics when it comes to derogatory financial histories (Figure 3), demand for credit across credit card channels (Figure 4) and credit trajectories once BNPL takes root in their financial tool kit (this topic will be addressed in the next brief). Although intuitive, this confirms that while occasional BNPL use may be a relatively low risk consumer behavior, very frequent use suggests the consumer may have limited access to more traditional forms of credit due to past missteps.

Figure 3: BNPL applicants that eventually become Super Users have more signs of economic distress in their past.



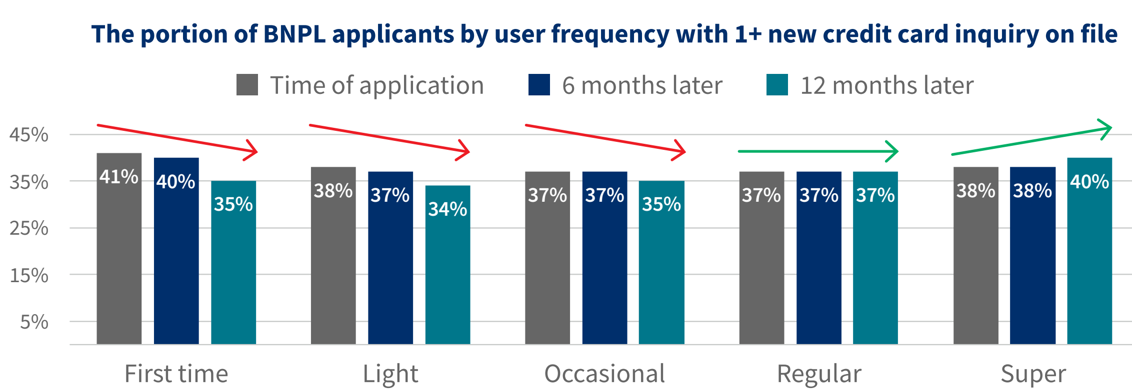
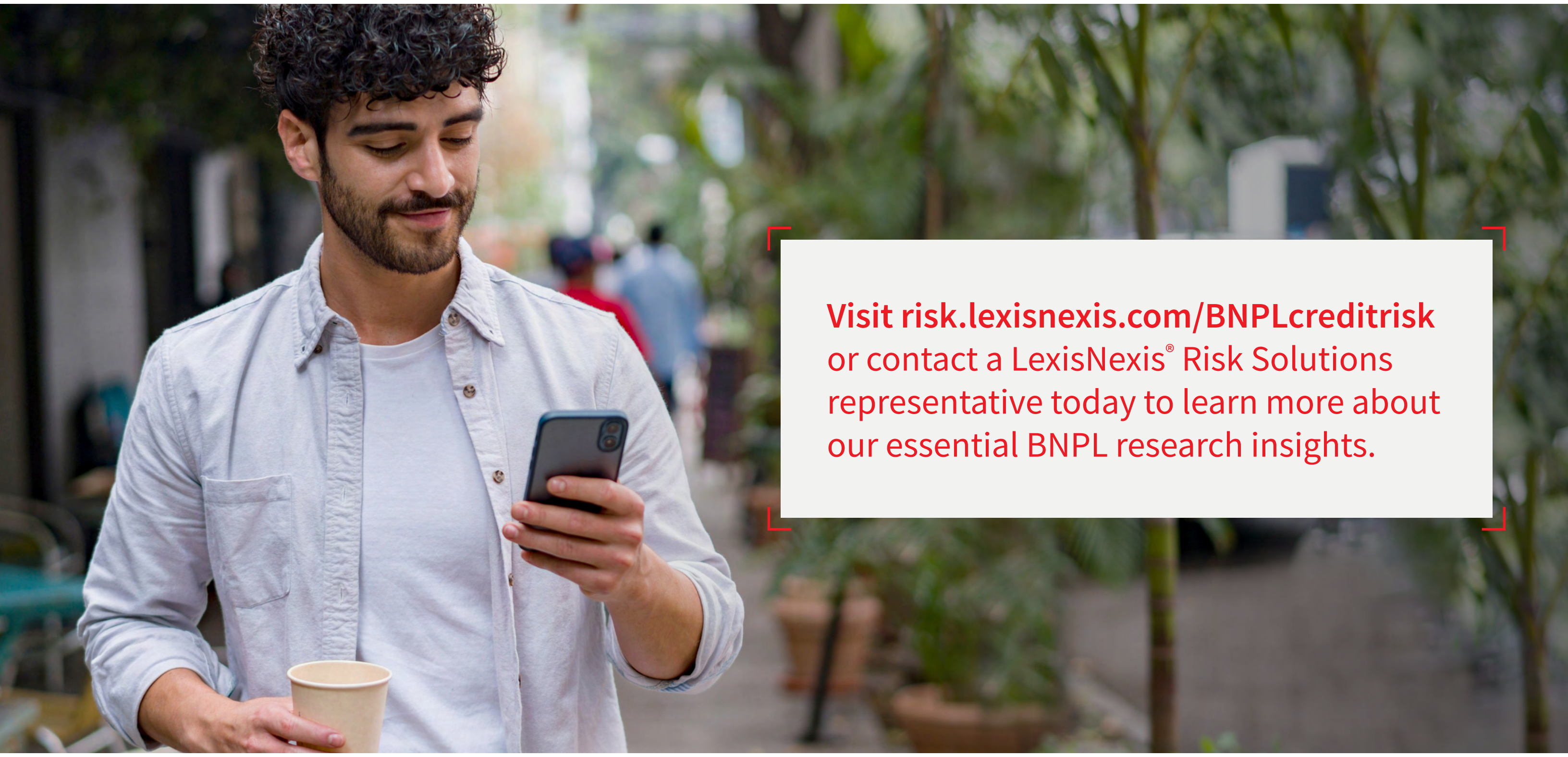


Figure 4: Occasional Users of BNPL may be replacing traditional credit cards with BNPL financing. Regular and Super Users of BNPL remain credit hungry in all channels.

Diving deeper into BNPL Regular+Super Users

In our next Buy Now Pay Later briefing, we will explore and answer more questions about the BNPL "Regular+Super User" group. If 25% of BNPL applicants become frequent users in part due to limited access to traditional credit products, we wish to understand how BNPL use impacts their financial health and credit profiles in the long term.



References

1. LexisNexis Risk Solutions Information Hub, 2023 Analysis of BNPL Transactions.
2. Challenging Buy Now, Pay Later Perceptions, BNPL Briefing 1. LexisNexis Risk Solutions. 2023.

About LexisNexis Risk Solutions

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