



FACTSHEET

Buy Now Pay Later products

What is ‘Buy Now Pay Later’?

Buy Now Pay Later (BNPL) is a financial product that allows people to split or delay payments. BNPL works like credit or a deferred payment and is provided often free of interest. BNPL providers cover their costs by charging commission fees to shops or by applying late payment fees to consumers. BNPL was initially offered by FinTech companies but increasingly now also by banks.

Like credit, BNPL can help consumers make short-term expenditure but comes with the same risks of over-spending and over-indebtedness. The market for BNPL is growing rapidly (particularly during the pandemic). BNPL is very popular among younger consumers when shopping online. According to a [study](#) from BEUC’s Danish member Forbrugerrådet Tænk, 16% of young people between 18-30 in Denmark already used BNPL, 44% of them to buy a phone and 40% to buy shoes and clothes. Some providers, however, specifically [target vulnerable consumers](#) struggling to buy food.

What are the concerns?

AN INCENTIVE FOR OVER-SPENDING

Consumers tend to spend more when BNPL is offered as a payment method. Leading provider Klarna told retailers that they could increase their sales by up to 30% with BNPL.¹ But [research](#) from the BEUC UK member Citizens Advice shows that 26% of consumers who used BNPL in the last 12 months have regretted doing so and 41% struggled with repayment. A survey from BEUC’s German member vzbv shows that half of consumers in Germany using BNPL indicated that they fear losing track of their debts even for small purchases.²

HIDDEN COSTS

BNPL products are offered often interest-free, but costs are often hidden in late payment fees. For example, [Clearpay](#) charges €6 after seven days for products under €24 and 25% for products over €24 (capped at €36). For some schemes, late payment fees are already charged after 24-48 hours (e.g. Laybuy, Openpay).³ According to the UK Financial Conduct Authority, the arrears can be very high, and late payment fees can make up a significant portion of BNPL firms’ revenues.⁴

LACK OF CONSUMER PROTECTION

BEUC’s Austrian member Arbeiterkammer [reports](#) that many consumers in Austria received invoices from Klarna for purchases they did not receive or decided to return based on their right of withdrawal. Klarna uses debt-collection agencies if consumers do not pay. Vzbv [reports](#) similar problems: even small mistakes (e.g. putting your name in the invoice reference number field) lead to a charge-back of the consumer’s payment and the intervention of a debt collection agency. Both consumer organisations report that Klarna’s customer service was unable to solve the problems.

¹ The Woolard Review - A review of change and innovation in the unsecured credit market, <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>, p. 47.

² Vzbv survey (not yet published)

³ Woolard Review, p. 45.

⁴ Woolard Review, p. 50.



Has BNPL been regulated?

- In the **EU**, **BNPL is currently unregulated**. Consumers do not have the same protection than the one that applies to credit products and cannot use alternative dispute resolution if something goes wrong. The European Commission plans to address this, however, in its revised Consumer Credit Directive.
- In the **UK**, the government announced its intention to regulate interest-free BNPL products following a review of the unsecured credit market (Woolard Review).⁵
- In **Sweden**, a July 2020 law states that BNPL cannot be presented to consumers as the 'first choice' ahead of the lowest cost direct payment option.

What does BEUC recommend?

We recommend regulating BNPL through the current revision of the Consumer Credit Directive.

- **SAME RISKS, SAME RULES:** As BNPL works like credit, the same rules should apply i.e. a sound creditworthiness assessment and adequate information about the risks is required.
- **CLEAR DEFINITIONS:** For BNPL, the distinction between credit and deferred payment should apply as for any other financing method. Deferred payments take place within 30 days and are interest-free and without charges e.g. late payment fees. It should qualify as credit as soon as there are longer repayment periods (more than 30 days) and charges.
- **BAN OF BNPL AS DEFAULT OPTION:** Consumers often use BNPL unintentionally when it is presented as the default option. Direct payment should always be the preferred option over any form of credit or deferred payment and should be presented as such.

Which? research: A false sense of security with BNPL

BEUC member Which? conducted 30 in-depth interviews with BNPL users and found that consumers often trust it more than they should. Many did not know that BNPL is currently unregulated. Many were also unaware that BNPL is a form of credit and rather considered it as a 'money management tool'. Users often did not know that a late payment could be marked in their credit reports or lead to the intervention of a debt collection agency. BNPL users frequently assumed that providers carried out some sort of affordability check which leads to a false sense of security. Most underestimated the challenge of repayment and did not know about fees for late payment. For more information, see [here](#).

⁵ The Woolard Review - A review of change and innovation in the unsecured credit market, <https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf>