

Challenging Buy Now, Pay Later Perceptions

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



To many in today's lending market, Buy Now, Pay Later (BNPL) is both a disruptive new financial product and a very old idea. While many industry veterans have expressed skepticism about the potential of a financial tool that has been available for decades, its current popularity with consumers has been undeniable.

In 2022, LexisNexis® Risk Solutions received 95% more digital application screenings for BNPL loans than in 2021. During this time, we have directly observed 25% of U.S. adult consumers finance a purchase using BNPL. While highly publicized struggles with both credit and fraud losses have given credibility to certain aspects of industry veterans' skepticism, demand for BNPL remains on the rise.

Buy Now, Pay Later is in need of data-driven reassessment

Experts across many fields (e.g., risk management, technology, and marketing) feel they understand BNPL deeply — and yet the financial services industry still struggles to effectively forecast BNPL's future. Contradicting viewpoints and a lack of industry clarity make BNPL ripe for research and exploration. This research brief is the first in a series from LexisNexis Risk Solutions that will examine many facets of the BNPL industry from the unique perspective of our various data assets. We aim to separate fact from fiction, anticipate new challenges and uncover potential opportunities for sustainable growth.



Challenging established conceptions could help lenders uncover valuable insights about BNPL users

The first set of questions we will examine concern the BNPL user base in the U.S. BNPL is often compared to payday loans or retail financing options, based on the underlying assumption that BNPL is predominantly a tool of last resort for most users. We dug into the data to determine if that assumption holds up.

1

Are the majority of BNPL customers credit invisible? Are they choosing BNPL loans because they may not be able to be scored via traditional credit scores and therefore lack access to more traditional credit products?

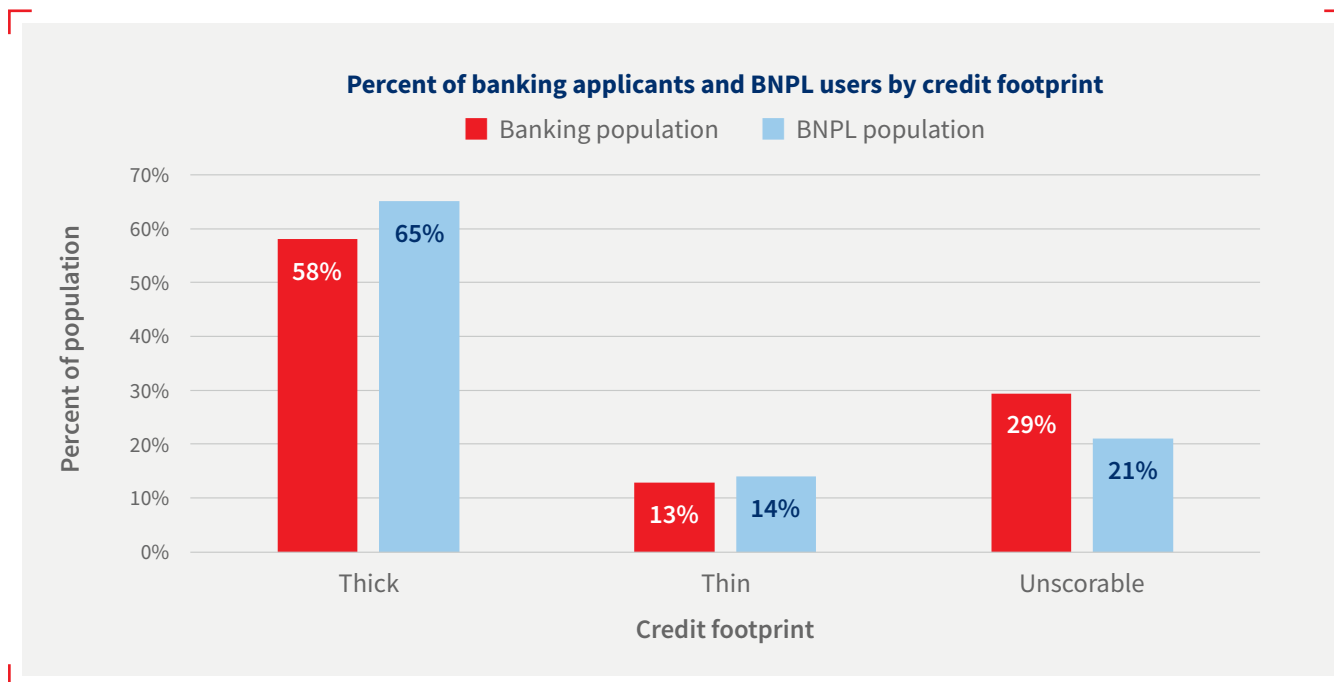


Figure 1

LexisNexis Risk Solutions took a population of 1 million U.S. applicants who applied for traditional banking products (e.g., credit cards, checking accounts, etc.) between October 2020 and December 2021, and compared it to a population of 1 million U.S. BNPL applicants from the same time period.

When we assessed the two applicant pools to determine whether they would be traditionally scorable (done by analyzing the maturity of each pool's traditional credit files), we found that banking applicants were nearly 32% more likely to be unscorable than BNPL applicants (Figure 1). Thus, we can reject the idea that consumers are turning to BNPL services as a last resort because they are less scorable than typical applicants for traditional banking products.

2

Even if the popularity of BNPL isn't being driven by consumers who lack credit scores, can we confirm the vast majority of applicants are subprime?

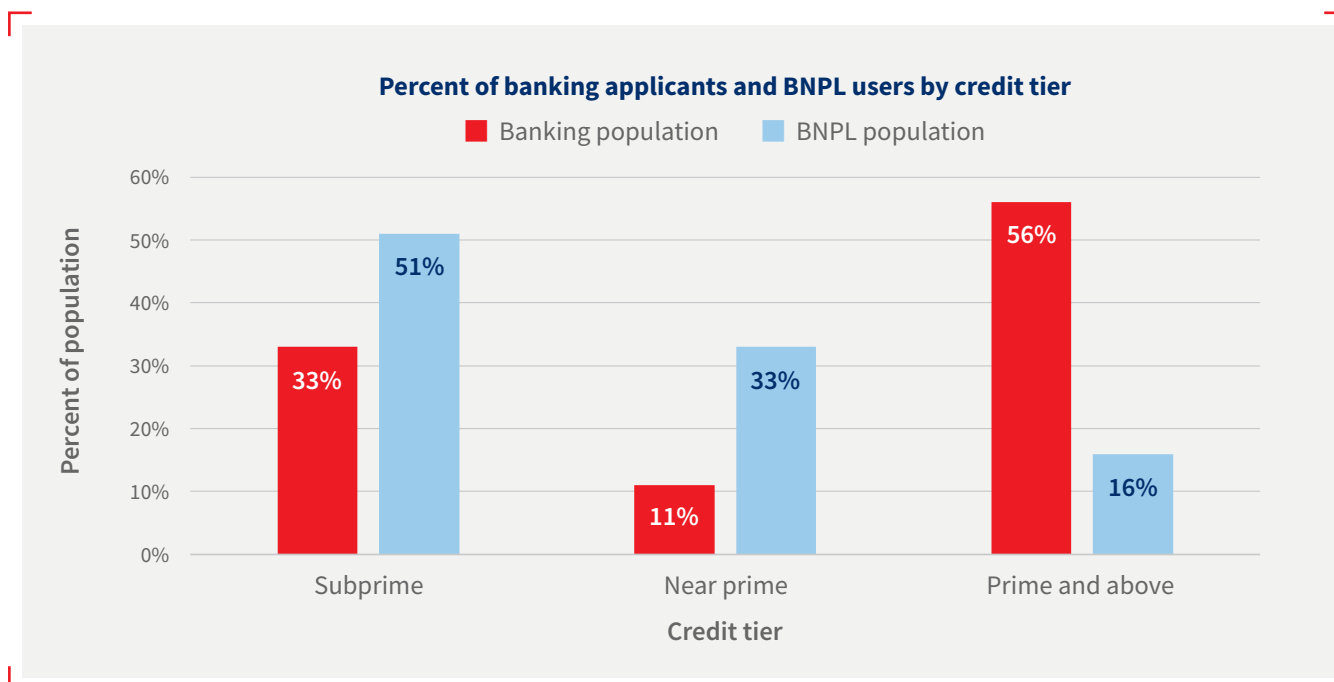


Figure 2

To answer our second question, we looked at the credit visible population (traditionally scorable consumers) from Question 1, and the results here are more mixed (Figure 2). BNPL does attract a larger non-prime (including subprime and near prime consumers) applicant population than traditional banking products — but essentially half of all BNPL applicants possess near prime (>620 traditional credit score) or prime (>660 traditional credit score) credit scores. Paired with the observation that BNPL applicants are more credit scorable than the typical banking applicant, this finding casts doubt on the comparison of BNPL to subprime credit tools.

It makes sense that BNPL loans are popular among consumers with subprime credit scores, as they offer substantially better APRs and lower late fees than most, if not all, of the other credit products these consumers can access. But the surprising popularity of BNPL loans among consumers with near prime and prime credit scores further clarifies that the BNPL structure is appealing to consumers across every credit segment.

Given that the BNPL user base is split almost straight down the middle between subprime and near prime or better consumers, the next questions for us to consider were demographic in nature.

3

How do the age demographics of BNPL users compare to those of bank card and retail card users?

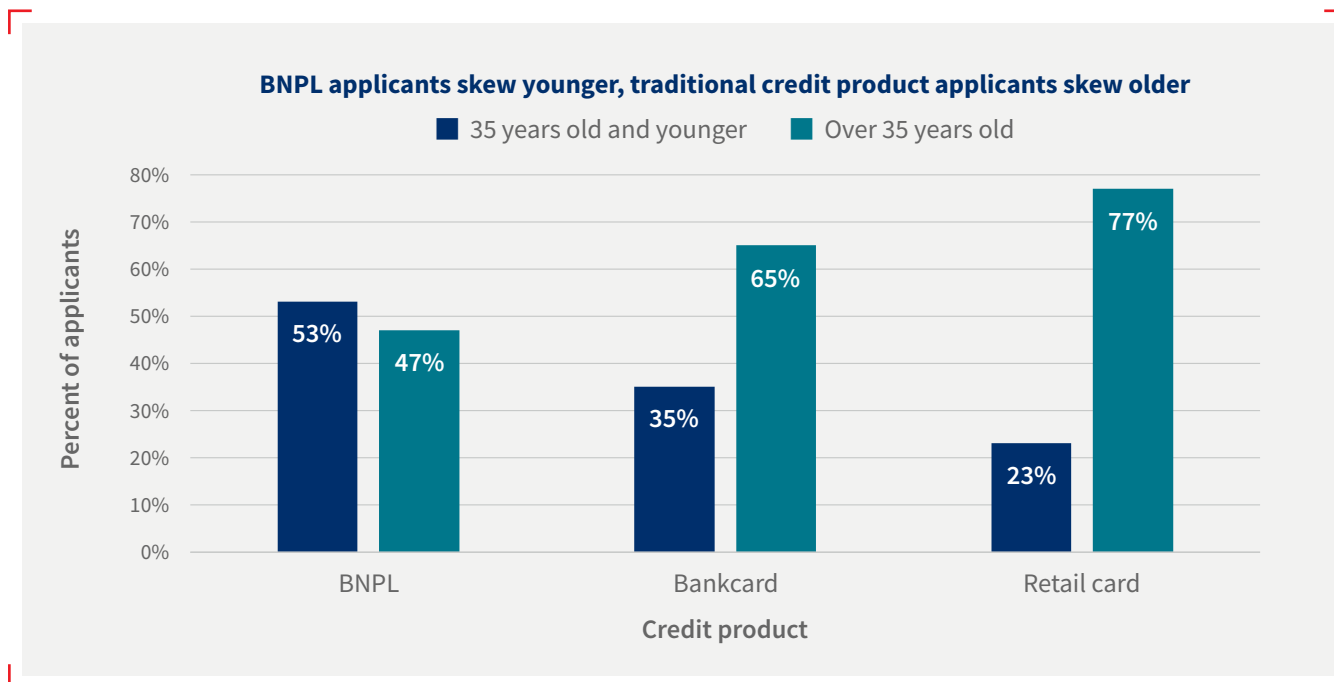


Figure 3


As shown in Figure 3, BNPL users are significantly younger than bankcard and retail card customers. The comparison of BNPL users to retail card users is particularly jarring, given retail card's standing as the most popular form of retail credit in the U.S. over the past several decades. BNPL applicants are more than twice as likely to be under 35. While many risk managers at U.S. financial institutions would likely peg the under 35 percentage as far higher, it is critical to note that in actuality, almost half of BNPL users are 36 or older and should not be ignored.

It's time for a data-driven exploration of BNPL

These three findings all run contrary to the extremes painted by both proponents and detractors of BNPL. And if the risk management community, including LexisNexis Risk Solutions, was wrong about the general profile of BNPL users, what else might we have been wrong about?

That question will be the driving force of our BNPL Research Brief Series in the coming year. We'll aim to execute new research, driven by data not captured by other organizations researching BNPL, and deliver findings in easily digestible briefs.

Our next briefing will continue to drill down on the focus of this first edition, as we seek to better understand the sub-prime leanings of BNPL users. Is the industry being propelled by consumers whose lower credit scores (as compared to the average banking applicant) can be attributed to age or past struggles managing credit products? Is BNPL functioning as a credit gateway or a credit fallback? The BNPL market is a fascinating space, rife with myths and inconsistent historical comparisons, and we're excited to lead fact-based discussions on this industry in the coming months.



Visit risk.lexisnexis.com/BNPLcreditrisk or contact a LexisNexis® Risk Solutions representative today to learn more about our essential BNPL research insights.



About LexisNexis Risk Solutions

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