

How buy now, pay later is growing the credit market

Examining the growth in buy now, pay later and how this type of point-of-sale finance is reshaping the credit ecosystem

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There’s no doubt that the pandemic has propelled digital acceleration in the credit market, alongside a shift in consumer spending habits, with buy now, pay later (BNPL) experiencing unprecedented growth.

BNPL reached a total transaction value of £6.4bn in early 2021ⁱ and the latest research from our Consumer Credit 2022ⁱⁱ white paper – an in-depth look at the current financial landscape and changing consumer habits – shows two in five (37%) UK adults are now using this form of payment at least some of the time when shopping.

Flexibility is key to this consumer choice, with nearly seven in 10 consumers (68%) saying their top reason for choosing BNPL is spreading payments out over time. The appeal of interest-free payments is another major driving factor for these credit-savvy consumers – over six in 10 (62%) choose BNPL for this reason.

Ease of use at checkout is also important for more than four in 10 (41%) and is markedly most important for younger adults, with 54% of Gen Z listing this as a key reasonⁱⁱⁱ.

Pioneering credit industry changes

Aligning with these changing consumer habits and supporting this growing market, in February 2022, we became the first UK credit reference agency to accept BNPL data into UK consumer credit reportsⁱⁱⁱ.

This represents a watershed moment for the credit industry. The use of BNPL data will support consumers using this type of point-of-sale finance, who will be able to better demonstrate their ability to make timely payments, and really benefit those with thin credit files by displaying positive payment behaviours that will be visible to other lenders and could support wider access to credit.

For lenders, the addition of the new data and insight will enable a more comprehensive picture of the consumer’s financial position, helping them to make informed decisions and ensure that payment plans are affordable and sustainable. These changes represent a game-changing innovation in the way BNPL products are treated within the credit ecosystem.

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The HM Treasury consultation on the regulation of this sector closed in January 2022 and, following the findings of that, the Financial Conduct Authority (FCA) is likely to begin developing its own rules to regulate BNPL providers.

Supporting consumers as they navigate financial challenges

People need as much choice as possible when it comes to finding finance that’s right for their needs, and on terms they can afford. Including BNPL data in credit reports will support consumers and help lenders make informed credit decisions.

It’s important to note, however, that BNPL payment behaviour won’t have an immediate effect on TransUnion credit scores.



As the data becomes more widely incorporated, this is likely to evolve and we'll be working closely with finance providers and industry bodies and updating our scoring mechanisms as needed.

Credit plays a key role in economic recovery and our latest research shows a renewed appetite for borrowing, with desire for mortgages, credit cards and loans up significantly on pre-pandemic levelsⁱⁱ.

However, consumers are seeking alternative ways to pay as they address the cost of living crisis, so it's important that consumer spending is supported with a broad range of payment solutions.

We're still seeing a very mixed picture in terms of consumer finances according to our recent research.

More than half (54%) are confident their financial situation will remain stable, yet four in 10 UK consumers are postponing any major spending because they're worried about their financial future.

By using BNPL, consumers have flexibility and convenience, as well as saving on interest, so it's clear to see the drivers for the growth which is likely to continue – with forecasts BNPL could increase in size globally by 10 to 15 times by 2025^{iv}.

Driving data-led decisions

At TransUnion, we're taking a phased approach to introducing BNPL data into our products, to make sure it can be implemented fairly for consumers and to give finance providers the opportunity to understand how it will affect their decision-making processes.

As well as the new search types introduced, BNPL information will soon enhance TransUnion's TrueVision insights to help bolster lenders' understanding of customers' credit behaviours.

This will enable them to respond with agility to changes and continue to conduct comprehensive creditworthiness assessments, make informed credit decisions and stay ahead of the curve.



As the sector braces itself for significant changes ahead, BNPL providers need to be thinking proactively about their role, putting consumer protection at the forefront and adapting their business models accordingly.

We've been working with several of the leading BNPL providers that are actively supporting change and starting to educate their customers on the value of credit information and how it can help both protect and empower consumers – something that we call using Information for Good[®]. **CCR**

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Footnotes

ⁱ Bain & Company, Buy Now, Pay Later in the UK Report, 2021

ⁱⁱ Based on a nationally representative survey carried out amongst 2,000 UK consumers by an independent research agency on behalf of TransUnion in January 2022. Unless otherwise stated all figures stated above are based on this research

ⁱⁱⁱ TransUnion Is First UK Credit Reference Agency To Accept Buy Now, Pay Later Data, 9 February 2022

^{iv} A Bank of America analyst note to clients from November 2020 suggests estimated global volume of BNPL transactions could grow to between \$650 billion and \$1 trillion by 2025, or an estimated 10 to 15 times the current market – as reported by Wall Street Journal