

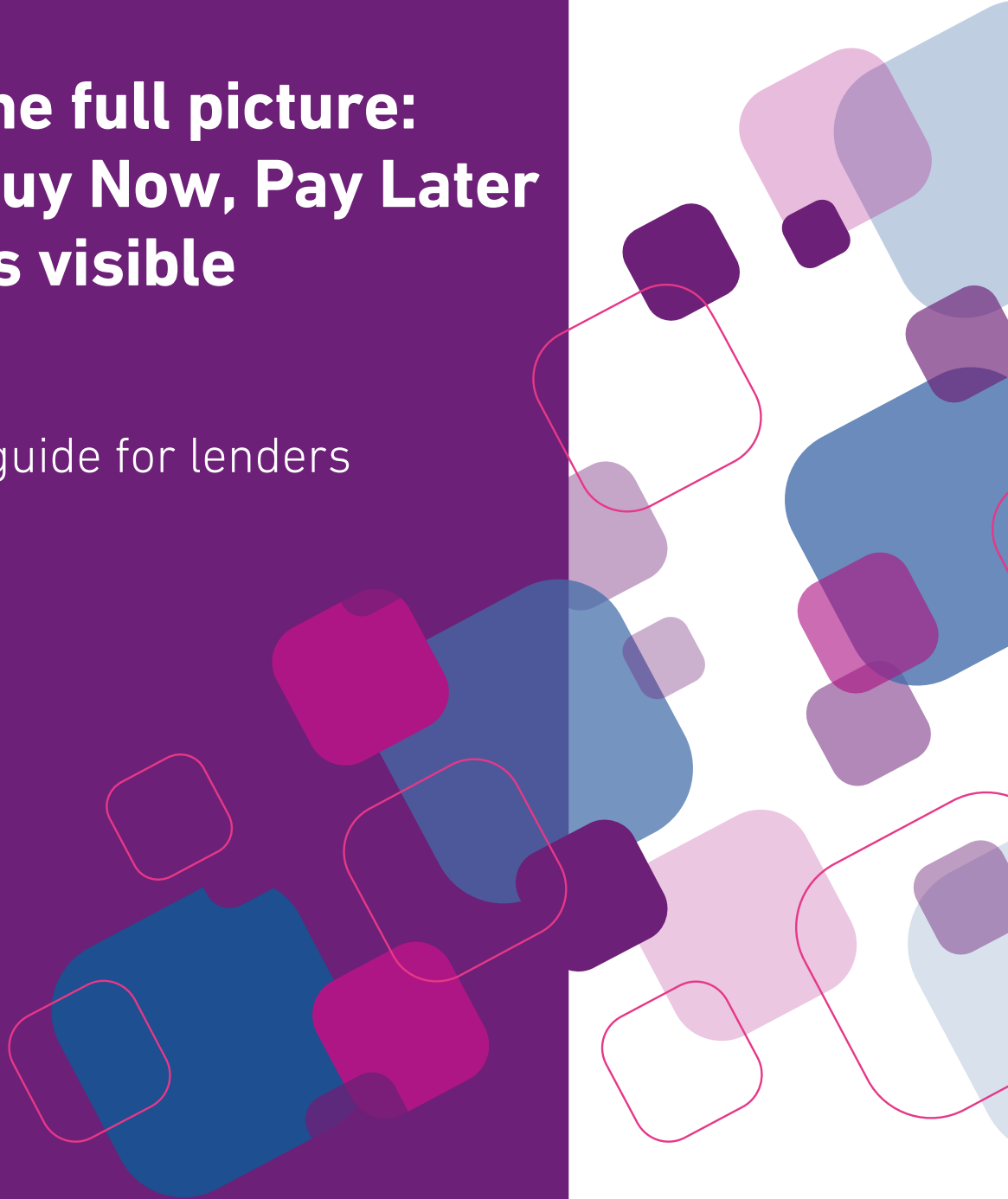


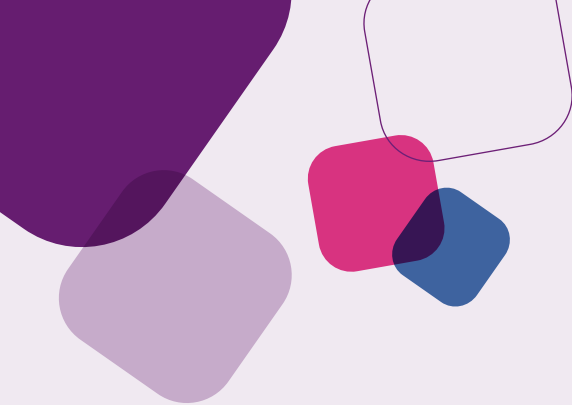
Getting the full picture: Making Buy Now, Pay Later payments visible

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An updated guide for lenders

September 2023





In July 2022, we released our first guide for lenders on insight revealed from our analysis of Buy Now, Pay Later (BNPL) transactional data being shared into our bureau.

Our first paper sought to challenge some of the popular perceptions of BNPL services using our analysis of a large volume of transactional data. Our aim was to provide a more objective understanding of the impact of these services on people's finances and credit worthiness.

With more data from multiple lenders now flowing into our bureau, this second paper seeks to build on this original analysis to assess the impact of BNPL against the backdrop of increases in the cost-of-living, squeeze on household incomes and forthcoming Christmas shopping season.

Once again, we're seeking to get to the heart of how consumers are using BNPL services to manage their finances, and what this means for lenders.

Introduction

Since we launched our analysis on the use of BNPL, the UK economy has continued to evolve, characterised by increased volatility and uncertainty. Employment has remained healthy, and incomes secure, in some instances growing, but the pressure on household budgets remains with inflation and rising interest rates impacting borrowing costs for consumers, particularly those who hold a mortgage.

Levels of disposable income have shrunk for many of us, and some consumers see access to credit as a way of further managing their finances, as savings accumulated through the pandemic are exhausted or run out.



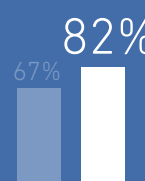
OUR LATEST RESEARCH



More than half of UK employees **question whether their salary** can keep pace with rising prices.

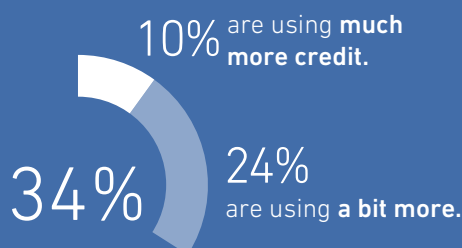


of consumers say they currently **feel financially secure**.



are **more conscious of their spending** in the last 12 months - up 15% from last year.

In the face of this pressure...



of consumers state that they have **increased their use of credit to absorb rising prices** in the last 6 months.

24%
Use credit
for **greater purchase protection**.



39%
Say it helps them **manage their finances better** and spread out their costs.

30%
Say it is the only way to **afford the things they need**.

Experian has been loading Buy Now Pay Later (BNPL) transactional data into its bureau since December 1st, 2022, with each transaction being considered as a unique credit record; the rationale for which being that each transaction contains its own unique payment schedule with the need to report on the status of each.

While there are many different flavours of BNPL products in the market, our focus is on those that have a payment schedule of no more than 90 days and are offered interest free. Transaction data from these services is being ring-fenced within the Experian bureau meaning it doesn't directly impact a consumer's credit score.

We've taken this view whilst we continue to build our volume of transactional data and behavioural insight, the premise being that we cannot incorporate BNPL transaction behaviour into someone's credit score until we properly understand the impact BNPL spend has on an individual's credit worthiness.

In the meantime, we are making BNPL usage and performance insights available to firms in a separate, a stand-alone data file that can be used in association with other credit risk and affordability data to understand the impact of BNPL services on a consumer's financial well-being.



Executive summary



Use of BNPL continues to grow. As of September 30th 2023, Experian had processed a total of **53.8m BNPL transactions** with a combined value of **£3.7bn** across **5.9m unique customers**.



The largest user base comes from those aged **39 or younger who represent 57% of all users**. But throughout 2023 the **fastest growth** came from older, less risky customers aged between **45-64**.



The number of customers making at least **one transaction a month remains consistent at 2m**. The average number of transactions made by each customer **decreases with age**. However, for all age bands we see the highest transaction value is over **£2,300**.



Of the 5.9m unique customers using BNPL approximately 32% do not hold a credit card, of the **68% that do**, 13% don't carry a balance, with a further 49% having at least 50% of their total credit limit on their card available to them.



Of the UK's 8.8m credit active customers the bad rate¹ (across all product holdings) is **13.4% lower for BNPL customers** than the equivalent metric for the UK credit active cohort.

Lenders need to start considering the role of BNPL transaction data in understanding the full extent of an individual's credit commitments, to better understand and monitor financial well-being, ensure good outcomes and to demonstrate adherence to Consumer Duty.

¹ Bad rate defined as Public Information registered during the 6-month outcome period OR Defaulted CAIS account in the 6-month outcome period OR Consumer is 'over-indebted' (CII >= 41) and has any CAIS arrears at outcome OR Any CAIS account is 2+ payments in arrears at the outcome point (6 months after observation)

Transaction volumes

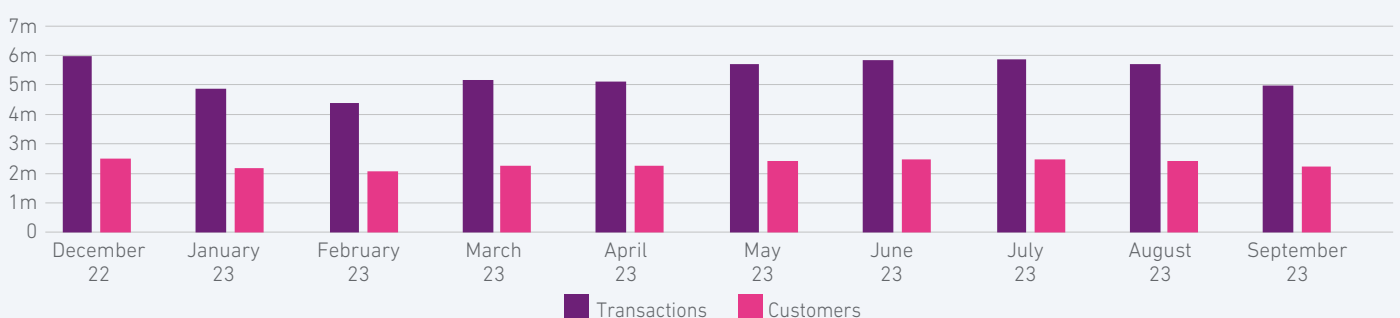
BNPL is no longer a niche credit product. As of September 30th, 2023, Experian had processed a total of 53.8m BNPL transactions with a combined value of £3.7bn across 5.9m unique customers. Our analysis suggests that the volume of BNPL transactions in the UK will continue to grow.

Indeed, many firms that provide traditional sources of credit such as credit card borrowing, are launching their own BNPL 'look-a-likes' in an attempt rival the ascendancy of those BNPL services already available to capture a share of consumer appetite to use this form of credit.

Perhaps unsurprisingly, December saw the highest volumes with demand in the final quarter of 2022 up 33% on that of Q4 2021. That rise came against a backdrop of lower-than-typical demand in Q4 for other types of credit. The fastest growth in this period also came from older, less risky customers aged between 45-64. Although December 2022 saw the highest volumes in terms of unique customers and number of transactions, the data from July 2023 was within 1% of the number of transactions made but overall spend was £3m more.

Whilst demand dropped away in the New Year, we've observed three consecutive months of growth across May, June and July. In August demand plateaued, but we expect to see the usual seasonal spikes in November and December. In contrast we see spending on credit cards typically falling in December but rising significantly in January. This suggests that the immediate access to credit offered by BNPL is encouraging consumers to use this as their preferred method of payment in the weeks before Christmas.

BNPL TRANSACTIONS AND CUSTOMERS BY MONTH



The volume of customers making at least one BNPL transaction each month hasn't dropped below 2m (with the number of net new consumers growing by 100k each month) indicating the product's popularity remains strong, and we see many consumers using these services month on month to manage their finances.

When looking at transaction value (noting that as first BNPL payments are due at time of transaction for those repaid over time, we only see the credit owing e.g. pay in 3 will show 2/3rds of basket size) we see a consistent pattern with the small increase being largely reflective of inflationary pressures in the UK economy.

AVERAGE TRANSACTION AMOUNT - ROLLING 7 DAY AVERAGE



But when we begin to segment by age and risk profile, we can identify a number of different behavioural trends.

Behaviour and spending trends

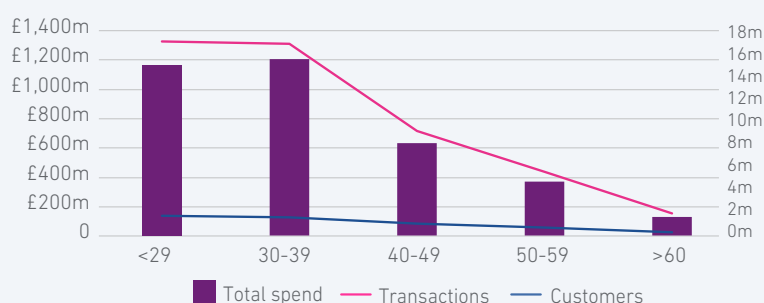
By some distance the largest user base comes from those 39 or younger and these customers represent 57% of all users. This is split equally between those 18-29 (29%) and 30-39 (28%) with the numbers then decreasing as we progress through the age bands.

Over the 10-month period, we see the average number of transactions made by each customer decrease with age: the figure peaks at 10 transactions with an average spend of ~£740 in the 30-39 age band dropping to 6.2 at an average spend of ~£400 for those 60 or over.

These, however, are only averages and for all age bands we see the highest transaction value being in excess of £2,300. This is why lenders need to look at each consumer individually when assessing their use of BNPL versus their consumption of other sources of credit.

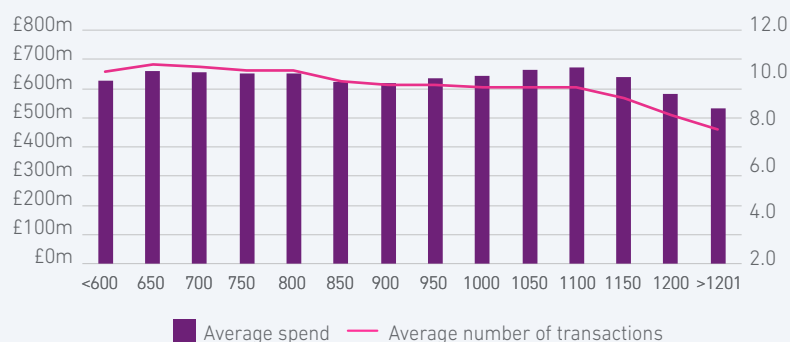
As you'd perhaps expect from a user group dominated by those under the age of 39, BNPL customers over-index in the lower credit score bands, but the overall spend by customer is consistent across all score bands. The volume of transactions, however, decreases as credit quality improves.

BNPL TRANSACTIONS & CUSTOMERS BY AGE



This suggests those consumers who have lower credit scores are using BNPL to make more 'every-day' purchases rather than one-off, discretionary items which typically carry a higher price tag.

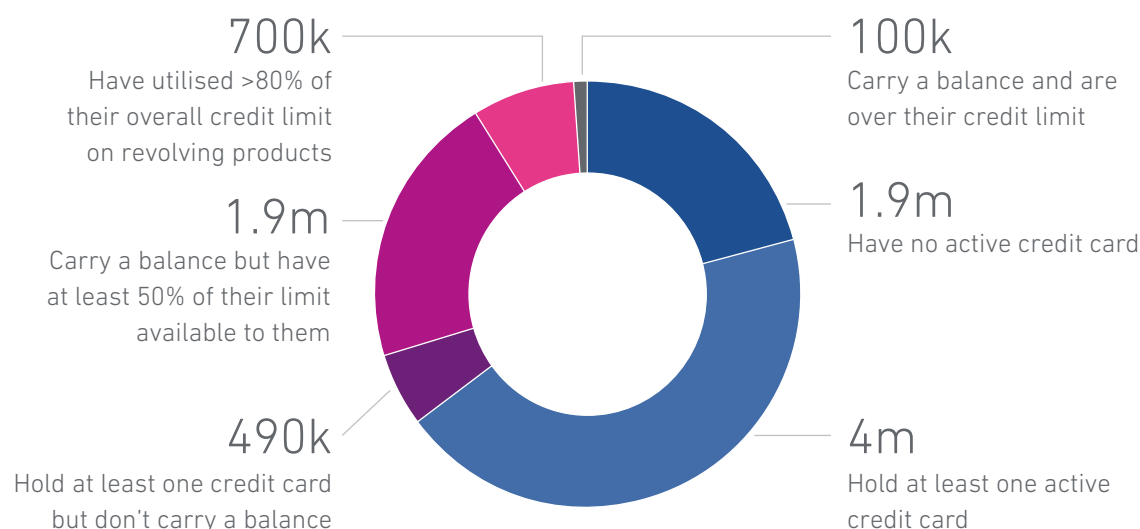
BNPL - USAGE BY SCORE BAND



BNPL is still widely favoured by younger consumers who have very different attitude towards credit, and this can be further evidenced when we begin to look at the other financial services products they hold.

Credit consumption

Of the **5.9m** unique customers using BNPL



This points to the fact that BNPL is the preferred method of credit for an audience of 'financially savvy' consumers who may be using the opportunity of no or low interest rates and phased repayment to manage their money. Pertinent given the challenges of continued inflation and squeezed monthly incomes facing many UK consumers.

Conversely, the same analysis also identified that ~20% of the customers who did use BNPL and carried a balance on a credit card were highly utilised and in some cases were over-drawn. Both of which could be used to identify signs of financial stress.

This points to the need for lenders to look at the consumption of BNPL services amongst prospective and existing customers to better understand the full extent of their credit commitments. This is particularly relevant given the introduction of the FCA's new Consumer Duty regulation which places a greater emphasis on data being used by lenders to understand ability to afford credit throughout the life of a loan, and to monitor potential financial vulnerability.

With BNPL providers now sharing consumer's transaction data with credit bureaux, Experian can provide lenders with a more complete view of a customer's credit consumption that includes visibility on their use of BNPL.

This enables a lender to have a more complete view of an individual's financial commitments and provides access to insight not seen in other data sources such as bank transaction data, accessed through sources such as Open Banking.

The three obvious attractions which we think are appealing to customers in the BNPL journey and driving usage/adoption over other sources of credit:



**The friction-free
payment experience of
BNPL v credit cards**

0%

**Interest free
lending**



**The ability to defer full
payment through a
small number of fixed
instalments over a short
period of time**

This does have to be considered in the wider context of the large population of credit card users who do not use BNPL.

At present BNPL is also largely confined to the on-line checkout journey, but we are beginning to see many hybrid offerings that combine the benefits of both, and it is clear the growth of BNPL is driving product diversification elsewhere which can only be of a benefit to consumers.

A theme that is consistent across the many different BNPL offerings we see is that it provides consumers the opportunity to buy higher value items they may not be able to afford outright (or simply don't want to pay for in one go) and don't want to pay interest on so spreading the cost over time. As this trend continues it will be interesting to see the impact of this on consumer's over levels of affordability and indebtedness, as well as their consumption of other sources of credit.

Getting a more accurate understanding of risk

Given the transactional nature of BNPL, and the short outcome period (in the main credit must be repaid within 60 days or shorter for some), Experian has been able to develop a view on the performance of BNPL services and how this compares to other products.

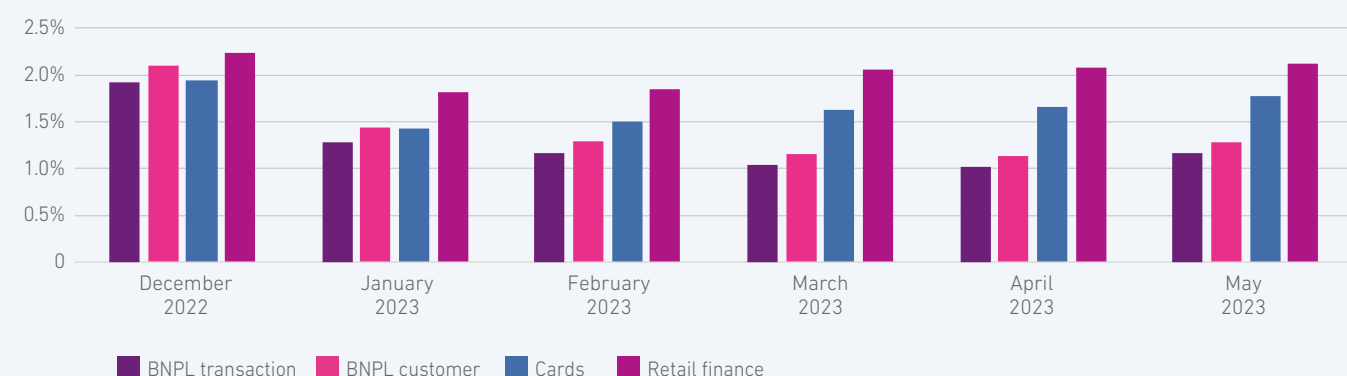
We've analysed the BNPL customer base against the UK credit active population of approx. 8.8 million consumers; credit active being defined as **'anyone who has applied for credit within the last six months and has not used a BNPL product'**. The results¹ show the bad rate¹ (across all product holdings) being 13.4% lower for BNPL customers than the equivalent metric for the credit active cohort and this applies across almost all product holdings.

This performance differentiation is being driven from the lower credit scoring groups who over-index in the use of BNPL and are outperforming similar customers using

other products. This demonstrates the strength of brand loyalty to BNPL providers, the attraction of fixed monthly instalments, and how its repeat use is driving better outcomes. It also points to the fact that spending habits and basket content may be helping BNPL providers better identify risk within their customers.

When we study outcome data on BNPL users alone we see arrears rates that are favourable to their adjacent markets, such as other forms of retail credit. These evidence-based statistics challenge some of the popular narrative that is often associated with BNPL services.

DELINQUENCY RATE AT 3 MONTHS AT CUSTOMER LEVEL



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While arrears levels are low this does not mean to say that they do not exist and at the end of our sample window 58% of customers who were in arrears on their BNPL transactions were up to date elsewhere. And while the BNPL customers towards the bottom end of the higher risk credit score range are outperforming their peers, it is those from the near-prime and prime credit score bands that are driving these results. As such, we believe this positive payment performance data can be used to unlock opportunity elsewhere that may not be possible if excluded.

Where arrears is present at the customer level we have however observed a correlation between the volume and velocity of transactions made i.e. those who make multiple transactions over a short period of time show a much greater propensity to miss payments.

Despite the popular BNPL narrative being on arrears emergence, delinquency, and financial vulnerability, we see the vast majority of BNPL transactions being repaid on time, with over 99% of all transactions made in January and February being settled as per the schedule.

It would be wrong to say that pockets of risk do not exist within the BNPL customer base. But based upon the evidence we've seen within Experian's bureau, BNPL customers are well aligned to the credit active population and in the most populous segments they outperform their peers.





EXPERIAN VIEWPOINT

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The transparency now being provided by BNPL providers through the reciprocal sharing of data on their customers' repayments is providing fresh insight on an individual's credit risk and affordability, offering a more complete understanding of their use of credit and bill payment preferences.

For the first time we can see how consumers are using BNPL transactionally, in association with other sources of credit, whether as cheaper way to manage their use of credit or to increase their credit consumption in a way that could place a burden on their finances.

Lenders need to understand the nuances of how customers are using BNPL, and how this reflects on the health of their portfolios. Being able to get the full picture on an individual's credit consumption to understand the impact of this data on an assessment of risk is vital if you are to help consumers manage their finances responsibly.

This is important as we see the fluctuations in the UK economy play out. It is also significant given the demands of Consumer Duty on lenders to avoid foreseeable harm and to drive better outcomes for consumers in their use of credit.

Lenders should be using BNPL transaction data positively to understand the full extent of an individual's credit commitments to improve the performance of existing scorecards and models.

To find out more about how Experian can help understand how your customers are using BNPL services [click here](#) to contact us.

Appendix

How does BNPL data sharing work?

BNPL lenders are now sharing information on consumers' spending and repayment behaviour with Experian.

Data is shared on a reciprocal basis. BNPL providers can see what credit a consumer holds with mainstream lenders (and other BNPL providers); mainstream lenders can see a consumer's BNPL commitments and factor them into their affordability and creditworthiness calculations. BNPL providers can understand their customer's use of other credit products.

BNPL payment information is currently ring-fenced in Experian's bureau and being offered as additional insight that a lender can access separate to, but in association with, an individual's credit score. It is not currently being used in credit scores or in our existing scorecards.

Benefits of sharing BNPL data for lenders

The key benefits of access to BNPL payment data include:

- Removal of uncertainty about what an existing customer's finances truly are.
- An informed assessment of risk stemming from a more thorough understanding of an individual's consumption of credit and affordability.
- Operational use of data to improve real-time decision-making, reduce risk and protect consumers from accessing unaffordable credit.
- The value, term and purpose of any BNPL agreement can be revealing. Small sums used repeatedly to finance essential household items such as groceries may well be a cause for concern.

Benefits for consumers

Sharing data protects consumers from unmanageable borrowing.

- Allows BNPL providers to access and carry out non-intrusive affordability checks using bureau data. This gives customers the frictionless BNPL experience they expect.
- Gives lenders early warning of financial distress, as there are reasonable grounds to believe that consumers in distress may default on BNPL before other forms of credit.
- Helps credit invisible and thin-file customers build a helpful credit profile, by showing a record of responsibility and repayment.
- Helps reduce identity fraud by increasing the amount of corroborating data financial
- Providers can access to confirm an individual's identity.
- Drives financial education amongst consumers by engaging them with key facts about credit.

Why Experian?

Experian is committed to improving financial inclusion in all the markets that we operate in. We believe the sharing of Buy Now, Pay Later payment data benefits both lenders and consumers.

Lenders can make more informed decisions from having a more complete view of an individual's credit commitments, whilst consumers can manage their finances responsibly, and support and protect their future financial health.

We work every day to educate consumers and lenders about the benefits of access to fair and affordable credit and see BNPL data sharing as an essential part of driving financial inclusion through responsible lending.

As with all new financial products, both the industry and the regulatory environment is moving very quickly. As a credit bureau we have a responsibility to provide credit providers with products and services you need to inform your decisions.



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