

# Buy Now Pay Later:

Citizens Advice response to CP18/43 -  
consultation on Buy Now Pay Later  
offers



## Summary

We helped 25,332 people with catalogue and mail order debt last year. This is the second most common high-cost credit issue brought to Local Citizens Advice.<sup>1</sup> Local Citizens Advice see more clients with catalogue and mail order debt issues than doorstep loans, payday loans and rent to owns problems, forms of credit that have been the subject to much greater investigation.

Buy now pay later (BNPL) promotions allow people to delay or spread the payment of a good or service for a certain amount of time. They generally feature as part of firms credit offers like catalogue credit, store cards and retailers that offer finance at the point of sale. BNPL can be a useful way of spreading the payment for an item, particularly when a customer knows they will be better able to pay at some point in the future. Yet problems often occur with the repayment of these offers as consumers often do not understand the repayment arrangements involved in these deals, however, getting into trouble when the promotional period ends.

- **Many people struggle to make the cost of repayments.** The most common problem faced by our clients with catalogue credit debts is dealing with debt repayments. This accounts for over 80% of the catalogue problems that are brought to us.
- **Catalogue credit and buy now pay later borrowing is more prevalent among vulnerable groups.** Clients we see with issues relating to these forms of credits are 5 percentage points more likely to have a disability compared to average Citizens Advice client. 54% live in social housing and on in three (33%) are single parents.

## Recommendations

We welcome the FCA's interventions into the BNPL market but believe the scale of detriment for consumers requires a more comprehensive approach.

1. **Interest should only be charged after the promotional period ends.** Consumers are confused about the nature of BNPL arrangements and charging interest during the 'interest free' period causes significant detriment when the promotional period ends.
2. **The FCA should look in more depth at the affordability of BNPL deals.** These promotions appear to require some consumers to be given credit they cannot afford, this requires further investigation.

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<sup>1</sup> Local Citizens Advice data, 2019. Only Credit, store and charge card debt issues outnumbered catalogue and mail order issues last year.

## **Q2. Do you agree with our proposal to extend the rule on adequate explanations to all firms that offer BNPL deals?**

We welcome the requirement for firms to provide better information to consumers about the details of their BNPL deals. However, it is important that information is provided in a way that people can understand.

**Explanations must be easy to understand and provide the necessary information for consumers to be informed about the nature of BNPL deals.** Our research has shown that financially vulnerable consumers already spend less time making decisions.<sup>2</sup> It is therefore, important that the right information is displayed in a way that consumers can quickly understand. This will require firms to be specific that:

- Interest will be backdated on the full value of the product immediately at the end of the promotional period.
- This interest will be compounded. Firms should be clear about how much interest this will constitute as well as the repayments the customer will be required to make over time.

Research into consumer behaviour has also shown it is including information, but the form it takes that impacts consumer decision making. For example, a third of respondents to The UK Financial Capability Survey 2015 struggled to calculate interest correctly. One third of people couldn't calculate the balance at the end of the year, if £100 was paid into a savings account at guaranteed interest of 2% per year, while people particularly struggled to calculate compound interest.<sup>3</sup> Rather than just explaining the nature of a BNPL arrangement alongside potential interest rates incurred *if* the amount is not repaid, BNPL information must be presented in a way that consumers can understand. The FCA's recent requirement for banks to provide overdraft interest calculator that helps customers to translate interest rates into pounds and pence is an excellent example of how the information could be displayed in an accessible way.

**Information remedies alone will not protect vulnerable consumers.** Although we welcome the requirement for additional information, we question the efficacy of information based remedies for vulnerable consumers. Financially vulnerable consumers are less responsive to prompts than other demographics.<sup>4</sup> Given vulnerable groups are overrepresented amongst BNPL consumers, we wouldn't expect improved explanations to instigate the necessary behavioural change.

## **Q3. Do you agree with our proposal to extend the rule on prompts to all firms that offer BNPL deals?**

We agree with the proposal to extend the rule on prompts, but feel the FCA should be more explicit about timing and the prominence given to prompts.

**Prompts about repayment must be made frequently during and after the promotional period.** It is important for consumers to receive frequent reminders throughout the duration of the promotional period. We question the FCA's reluctance to

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<sup>2</sup> Citizens Advice, [Against the clock](#), November 2016.

<sup>3</sup> Money Advice Survey, '[Financial Capability in the UK 2015](#)', 2015.

<sup>4</sup> Citizens Advice, [Against the clock](#), November 2016.

prescribe a particular time for when firms must give notice before the promotional period ends. Along with confusion about the nature of the agreement, the amount of time that may pass following purchase of an item (typically 12 months) means consumers can easily forget the need to make repayments.

**The FCA should be prescriptive about the prominence of prompts delivered.** The way information is presented can significantly affect consumer preferences and the decisions they subsequently make.<sup>5</sup> It's important however, that these prompts are designed in such a way as to ensure that they are read - and are timely. As already noted, vulnerable groups are less responsive to these kind of notices and therefore it is vital that when they are used they are given sufficient prominence. **The FCA must therefore, require firms to include the consequences of not repaying within the promotional period in a way consumers understand, as well as ensure that prompts have sufficient prominence.**

**Q5. Do you agree with our proposal for a new rule that firms offering BNPL must not backdate interest on the amount of the principal that is repaid within the offer period?**

We agree that firms offering BNPL should not backdate interest on the amount of principal that is repaid within the offer period. We believe, however that the interventions should go further to reduce harm and improve the transparency of BNPL promotions.

As the FCA's research has shown, there is widespread confusion about how interest is charged and the effect of 'interest free' periods. In particular, BNPL deals rely on consumer tendencies towards over-confidence about their financial situation. The number of consumers entering these arrangements without paying back the amount owed before the end of the promotional period suggests many people miscalculate their ability to repay, or fail to understand the implications of failing to repay during the promotional period. This is likely due to overconfidence bias, a tendency for people to overestimate their capacity to make payments.<sup>6</sup> As the FCA's own research has show, a significant number of people do not see the credit as 'real money' and fail to perceive the arrangement as a form of borrowing.<sup>7</sup>

### **John, North East Derbyshire**

John didn't realise interest was backdated for the whole cost once the payment free period ended. 45% was added to the total cost of his purchase at this point. He was only able to repay over three years meaning over 120% was eventually to be added to the cost of the purchase. John was forced to consider insolvency options as payments became due.

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<sup>5</sup> Citizens Advice, '[Applying behavioural insights to regulated markets](#)', 2016, p. 20.

<sup>6</sup> In Perry, 'Is ignorance bliss? Consumer accuracy in judgements about credit ratings', 2008 it was found that 30% of consumers overestimate their credit score while 4% underestimate.

<sup>7</sup> FCA, '[High-cost Credit Review Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers](#)', 2018, pg 42.

**Given the harm caused we recommend that interest should not be backdated for any of the promotional period.** Instead, genuine BNPL deals should commence charging interest only after the completion of the offer period. This would increase transparency for the consumer and prevent consumers who are facing financial difficulty or unaware of the contract terms being faced with 'shock bills'. Over half of the clients we help with catalogue and mail order debts have additional credit, store or charge card debts, while 39% are in council tax or rent arrears. With such limited ability to handle financial shocks like , the FCA should remove the financial risk posed by BNPL backdated interest.

The framing of these offers as 'buy now pay later' is misleading in itself. It does not make it clear that consumers are effectively entering into a credit agreement with firms. Consumers may enter the arrangement believing they will merely pay the cost of the product at a later date.

### **Emily, Woking**

Emily has been on income based benefits for the last ten years. Debt caused her relationship to break down. Her sole income is now £73pw and she has been forced to live with her parents.

Part of the problem are Buy Now Pay Later promotions taken out over a two years ago. Her latest Littlewoods bill shows three items under this scheme and in next months bill an item costing £69.99 will be added with an interest charge of £75.72. This can be avoided by paying the amount in full together with the minimum payment of £319 but she doesn't have enough disposable income to make this payment.

Greater attention should be paid to the affordability of BNPL deals. Affordability checks are generally only made at the point of purchase and analysis of 250 Citizens Advice cases found numerous instances of these being inadequate.<sup>8</sup> This is confirmed by the fact that circa 50% of people fail to repay during this period.<sup>9</sup> In addition, the long time period over which BNPL deals occur - 12 months or more - and the significant increase in cost which the introduction of backdated interest incurs, means that affordability checks given on the basis of the current cost of the product look highly questionable. Given the scale of the detriment and fundamental problems with the framing of BNPL promotions **the FCA should consider a more in depth look at the affordability of these promotions.**

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<sup>8</sup> Citizens Advice, ['Catalogue customers hit hard for missing interest free deadlines'](#), 2016.

<sup>9</sup> FCA, [High-cost Credit Review Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers](#), 2018, pg 41.