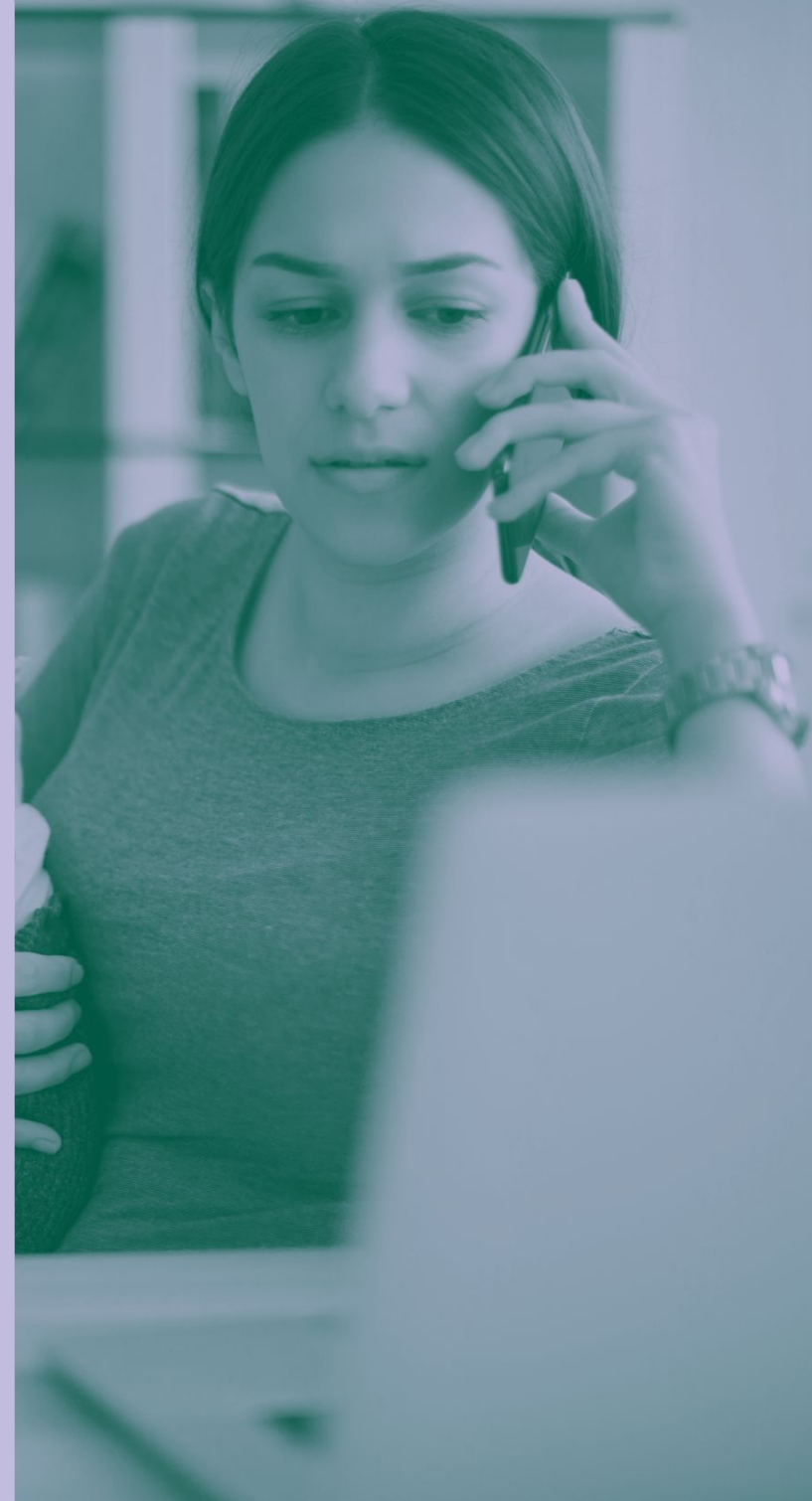


Annex 1

# Buy Now Pay Later

**citizens  
advice**

November 2022



# Buy Now Pay Later

Citizens Advice welcomes the proposed regulation of Buy Now Pay Later (BNPL) set out by HMT earlier this year.

However, going forward the FCA needs to ensure that the **design of the BNPL customer journey** is carefully considered for when it comes to implementing rules for the product.

BNPL purchasing now accounts for **6% of all online purchases in the UK**. Yet the BNPL customer journey does not always promote good outcomes or prevent foreseeable harm. Our evidence reveals that the overall aesthetic of BNPL products do not match the 'seriousness' of the product. And design elements emphasise speed and ease without clearly communicating potentially serious consequences. The result is that many consumers are entering in BNPL agreements without properly understanding the potentially serious consequences of the product they have purchased.

But it does not have to be this way. Large-scale experimental user research commissioned by Citizens Advice tested several key interventions in the BNPL customer journey - and this research showed that **pop-up disclosures at check-out is a useful intervention to improve comprehension and add positive friction** without necessarily impacting on BNPL usage.,

## Recommendations

- 1 HMT must ensure that BNPL credit is brought under FCA regulation without delay.**
- 2 As part of the regulation of BNPL, the FCA should ensure lenders introduce effective design, such as the use of pop up disclosures, with the aim of improving comprehension and adding friction. Lenders should be required to monitor and evaluate the effectiveness of any measures taken to ensure they prevent consumer harm.**
- 3 As part of the review of the Consumer Credit Act, HMT and the FCA should take the opportunity to consider the online consumer journey for credit products in general and ensure that the potential for online design to raise consumer comprehension around key information disclosures is realised.**

# Buy Now Pay Later

BNPL is a form of credit that allows consumers to purchase a product immediately and then pay back later, typically through a repayment plan of smaller weekly, fortnightly, or monthly instalments.



BNPL has **grown rapidly in the UK**. Between January 2019 and December 2021, the total value of BNPL lending in the UK grew 20 times larger, with an estimated £2.7bn lent through BNPL during 2020 [1].



BNPL purchasing now accounts for **6% of all online purchases in the UK**. This is forecast to double by 2025 to 12%.



The primary users of BNPL products tend to be **younger than the population average** [2], with an estimated 75% of users younger than 36 years old [3].

BNPL still remains unregulated and we've previously argued that this is bad for consumers. Examples of consumer detriment include indebtedness, regret in the use of BNPL and accidental use.

Regulation is now forthcoming concerning issues around information provision, affordability checks, and consistent treatment of people facing financial difficulty.

**But the pace of regulation is slow**, which is deeply concerning at a time when households are facing huge financial pressure in the context of the cost of living crisis. And regulation proposals **do not include details about how the customer journey is also going to be regulated**.

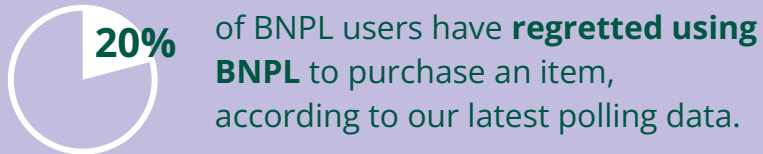


**This is problematic when our evidence shows the design features of BNPL create a slippery slope for leading people into unnecessary financial hardship.**

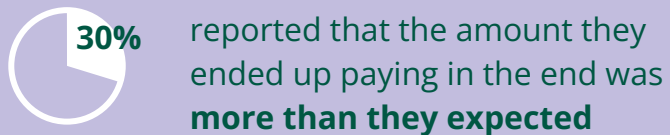
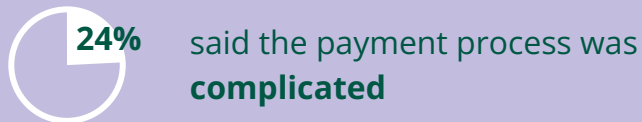
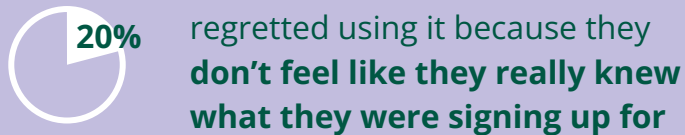
# BNPL design and consumer harm

There is a worrying lack of understanding of the risks around BNPL by people who use the product and substantial numbers of people regret using BNPL. This suggests a design problem around how BNPL is being marketed and sold. This can lead to debt and serious consumer harm.

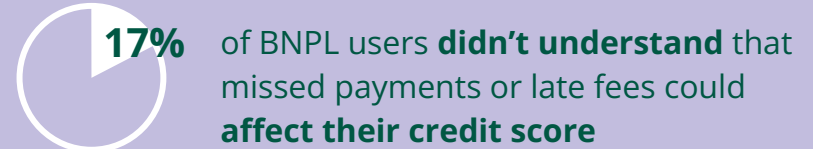
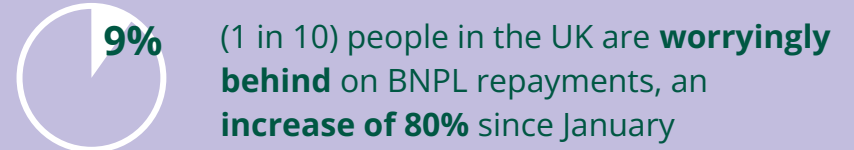
## Regret



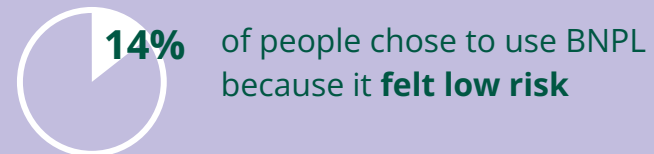
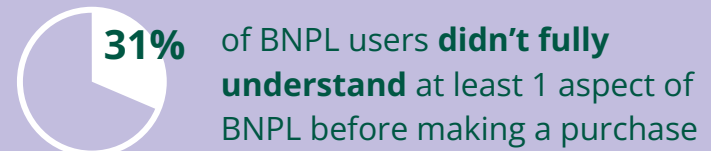
Of people who've regretted using BNPL in the past,



## Debt



## Lack of comprehension



# Design Tricks in BNPL

The significant levels of **lack of comprehension, regret and debt** that characterise current consumer experiences of BNPL show that something is going wrong in the design of BNPL. In order to make a considered decision about whether BNPL is the right option for them, consumers need to understand that BNPL is a credit product, what happens if they're not able to pay, the impact this will have on their credit score and where they can go to get help. But the levels of detriment we are seeing show that **current BNPL design features fall short in these respects, and prevent consumers from fully understanding what they are signing up for.**



Our findings indicate that there are 3 key design features of existing BNPL choice architecture that manipulate behavioural biases and exacerbate consumer detriment: **a lack of friction, inadequate disclosures** and **playful branding.**

## ① Lack of friction (smooth sign-up)

Design elements of BNPL emphasise speed and ease. The process to sign up to BNPL is made so easy for the consumer that some may find themselves with a BNPL product without even realising at check-out. **28% of BNPL users have used a BNPL service without realising it.** Our evidence illuminates that **lack of friction** and smooth design in the current BNPL customer journey makes it easier for consumers to act on impulse and discount the future in favour of the 'now'.

## ② Inadequate disclosure

Our research identified that BNPL lacks the necessary **disclosures** on potentially serious consequences of missed or non-payments, which can justify over-spending for many consumers. Very few have considered the impact on their credit score or future spending powers as a result of BNPL habits, and are unaware of the detriment of missed payments because of **inadequate pre-contractual information.** 11% of BNPL customers worryingly don't fully understand how BNPL repayments would be set up.

## ③ Playful branding and aspirational marketing

BNPL's 'fun' branding and marketing facilitate an aspirational lifestyle without dwelling on affordability. Our research found that BNPL is **framed** to feel like a 'safer' alternative to traditional forms of credit. This draws consumers in to satisfy their present-biased needs by purchasing the goods they want now whilst shifting the costs to the future, even if they cannot afford the repayments in the long-run.

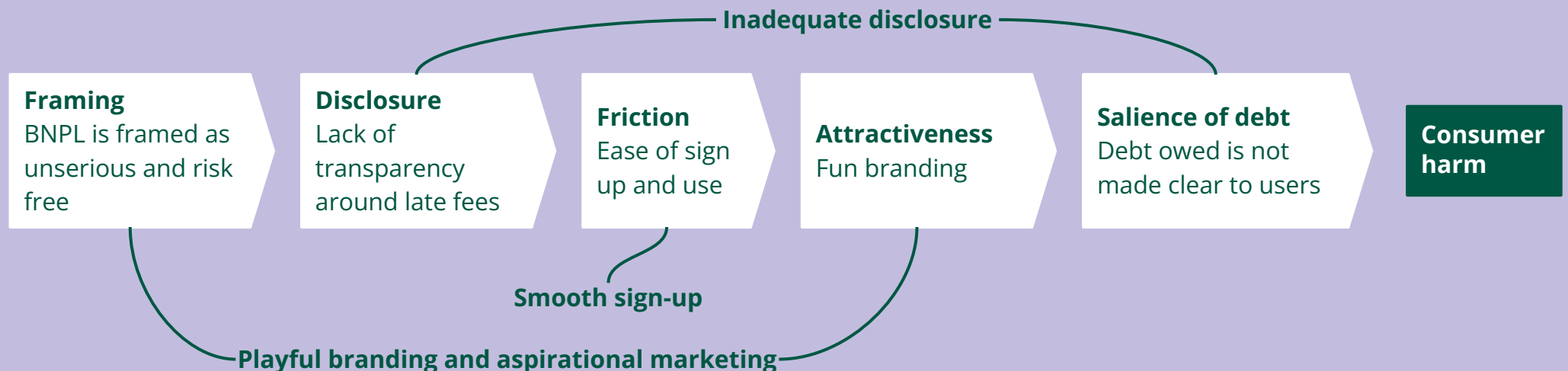
# The experiment:



In order to rigorously test the thesis that the design of choice architecture around BNPL products is contributing significantly to a lack of comprehension amongst consumers, Citizens Advice commissioned in-depth behavioural research on 2000 participants, focusing on the **role of disclosures and branding in improving comprehension and adding positive friction**. The experiment sought to understand behavioural biases at play in the BNPL customer journey and quantitatively test the results of user testing in a robust experiment, to assess which interventions have the most impact in terms of BNPL use and user understanding.

A representative hypothetical shopping task was developed, designed to accurately recreate the current online BNPL shopping experience. In the experiment, we tested the participants' comprehension of the BNPL products. Overall, we found that **comprehension of BNPL as a credit product was low** and **understanding of the existence and size of late fees was especially low** - 22% and 7% respectively. We identified that **this can be prevented** if better design choices are utilised in the BNPL customer journey.

The first phase of the research involved conducting in-depth qualitative interviews with BNPL users, through which **5 key parts of the consumer experience where design is causing consumer harm** were identified:



# What we tested

Focussing on these 5 areas of design, the second stage of the research involved developing and quantitatively testing several interventions, designed to improve the BNPL consumer experience and reduce harm. **3 different disclosure interventions** in the BNPL customer journey were tested **at scale**.

The key purpose of these interventions is to **make the important risks of BNPL more salient either throughout the customer journey or at key decision points**, such as at the moment of purchase. The interventions provided positive friction, enabling the consumers to stop and think about the consequences of using BNPL services and act in an informed way.

1

**Intervention 1** incorporated pop-up disclosure boxes at key decision points in the BNPL customer journey. The disclosure box included key information about BNPL at checkout.

## Borrow now, pay later × with QuickPay

By continuing this purchase, I confirm that I have read the **terms and conditions** for QuickPay and I understand the consequences of missed or non-payments.

- QuickPay is a credit product
- We will charge you late fees for missed payments
- Non-payment may result in handover to debt collectors

Continue with QuickPay

Change

This box was presented on the payment confirmation page, requiring confirmation from the user that they have read the information and want to continue by clicking through.


Intervention 1: Disclosure confirmation pop-up screen

2

**Intervention 2** incorporated a prominent disclosure box including key information about BNPL throughout the shopping basket and checkout.

This box was repeated on the product page, the basket page and the payment information screens, requiring the user to read the information at each point in the BNPL customer journey.

Intervention 2:  
Disclosure box that appeared throughout the user journey

 Please note that QuickPay and EezyPay are credit products. Late payment or non-payment could incur fees and could be referred to debt collection agencies.

3

**Intervention 3** included both the above disclosures plus removed express checkout and fun branding to reframe that BNPL is a serious credit product.



# What we found

**Disclosures** improved comprehension across all interventions ranging between a **75% to 83%** increase.

Disclosures improved comprehension about late fees in particular:

**38%** In-text disclosures

**49%** Pop up disclosures

**Intervention 3** had the strongest effect on improving comprehension and reducing the use of BNPL .

**Pop up disclosures** which people need to click on are more effective at improving comprehension and taking people out of the 'hot' state of purchasing.

**Branding** is part of the attractiveness of BNPL and its image as 'risk free' is a key design issue.

## What a consumer-focused BNPL customer journey design could look like

**Framing:** reframing BNPL with language that conveys a level of seriousness

● Mirroring language of credit cards allowed users to reappraise the importance of the purchase.

**Disclosure:** being more transparent about risks of late or non-payment

● For some users this is the first time they realise that there may be consequences to missed/late payments.

**Friction:** more deliberate friction in the checkout process (e.g., tick boxes/ pop-up boxes)

● Potential to jolt people out of their 'hot state' of purchase, enabling them to make an informed choice.

**Attractiveness:** removing BNPL provider branding to be less appealing

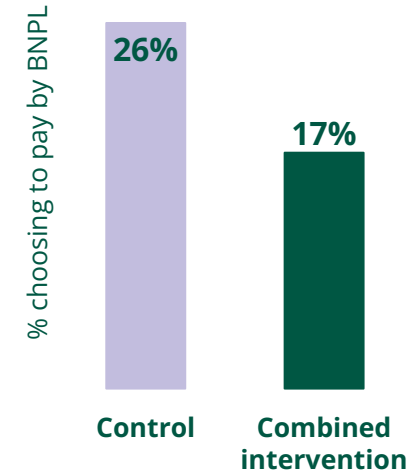
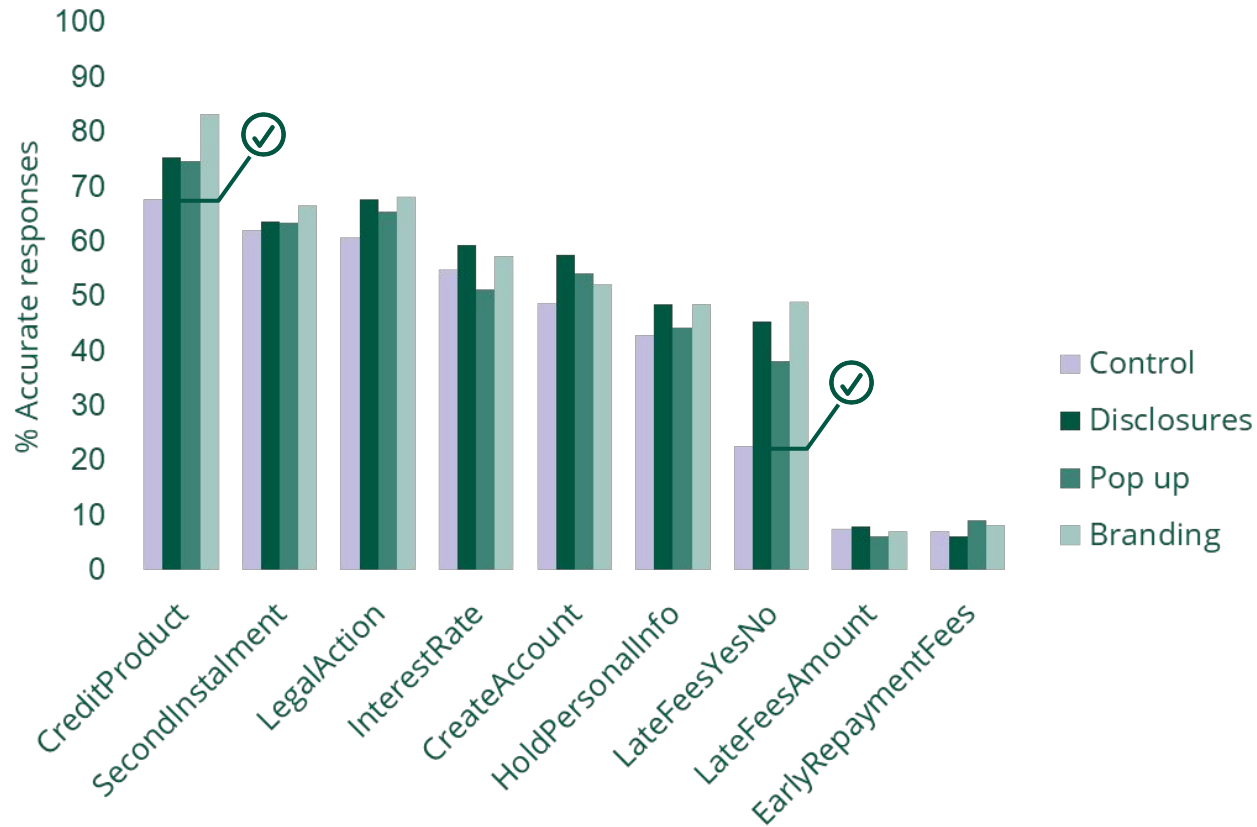
● Less visually engaging and eye-catching.

**Salience of debt:** consistent reminders of future debt throughout the user journey

● Reminders of the purchase amount can work well and make it harder for consumers to 'forget' how much the overall purchase is.



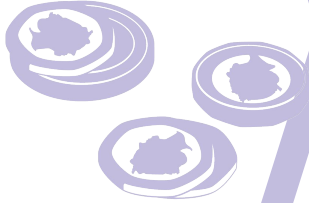
# The interventions: impact in numbers



As this graph shows, all of the interventions tested increased comprehension of various aspects of BNPL product terms. In particular, dramatic improvement was seen in comprehension about whether BNPL is a credit product and whether the BNPL product charges late fees.

There was a large reduction in participants choosing to pay by BNPL in the Combined intervention (from 26% in the Control to 17% in Combined)

# BNPL customer journey



## 1 Initial appeal: 'fun' branding

Playful branding and marketing skew consumer understanding of BNPL products; they are **framed** to *feel* risk-free.

## 2 Easy in: smooth sign up

Design elements of BNPL emphasise speed and accessibility. Signing up to BNPL is made so easy that some may find themselves with a BNPL product without realising.

## 5 Hard out

Once consumers have signed up to BNPL, consumers find it difficult to have oversight of their debt because of complex payment processes.

## 4 Limited or no comprehension

Lack of transparency therefore causes a dearth of understanding about fees and risks to credit score.

## 3 Lack of disclosure

Consumers are not made aware of the detriment of missed payments or that BNPL is a credit product.

## 6 Indebtedness

Our qualitative research reveals the switch from dealing with a BNPL provider to dealing with a credit collector can feel abrupt, with some users claiming it happened without any warning at all.

## Conclusion

The current BNPL design elements in place do not prioritise consumer protection in the customer journey. In fact, they can promote direct harm and have the potential to cause **serious** detriment. Our extensive experimental research has demonstrated that bad designs can be replaced with better, more consumer-focused design features which help people to make fully-informed decisions when using BNPL.



# Buy Now Pay Later in a cost-of-living crisis



**1 in 12 are now turning to BNPL for basic essentials, and borrowing to borrow in order to pay off BNPL purchases.**

The consequence of slow regulation and importance of including design in regulation can be seen in the cost-of-living crisis. More than a third (36%) of consumers are saying BNPL had become more appealing since inflation and energy costs began to rise.



**22%**

In March 2022, 22% of BNPL users have used BNPL to purchase groceries, essential toiletries and for vehicle related purchases. And 26% of BNPL users chose to pay for something using BNPL because they couldn't afford the item.



**26%**

Whilst many are turning to BNPL to pay for essentials, BNPL is also compounding people's financial hardship in the cost of living context. 26% of BNPL users have been unable to pay for at least 1 essential because they were making payments for BNPL products. 25% of BNPL users have also missed a payment or made a late payment on a BNPL product in the last 12 months.



**26%**



**25%**

These latest findings come as the BNPL market is now offered on a wider range of products and services, including fuel bills and takeaway deliveries, and when many people are currently struggling with the cost of rising bills. As budgets are stretched across the board with soaring energy bills, and increased mortgage, rent, fuel and grocery prices, turning to BNPL to pay for basic essentials is not always appropriate.

Long-standing issues with BNPL as a payment method, such as those associated with no affordability checks and frictionless design features, can exacerbate cost of living pressures and make it easy for people to be pushed further into debt. We are particularly concerned that those already struggling to make ends meet are most likely to use BNPL because there are currently no barriers in place to prevent people already grappling with debt to sign up to BNPL. With the mounting pressure of the cost of living crisis, it is key that BNPL is not marketed as a safety net for people to turn to when essentials are struggling to be paid for, but as a serious form of credit that can spiral people's debt more out of control.

**Our research has highlighted that the way the BNPL customer journey is designed is a key part of how consumer harm is created.** This can be prevented with better design and regulation.

# Lived experience of consumer detriment

*"I couldn't stop thinking about how I was going to pay the money off and it was very, very stressful."*

Maria\* was **in her twenties** when she started using BNPL. She was going on holiday and wanted some new clothes but couldn't afford to buy them with one payment, she'd **seen ads** about BNPL and so she turned to Klarna when she saw the option at the checkout.

Buying holiday clothes turned into clothing purchases week after week; with her job's payday arriving every Friday, making it **easy to think she could pay off the purchases** each week.

Months later she **owed hundreds of pounds** and was unable to make payments on BNPL and overdrawn with her bank, causing her anxiety and stress.



## Trick 1: Targeting a younger audience who may seek a lifestyle that BNPL can offer them temporarily

*"They appeal to younger people who want this aspirational, luxury lifestyle but are young but they're just starting to earn money and can't really afford it, but it makes it seem like they can. At the time I remember getting lots of ads for shopping or BNPL but now I'm a Mum, I don't get them as much."*

## Trick 2: The seriousness of BNPL isn't always apparent

*"I was just buying clothes, it felt way too dramatic that debt collectors would be called if I couldn't pay in time – just over some clothes!"*

## Trick 3: Lack of clarity on consequences can justify over-spending

*"I don't understand how you could get into trouble with BNPL when it's just small payments."*

\*Name changed

# Remedies

**Slippery designs lead to poor outcomes.** Our large-scale, experimental data that Citizens Advice commissioned strongly evidences that better design-focused interventions help consumers make more informed choices to use BNPL in online retail environments.

**There is a direct connection between design and consumer behaviour.** Current design mechanisms in place do not create an environment where consumers are fully-informed about what BNPL is, the serious consequences around late or non-payments, and in some cases when they are using it.

Forthcoming regulation is expected to address problems concerning information provision, affordability checks, and consistent treatment of people facing financial difficulty. However, firms, regulators and policymakers **should be alert to the importance of design choices and behavioural science to help inform responsible product design.**

## Crucial next steps

**The FCA needs to regulate BNPL without delay and ensure that design is at the centre of regulation to reduce and prevent consumer harm.**

**Based on our in-depth and robust data, Citizens Advice presents the following recommendations to the FCA to remedy consumer detriment as a result of bad designs in the BNPL customer journey:**

Incorporate design features that improve consumer comprehension of BNPL and add positive friction, such as pop-up disclosures at key decision points, in regulation.

A consumer-focused BNPL customer journey should focus on 5 key design areas: framing, disclosure, friction, attractiveness and salience of debt.

Effectively monitor and evaluate the BNPL customer journey to make sure pop-up disclosures are working and preventing consumer harm.

# References and bibliography

Citizens Advice commissioned 2CV and Paul Adams & Cogco to conduct user research and behavioural insights research, in March 2022.

2CV conducted phase 1 of the research. They carried out 20 x audio recorded pre-tasks followed by 20 x Zoom qualitative interviews with people who have used BNPL, to understand their experiences. 2CV conducted 15 x remote user-research interviews with a mix of those who have used BNPL products in the past and those who haven't, to assess the impact of design features.

In phase 2, Paul Adams & Cogco quantitatively tested the design interventions in a large-scale, hypothetical online experiment, in which 2000 participants were asked to complete a task after being randomly allocated to one of the three intervention groups, or the control condition.

Citizens Advice commissioned Opinium to survey 2,288 UK adults who have used BNPL in the last 12 months to ask about their experience of the BNPL customer journey. Fieldwork took place online between 11 - 28 March 2022. Citizens Advice also commissioned a nationally representative survey of 6,000 UK adults, conducted by ICM, exploring the impact of the cost of living crisis on people's lives. Fieldwork took place 27 May - 17 June 2022. All figures used are from the above commissioned research unless otherwise stated.

[1] Guttman-Kenney, B., Firth, C., & Gathergood, J. (2022), p.2, *Buy Now, Pay Later (BNPL)... On Your Credit Card*.

[2] Citizens Advice (2021), *Buy Now... Pain Later?*

[3] FCA (2021), p.44, *The Woolard Review - a review of change and innovation in the unsecured credit market*

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