Financial Conduct Authority

Research Note

October 2023

Deferred Payment Credit: findings from the Financial Lives Survey

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FCA research notes in financial regulation

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With thanks to Robert Cross, Tim Burrell, Gareth Thomas, Robert Rosenberg, Nisha Darby, Edwin Chan, Kieran Keohane, Helena Norrgren, Margaret Watmough and Terry Denness.

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Summary

Deferred Payment Credit (DPC), also known as unregulated Buy Now Pay Later (BNPL)[1], is a form of short-term, interest-free credit, commonly offered at the online checkout of retailers by a third-party credit provider. As a relatively new form of credit, there is a great deal yet to understand about how and why consumers use it.

Using findings from the Financial Lives 2022 survey and Financial Lives cost of living (Jan 2023) recontact survey, we explore consumers' use of DPC in the United Kingdom and make a number of key findings.

How DPC is used

- There was a large increase in DPC use between 2022 and 2023, with 27% of UK adults saying they had used it at least once in the six months to January 2023, up from 17% who said they had used it in the preceding 12 months in May 2022.
- As of 2022, most DPC users used it relatively infrequently, with 22% using it only once in the last year and 43% using it two to four times. 14% were frequent users, having used it 10 or more times.
- The average total DPC debt for someone who has used DPC within the last year, and has an outstanding balance, was approximately £236 (median approximately £150), with this being lower for younger users, reflecting the different type of purchases they make. This was substantially lower than typical credit/store card debt (mean £3,537/median £1,250).
- There were different rates and frequency of use between different demographic groups, notably by gender, age, ethnicity, education level, health, household structure, and self-assessed financial knowledge. Women, people aged 25-34, Black and Black British adults, those without degrees, those with mental health conditions, those with children, and those who assess their financial knowledge as moderate are more likely to have used DPC, even when compared to people with similar demographic characteristics as themselves.
- Adults with characteristics of vulnerability were more likely to report using DPC and to report using it frequently.

Reasons for use

- Clothes and shoes were the most commonly purchased items using DPC, followed by electrical goods and home improvements.
- Different demographic groups reported using DPC for different reasons: women were more likely to say it is for budgeting reasons or to afford goods they could not otherwise afford, while men were more likely to say it is because it is interest-free, or does not come with fees.

[1] We use the term 'DPC' to differentiate the product from other forms of credit where payment for goods and services is deferred or have buy-now pay-later terms attached to them, and which are regulated credit agreements.

Impact of use

- Most users (81%) reported being aware of the fees charged by their providers, but this leaves 19% of users of fee-charging providers who reported being unaware.
- Most users (88%) reported it being easy to keep track of repayments, with 9% saying it is neither easy nor difficult, 3% saying it is difficult.
- Use of DPC was associated with higher use of other credit products and signs of falling into difficulty with debt. While we are unable to infer that this is a causal impact, it does suggest that DPC is not entirely substitutive of other, more expensive, forms of credit.
- Details of the methodology, limitations of the research, and full results can be found in the appendix of this report.

1 Introduction

Deferred Payment Credit (DPC), also known as unregulated Buy Now Pay Later (BNPL), is a form of short-term, interest-free instalment credit.[2] DPC is offered at the checkout of many online retailers and allows consumers to split the cost of purchases into several monthly or fortnightly payments, or to pay the full amount at an agreed later date. DPC is normally offered by a separate credit provider to the retailer. It has been growing rapidly in popularity, and many millions of adults are now using it in the United Kingdom.

As these are borrower-lender-supplier agreements for fixed-sum credit where the repayments do not exceed a 12-month period and no interest or fees are charged, this form of credit does not amount to a regulated activity and so is not subject to regulation by the Financial Conduct Authority (FCA).[3] Owing to its growing popularity and concerns about the potentially harmful impact of borrowing, government has been consulting on draft legislation to bring DPC into the FCA's regulatory remit.[4] This means that in the future, providers of DPC would need to be authorised by the FCA and meet the legislative and regulatory requirements already applicable to most forms of regulated credit to ensure consumers are not harmed by their use of this type of credit.

As DPC is a relatively new and rapidly growing form of lending, there is still a great deal to understand about who uses DPC, how and why they use it, and what impact it has on them. A number of reports have been published exploring these issues since the Woolard Review[5], as well as stakeholder views published in response to two Government consultations on the future regulatory regime. To supplement this, we are now publishing further results from our latest Financial Lives survey, following on from the publication of the Financial Lives 2022 survey report.

Credit use can affect consumers in both positive and negative ways. It can be positive by allowing consumers to smooth their consumption: balancing their spending and saving over different periods of their life to achieve an improved overall standard of living. For instance, a consumer might experience a temporary drop in income, and borrow money to tide them over. Similarly, it can help them to budget by enabling them to purchase larger items and pay it off in more affordable chunks. If they can repay the money without difficulty, they will have benefitted from the borrowing by enabling a more consistent standard of living across their lifecycle. However, credit can also affect people in a negative way by allowing them to borrow more money than they might reasonably afford to pay back, if affordability checks are inadequate, or by encouraging them to buy more than they otherwise would. This can lead to a debt spiral which could worsen their financial position over the longer term.

[2] While DPC is most commonly known as BNPL, we refer to it as DPC to distinguish it from pre-existing forms of Buy Now Pay Later credit such as that offered by retailers themselves.

[3] See Article 60F(2) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

[4] HM Treasury (February 2023) Regulation of Buy-Now Pay-Later: Consultation on draft legislation. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1136257/BNPL_consultation_on_draft_legislation.pdf

[5] https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

Whether DPC has a consumption smoothing or a debt-worsening effect on users is difficult to measure. It is likely that some people benefit from the use of DPC, while others are harmed by it. For those who are able to pay off the debt without difficulty, making use of interest-free credit can be a savvy financial decision, especially in a high interest and inflation environment. But others may borrow more than they can afford or is appropriate to their situation, for example in the case of impulse spending. Unregulated firms are not subject to the Consumer Duty which requires firms to provide products and services that are designed to meet customers' needs, that they know provide fair value, that help customers achieve their financial objectives and which do not cause them harm. While DPC's lack of interest means that it has a lower risk of escalating balances, users can incur late fees, risk being unable to pay down other debts which do have escalating balances, incur fees or interest charges when they repay their loan via credit or debit card, or face an adverse impact on their credit file.

There is evidence to indicate that one of DPC's main selling points to merchants is that it has a higher basket conversion rate and basket value than other payment methods[6]: that merchants pay fees to enable DPC use on their platforms suggests that they expect users to spend more than they otherwise would because of it.

On the other hand, DPC is interest-free and the providers who charge late fees (not all do) normally charge fees that are relatively modest and may be capped. Additionally, the consequences of non-repayment tend to be suspension of the account to avoid further debts being incurred, which is not necessarily the case with other forms of credit. If users are swapping their use of other forms of credit for DPC, they could potentially end up paying substantially less in interest and fees than they otherwise would, especially if they are replacing high-cost forms of credit.

This report explores some of these questions using detailed new data from the most recent Financial Lives surveys (FLS), the Financial Lives 2022 survey and the Financial Lives cost of living (Jan 2023) recontact survey. It starts by contextualising the current use of DPC in the UK, looking at who uses it, how and why they use it, and how it relates to use of other credit products. It also draws on other research from the UK and abroad to address debates about DPC's impact on users.

With the Consumer Duty now in force[7], firms are required to consider the needs, characteristics and objectives of their customers – including those with characteristics of vulnerability – and how they behave, at every stage of the customer journey. As well as acting to deliver good customer outcomes, firms need to understand and evidence whether those outcomes are being met. Once regulated, DPC providers who come under the FCA's regulatory remit will be required to demonstrate these outcomes too. This report sets a basis for understanding the experiences and outcomes of users of DPC.

[6] https://www.cnbc.com/2021/09/25/why-retailers-are-embracing-buy-now-pay-later-financing-services.html
[7] https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty

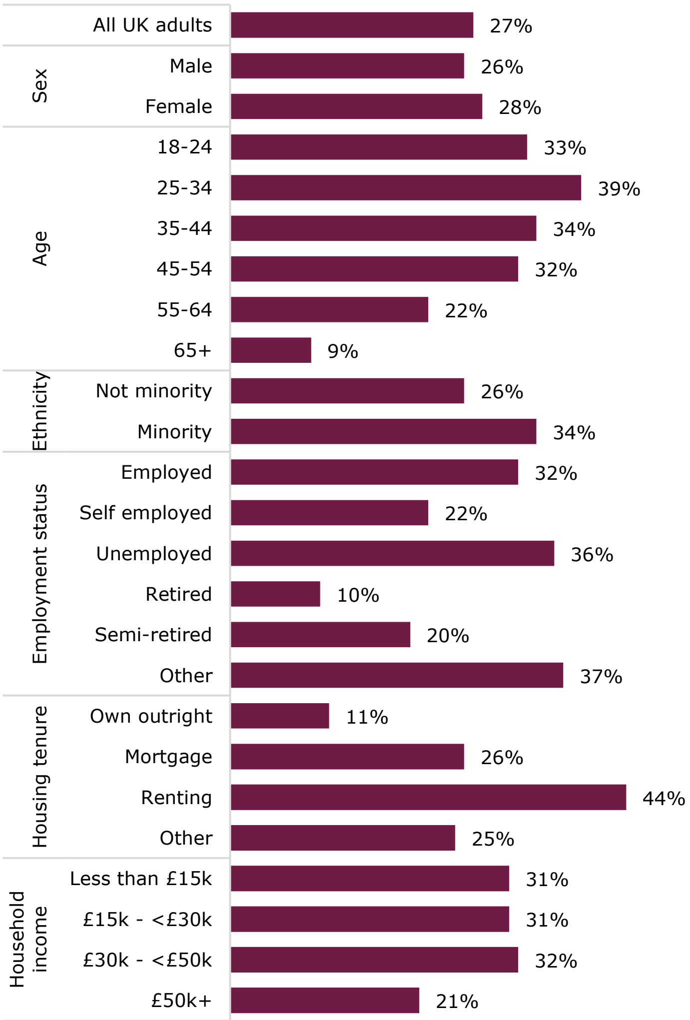
2 Who uses DPC?

In 2022, the Financial Lives 2022 survey (FLS) found that one in six UK adults had used DPC within the last year (17%, or 8.8m people). For scale, this is about a quarter of the number of adults that had a credit card (33.8m), and more than had personal loans, including vehicle loans (7.2m). However, the use of DPC has been growing rapidly, with an estimated 200-300% year-on-year payment volume growth between 2018 and 2021[8]. This means estimates of how many people use it may quickly become outdated.

We conducted a Financial Lives cost of living recontact survey in January 2023 and found that 27% of UK adults, approximately 14m people, reported having used DPC within the last 6 months (note the shorter length of time period reported), suggesting significant growth even between the two FLS surveys. In this report we predominantly refer to Financial Lives 2022 survey results as they are more detailed, but include some of the Financial Lives cost of living (Jan 2023) recontact survey results as appropriate.

[8] https://www.visa.co.uk/dam/VCOM/regional/ve/unitedkingdom/PDF/reports/vca-europe-bnpl-paper-v6-final.pdf

Chart 2.1. Proportion of UK adults who used DPC in the past six months (to Jan 2023)



Base: All UK adults (2023: 5,286)
Question: Q10/Q10aSum. Thinking about the last 6 months, have you bought goods using a 'Buy Now, Pay Later' payment service?
Notes: "Other" employment status includes students, long-term sick, temporary sick, looking after home, carer, and any other status not listed.

Chart 2.1 shows that use of DPC varied substantially by demographic group. While previously women used DPC at higher rates, in January 2023 we found the gap had closed and men were using it almost as frequently. Younger age groups used DPC much more than older ones, especially those between 25-34 years old where almost two-fifths had used it (39%). There also appears to be much higher than average usage amongst ethnic minority adults, as well as renters, who were four times as likely to have used DPC (44%) as those who own their home outright (11%).

It is possible that the higher use of DPC for some groups may be explained by their other characteristics. For example, ethnic minority adults are younger on average than white people[9], so it may be that higher usage among these groups is explained by their younger age rather than their ethnicity per se. In order to explore this, we conducted

[9] Black people in the United Kingdom have an average age of 32 compared to 43 for white people: see the ONS website for more information.

regression analysis[10] using a number of demographic and socioeconomic characteristics that we suspect may be important in determining the likelihood of having used DPC. This analysis allows us to identify which characteristics are associated with higher use controlling for other characteristics. In other words, do certain groups use DPC more or less when comparing like with like (people of similar demographic and socioeconomic characteristics)? We found the following differences, based off data collected in 2022:

- Adults are 40% less likely to use for each decade older they are
- Men are 31% less likely to use than women
- Black adults are 62% more likely to use than white adults. Asian adults are 26% less likely to use than white adults
- Those with a degree qualification are 38% less likely to use than those without one
- Adults are 22% more likely to use per additional dependent child in their household
- Those with mental health conditions are 69% more likely to use than those without
- The likelihood of use peaks in middle household income brackets (£20-60,000 per annum), with both those on the very lowest incomes and those on the highest incomes relatively less likely to use it

See Table 1 in the Appendix for more detailed information and limitations of the analysis.

The regression analysis shows that a number of demographic factors remain important even when controlling for the other characteristics featured. For instance, we find that black adults are still more likely to use than white adults even when accounting for their different age profile, suggesting that it is not age alone that explains the different usage rates, although we have been unable to identify why.

Self-assessed financial knowledge (rated out of 10) did not have a strong relationship with frequency of use, but there does appear to be a relatively small increase in likelihood for those who rated their knowledge as moderate (7-8) over those who rated it as low (0-6) or high (9-10). This also reflects the pattern with household income, where those on middle incomes (£20-60,000 per annum) are more likely to have used than those on lower or higher incomes.

A key area of interest is whether use of DPC exposes consumers – in particular, consumers with characteristics of vulnerability – to harm, given the lack of credit and affordability checks associated with DPC. The FCA defines a consumer with characteristics of vulnerability as somebody who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.[11] We consider consumers to have characteristics of vulnerability if they display one or more of the following risk factors:

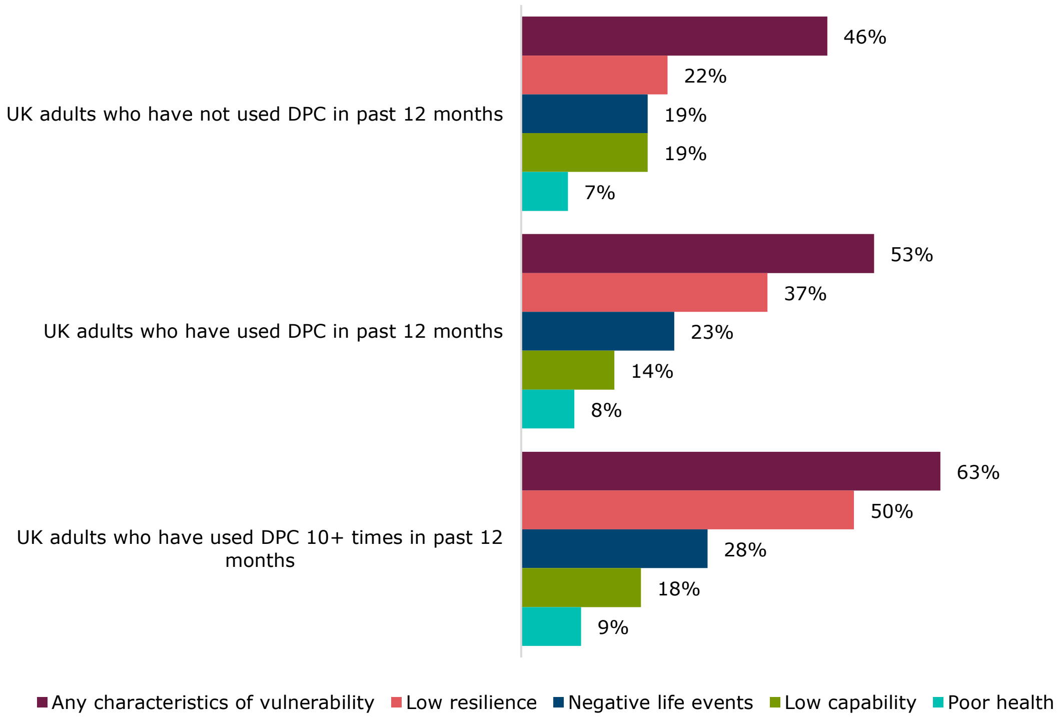
- **Poor health**: conditions or illnesses that affect the ability to carry out day-to-day tasks
- **Negative life events**: life events such as bereavement, job loss or relationship breakdown
- **Low resilience**: low ability to withstand financial or emotional shocks

[10] See Appendix for more information.
[11] See our Guidance on vulnerability for more information.

- **Low capability**: low self-assessed knowledge of financial matters or low confidence in managing money, or low capability in other relevant areas such as literacy or digital skills

Adults with characteristics of vulnerability were more likely to have used DPC within the last 12 months, and more likely to have used it frequently (10 or more times over the same period).

Chart 2.2. Characteristics of vulnerability and DPC use (2022)



Base: All UK adults (2022:19,145) excluding "don't know" responses (2%) / All UK adults who have used any buy now pay later payment services where they never pay any interest but defer or split payments (2022: 2,820)
Question: P_CC70 (Rebased). In the last 12 months have you bought any goods using a Buy Now, Pay Later payment service, sometimes called pay in three or pay later? / P_CC70B. How many times have you used this type of Buy Now, Pay Later payment service in the last 12 months?

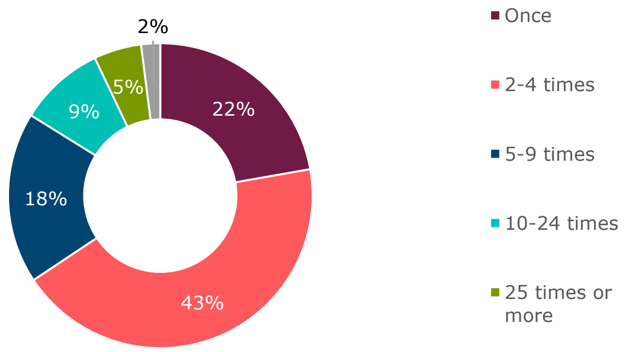
Chart 2.2 shows that adults who have used DPC, and who have used DPC frequently, were much more likely to display characteristics of vulnerability. This appears to be particularly driven by our measure of financial resilience: 37% of adults who had used DPC within the last 12 months showed signs of low ability to withstand financial shocks, compared to 50% of adults who had used it 10 or more times, and 22% of adults who have not used DPC. On the other hand, those who had used DPC within the last 12 months were less likely to show low capability than those who had not used it (14% versus 19%). This is likely to be because digital exclusion is one of the determinants of low capability, and those who are digitally excluded are unlikely to opt to use a primarily online service.

3 How frequently do DPC users use DPC?

That DPC is more likely to be used, and used more frequently, by people with characteristics of vulnerability makes it all the more important that providers understand how and why their customers are using it, and whether they are offering an appropriate product given the specific needs and challenges of their customer base. This is a key requirement under the Consumer Duty.

Just over a fifth of DPC users had only used it once within the last twelve months to May 2022, whereas just over two fifths had used it between 2-4 times. A minority (14%) had used it over 10 times. High usage may suggest problematic use – for instance, those who described having low or no satisfaction at all with their financial circumstances were more likely to have used it 10+ times (16%) than those who described having high satisfaction (10%).

Chart 3.1. Frequency of use of DPC, among DPC users (2022)



Base: All UK adults who have used any buy now pay later payment services where they never pay any interest but defer or split payments (2022: 2,820)
Question: P_CC70B. How many times have you used this type of Buy Now, Pay Later payment service in the last 12 months?

We conducted multivariate regression to explore the demographic predictors of high frequency of use (10 or more times over the last 12 months; see Table 2 in Appendix for full results). When compared to people of similar characteristics to themselves, we find the following groups are more likely to have high frequency of use:

- Adults are 50% less likely to be frequent users for each decade older they are
- Men are 67% less likely to be frequent users than women
- Adults with a degree are 25% less likely to be frequent users than those without one

- Adults are 12% more likely to be frequent users for every additional dependent child in their household
- Adults with mental health conditions are 84% more likely to be frequent users than those without
- Asian adults are 46% less likely to be frequent users than white adults

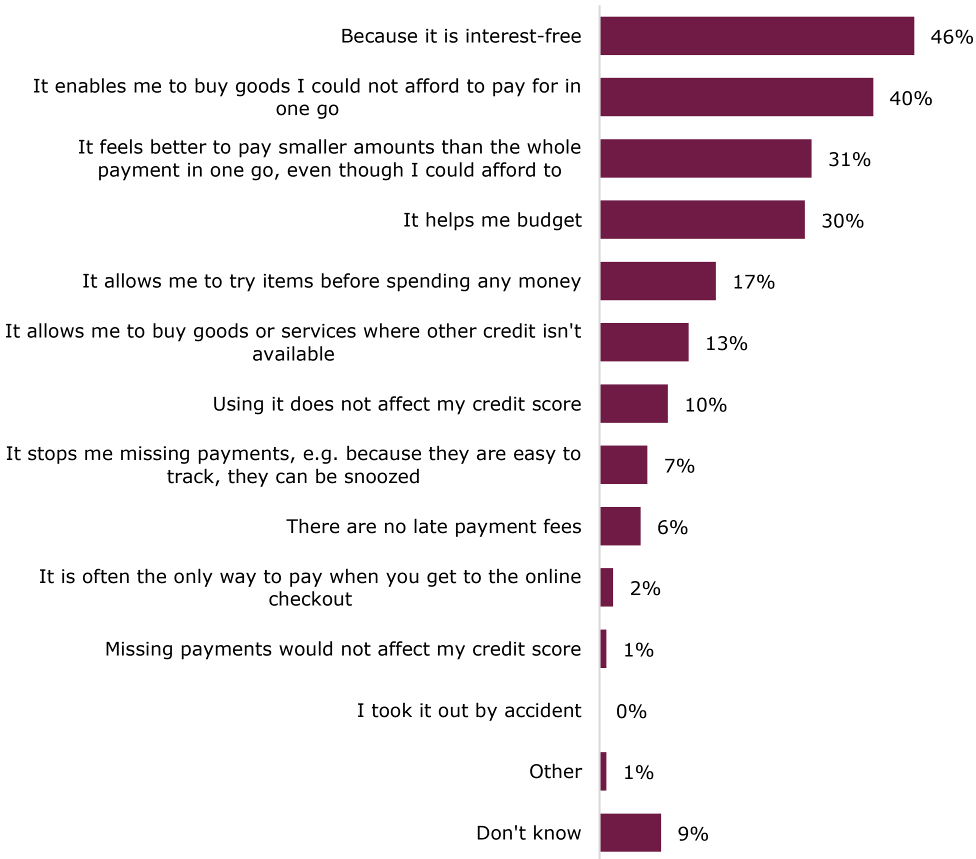
Broadly, these were a similar set of predictors that determine any use of DPC. However, there are some differences: black adults are not more likely to be frequent users, despite being more likely to be users, although Asian adults do use fewer times on average than white adults. We do not find a relationship between high frequency of use of DPC and household income or self-assessed financial knowledge.

See Table 2 in the Appendix for more information as well as limitations of the analysis.

4 Why do people use DPC?

Respondents were asked their reason(s) for using DPC. Chart 4.1 shows that the most common reason provided was that it is interest-free (46%), although this could be interpreted more as a merit of using DPC as opposed to the primary reason for using it. The second most common reason was affording goods the respondent could not pay for in one go (40%), followed by preferring to pay in smaller amounts even though they could afford to pay in full (31%). This underscores that people use DPC for varied reasons: some choosing this option because they cannot afford the purchase without credit, and some choosing it even though they can.

Chart 4.1. Reasons for using DPC (2022)



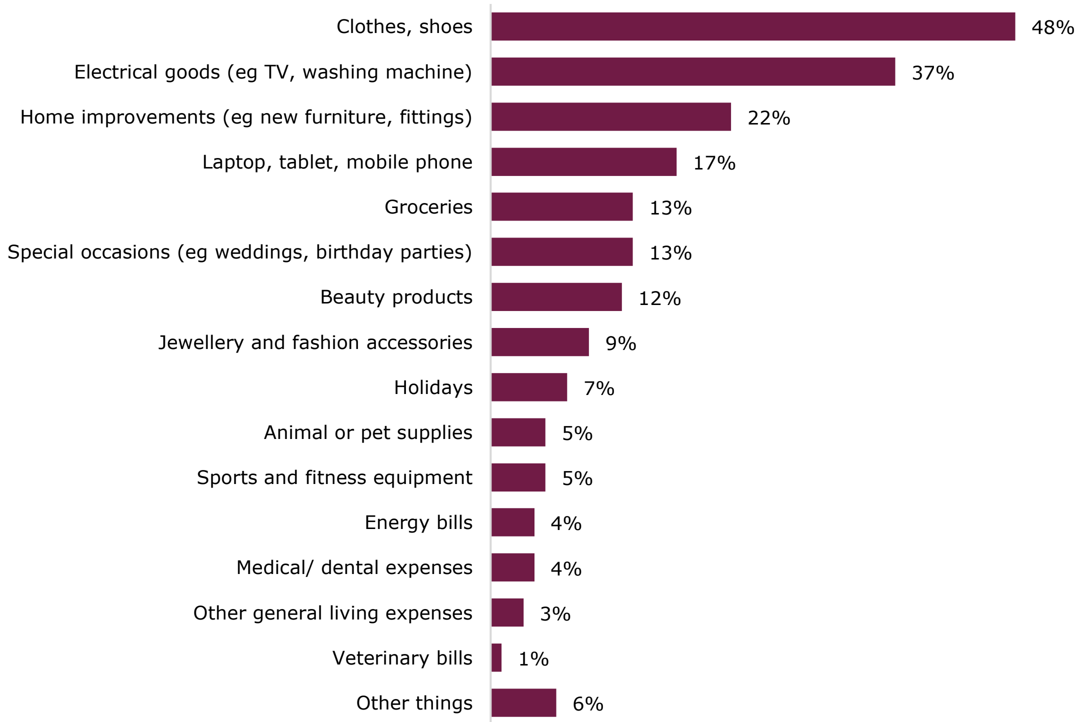
Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022:1,232)
Question: DPC1. Why do you choose to use this type of payment service?

There are demographic differences within the reasons consumers use DPC. Women, for instance, were more likely than men to report that they use it to help them budget, buy goods they could not afford in one go, or because it is the only form of credit available to them (62% versus 54%). Men were more likely to say they are using it because it is interest-free or does not come with fees (55% versus 43%). Older people were more likely to say they used it because it is interest free than younger people (59% of those aged 50+ versus 39% of those aged 18-34). And those on lower incomes were more likely to say they are using it to pay for items they could not afford in one go (47% of those with household incomes beneath £50,000, compared to 33% of those with household incomes of £50,000 or more).

Additionally, some reasons for using DPC were particularly associated with higher usage. Respondents who said that DPC allows them to try items before spending money had used DPC a median average of 7 times over the last twelve months, compared to an average of 3 for those who did not provide that reason. This makes intuitive sense – as clothes/shoes shopping is likely to be associated with smaller and more frequent purchases, and the user may be ordering multiple sizes to try them on without wanting to debit the full amount from their bank account.

The most common type of purchase made with DPC was clothes or shoes, with 48% of DPC users reporting having used DPC for this within the six months to January 2023. This was followed by large electrical goods such as televisions or washing machines (37%) and home improvements (22%).

Chart 4.2. What DPC users purchased (2023)

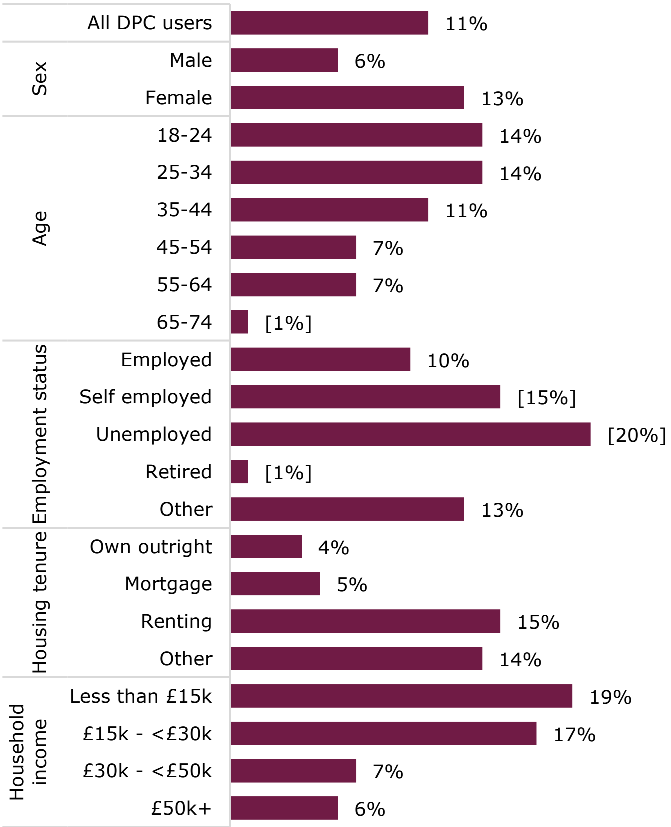


Base: All UK adults who have used 'buy now pay later' payment service(s) in the last 6 months (2023: 996)
Question: Recontact Survey Q11. Over the last 6 months, what have you bought or paid for using 'Buy Now, Pay Later'?

Women were more likely to spend on clothes/shoes than men (54% versus 41%) and on beauty products (19% versus 4%), while men were more likely to spend on laptops, tablets or mobile phones (23% versus 12%).

We found that 11% of DPC users said they had been charged a late payment fee by one of these providers, varying substantially by demographic.

Chart 4.3. Proportion of DPC users who have paid a fee for late payment (2022)

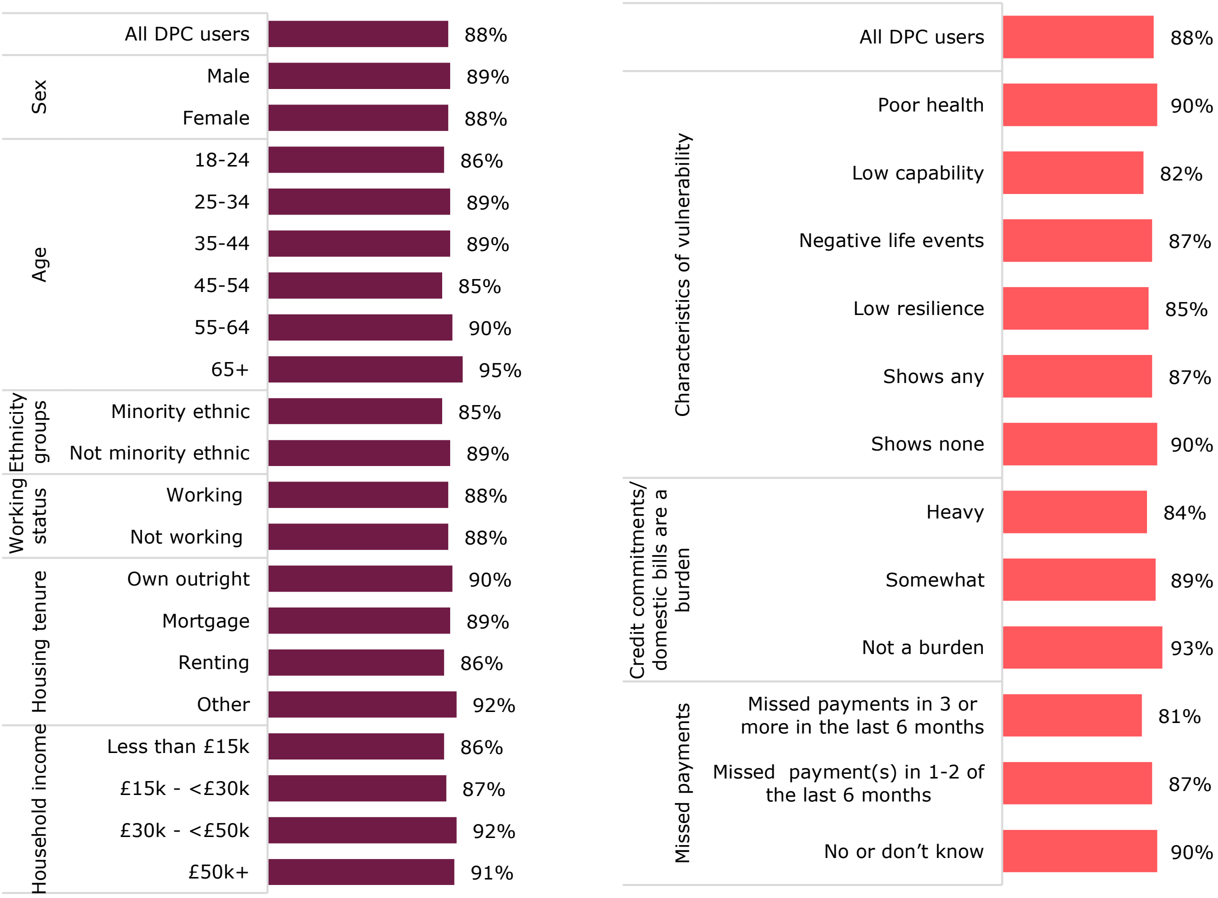


Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022: 1,232) excluding 'don't know' responses (10%). Square brackets indicate the sample is small.
Question: DPC4 (Rebased) Thinking about all the times you have bought goods or services using this type of payment service in the last 12 months, have you ever paid a fee for late payment?

We found that while most users (81%) were aware of the fees, this drops to 69% of those with low capability. This means a reasonably large number of users were unaware of the full potential cost of using the service – around 400,000 across the UK.

We also asked users whether they found it easy to keep track of repayments. Responses to this question, regardless of demographic background, were fairly consistently positive at just under nine-tenths agreeing it was easy. Just 3% said it was difficult, with the remainder saying it was neither easy nor difficult.

Chart 4.4. Proportion of users agreeing or strongly agreeing that it is easy to keep track of their repayments (2022)



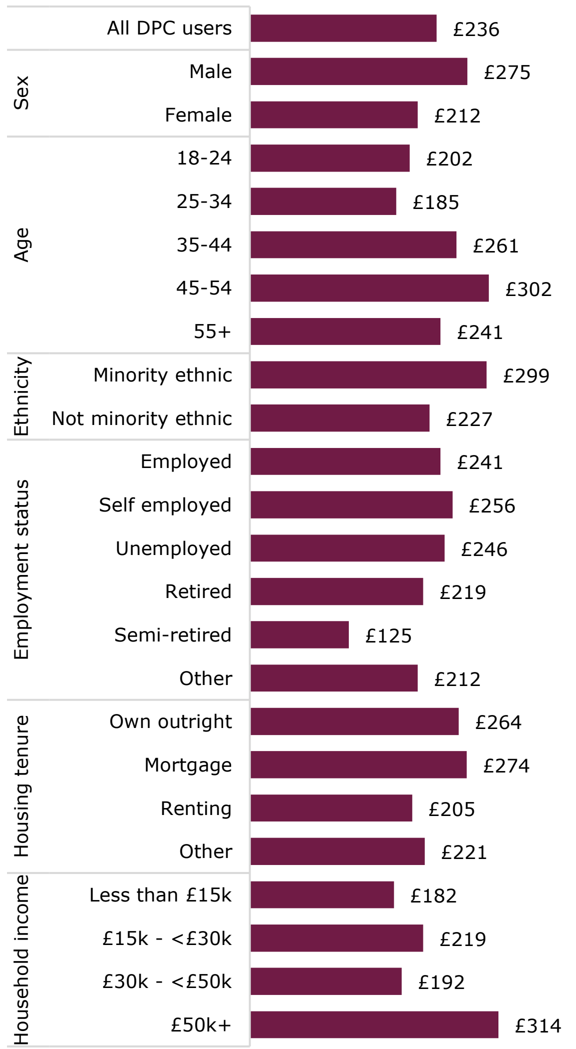
Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022: 1,232) excluding 'don't know' responses (9%)
Question: DPC3 (Rebased). Thinking about all the times you have bought goods or services using this type of payment service in the last 12 months, how easy was it to keep track of your repayments?

Even for those showing characteristics of low capability and those who have fallen behind on bills/credit commitments, the vast majority (over 80%) agreed it is easy to keep track of repayments. This suggests that the repayment process is straightforward for most users, although further work may be advisable to explore why the remaining fifth of users do not find it easy.

5 How much do people owe on DPC?

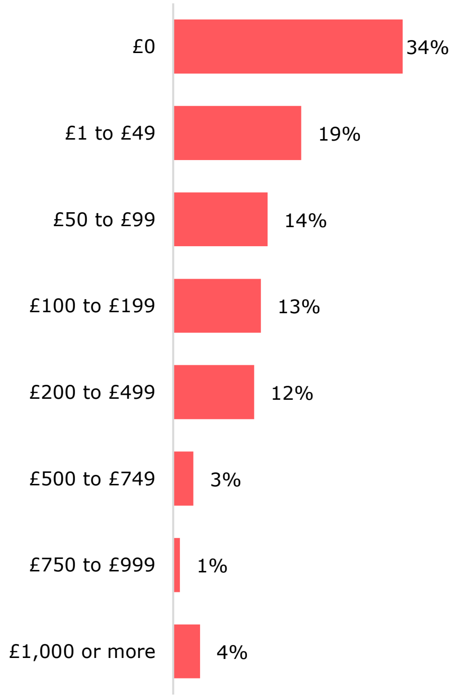
The mean average amount a current user of DPC with an outstanding balance is £236, which chart 5.1 shows differs notably by demographic and socioeconomic characteristics. Younger users tended to have lower outstanding debts, despite higher usage overall. This likely reflects the different types of purchases made by younger people, as well as limiting their borrowing to what they can afford to pay back, given their typically lower incomes and assets. This is also reflected in the higher average borrowing for individuals with household incomes of above £50,000 per year – although it is a smaller amount relative to their income. For instance, the average amount owed by people with a household income of less than £15,000 was £182, which is almost 15% of the highest possible monthly income within that income band, while the average amount owed by people with a household income of over £50,000 is £314, which is just over 8% of the lowest possible monthly income within that income band. In other words, while those on lower incomes owed less, they owed considerably more as a proportion of their income.

Chart 5.1. Mean average amount currently left to pay back on DPC, for those who have an outstanding balance (2022)



Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022: 1,232) excluding 'don't know' responses (12%) and those who had no outstanding debt (30%).
Question: DPC5. Thinking about all of the purchases you have made recently using this type of payment service, how much do you currently have outstanding (i.e. left to pay)?

Chart 5.1. Mean average amount currently left to pay back on DPC, for those who have an outstanding balance (2022)



Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022: 1,232) excluding 'don't know' responses (12%)

Question: DPC5 Thinking about all of the purchases you have made recently using this type of payment service, how much do you currently have outstanding (i.e. left to pay)?

However, the median average owed by users with an outstanding balance is considerably lower than the mean average at approximately £150 – meaning that the average amount owed is skewed by individuals with unusually large borrowing.

Chart 5.2 shows that even amongst people who have used DPC within the last year, around a third of users have already paid off their borrowing in its entirety, with a further 19% having less than £50 remaining to pay. This shows that most borrowing on DPC is of a fairly small scale – especially compared to credit and store cards, where the FLS finds the mean outstanding debt is £3,537 (median: £1,250).[12]

Chart 5.3. Average amount owed for those with outstanding debt, by frequency of use over the last 12 months

Base: All UK adults who have used any buy now, pay later payment service, where they never pay any interest but defer or split payments, in the last 12 months (2022: 1,232) excluding 'don't know' responses (12%) and those who had no outstanding debt (30%).

Question: P_CC70B. How many times have you used this type of Buy Now, Pay Later payment service in the last 12 months?/ DPC5. Thinking about all of the purchases you have made recently using this type of payment service, how much do you currently have outstanding (i.e. left to pay)?

Chart 5.3 shows the average amount owed for those with outstanding debt, by how frequently they have used DPC over the last 12 months. Interestingly it shows an inverse relationship between frequency of use and outstanding debt: in other words, that those who use it more frequently have lower debt. This suggests infrequent users may use it for large expenses only, while more frequent users are making smaller purchases.

[12] The DPC figure includes those who have purchased using DPC within the previous twelve months, whereas the credit/store card figure includes those who have used their card within the previous twelve months and those who have not, but still have a remaining balance. This means that the DPC figure is likely to be a lower bound estimate, although the difference between the two forms of credit is large enough that we can be confident that credit/store card borrowing tends to be of much larger scale.

6 DPC and use of other credit products

Another area of interest for the FCA is how the use of DPC relates to the use of other credit products, and what impact this has on consumers. Broadly, combinations of goods and services can be divided into three categories:

- Independent, where purchase of one good or service is unrelated to the use of another – such as pens and hats
- Complementary, where the purchase of one good or service increases the purchase of another – such as chips and ketchup
- Substitute, where the purchase of one good or service decreases the use of another – such as liquid soap and bar soap

If DPC exists as a substitute for other forms of credit – i.e. consumers are swapping out potentially high-cost borrowing for DPC, which is interest-free and typically charges no fees – then the growth of DPC could be a positive development from the consumers' perspective. If it is independent or complementary, this could mean consumers are borrowing more than they otherwise would and could be a cause for concern if that borrowing then became problematic.

There has been limited research published to date on how DPC use in the UK has impacted consumer behaviour or markets for other credit products. One exception is a recent paper by Guttmann-Kenney, Firth and Gathergood (2023) which looks at consumers charging DPC repayments to credit cards. It finds that a minority of DPC users are making DPC repayments via credit cards and that 1 in 5 (19.5%) of active UK credit cards had at least one DPC transaction on them in 2021, and that this is especially prevalent amongst younger consumers and those in more deprived geographies.[13] They conclude this raises concerns about the ability of those consumers to pay for their purchases, but that further research is required to identify whether DPC is substituting other payment mechanisms or forms of lending.

A paper by deHaan, Lourie, Kim and Zhu (2022) uses banking data for 10.6 million U.S. consumers and finds that starting to use DPC causes rapid increases in bank overdraft charges and credit card interest and fees. This suggests that DPC causes users, on average, to borrow more than they otherwise would and more than they can reasonably afford to pay.[14] This is also reflected in a working paper by Di Maggio, Williams and Katz (2022) which uses U.S. transaction data to show that DPC access increases both total spending level and the retail share of spending, that this increase in spending continues for at least the 24 weeks following additional use, and that use results in increased likelihood of accessing savings and incurring late fees and bank charges.[15] While it

[13] Guttmann-Kenney, Firth and Gathergood (2023) Buy Now, Pay Later (BNPL)… On Your Credit Card. Journal of Behavioural & Experimental Finance. Available at SSRN: https://ssrn.com/abstract=4001909

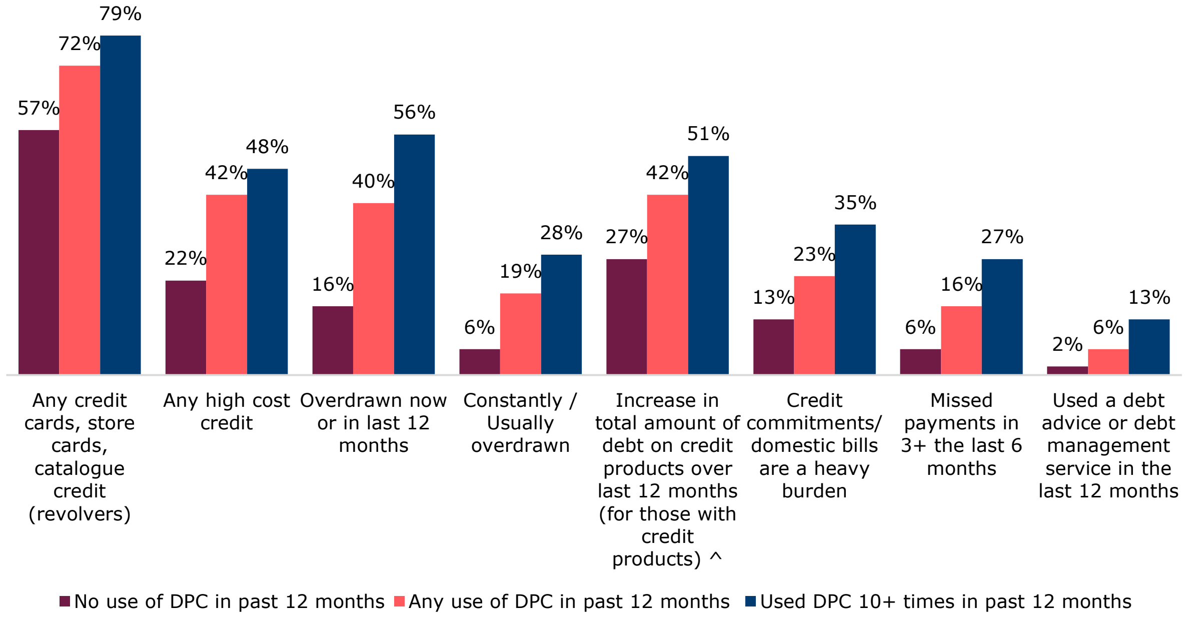
[14] deHaan, Lourie, Kim and Zhu (2022) Buy Now Pay (Pain?) Later. Paper presented to the 2022 CFPB Research Conference, Washington D.C. Available at: https://files.consumerfinance.gov/f/documents/cfpb_2022-research-conference_session-1_lourie_paper.pdf

[15] Di Maggio, Williams and Katz (2022) Buy Now, Pay Later Credit: User Characteristics and Effects on Spending Patterns. Working Paper 30508. National Bureau of Economic Research. Available at: https://www.nber.org/system/files/working_papers/w30508/w30508.pdf

remains possible that some users are able to use DPC in such a way that it is beneficial for them overall, these two papers suggest that, in the U.S. market at least, a substantial proportion of them may be experiencing harm due to their use. That DPC is marketed to – and paid for by – merchants on the basis that it encourages higher sales necessarily means that users spend more than they otherwise would, and the lack of credit or affordability checks means that there is limited safeguard against excessive borrowing.

The FLS supplements these findings. Firstly, chart 6.1 shows that use of DPC and frequent use of DPC are both associated with higher use of other credit products, including high-cost credit, as well as the likelihood of being in difficulty with debt, according to several measures.

Chart 6.1. Overall credit and debt position, by use of DPC (2022)



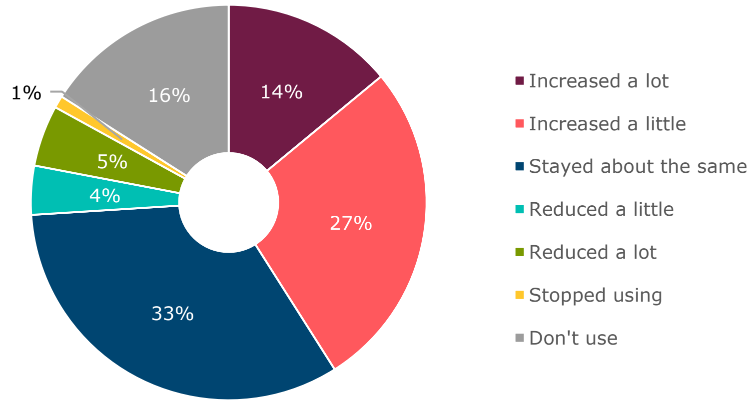
Base: All UK adults (2022:19,145)/All UK adults who have used any buy now pay later payment services where they never pay any interest but defer or split payments (2022: 2,820) excluding 'don't know' responses (2%)
Question: POSum1 - POSum1. Product holding summary 1 / P_CC70B (Rebased) How many times have you used this type of Buy Now, Pay Later payment service in the last 12 months?

This does not necessarily mean that DPC is complementary to the use of other forms of credit, as users could still be substituting part of their borrowing on other forms of credit. But it does show that the availability of DPC has not totally replaced other forms of borrowing, and that users of DPC are disproportionately likely to have other debt demands on their income and may be at elevated risk of difficulties. If DPC were a perfect substitute for these forms of credit and it were sufficiently freely available to users, we would expect to see their use decline proportionally to the increase in DPC use, but we do not see this.

The relatively high levels of overdraft use amongst DPC users is also a matter of concern, as using their debit card to repay DPC instalments may incur overdraft charges or interest.

In our January 2023 survey, we asked users of DPC how their use of other forms of credit had changed since they started using DPC. Just 10% of users said they had reduced or stopped their use of other forms of credit since first using DPC, while over two fifths (41%) said they had increased their use of other forms, and 16% said that they had never used credit prior to using DPC. While this alone is not sufficient to demonstrate the impact DPC has on other credit use (as it is possible that people start using DPC in response to an income shock which also prompts other borrowing), it does reinforce existing research that suggests DPC's effect may not be entirely substitutive.

Chart 6.2. Change in use of other forms of credit since using DPC (2023)



Base: All UK adults who have used DPC services within the last six months (2023: 996)
Question: Recontact Survey Q12. Since using 'Buy Now, Pay Later' has your use of other forms of credit…?

Future waves of FLS will allow further analysis of the relationship between DPC and other forms of credit and how this changes over time.

7 Appendix: Methodology and full results

Data

Financial Lives is the Financial Conduct Authority's flagship, nationally representative survey of UK consumers. It provides information about consumers' attitudes towards managing their money, the financial products they have and their experiences of engaging with financial services firms. It is unique in the combination of its design, breadth, and size. As a tracking survey, it provides evidence of how things are changing from the point of view of the consumer.

The Financial Lives Survey has now run three main waves, in 2017, 2020 and 2022, and an additional recontact survey in winter 2022/23.

More information about the Financial Lives Survey can be found on our website.

Survey questions

Question	Answer options	Survey
P_CC70. "In the last 12 months have you bought any goods using a Buy Now, Pay Later payment service, sometimes called pay in three or pay later? **This is a payment service where you defer payment for a short period of time (usually 30 days) or split payments over a few instalments (typically between 3 and 6). You may have seen this option offered when shopping online at the checkout page, and being offered by firms such as Klarna or Clearpay."**	A. Yes B. No C. Don't know	Financial Lives 2022 survey
P_CC70b. "How many times have you used this type of Buy Now, Pay Later payment service in the last 12 months?"	A. Once B. 2-4 times C. 5-9 times D. 10-24 times E. 25 times or more F. Don't know	Financial Lives 2022 survey

DPC1. "Why do you choose to use this type of payment service?"	A. It feels better to pay smaller amounts than the whole payment in one go, even though I could afford to B. It enables me to buy goods I could not afford to pay for in one go C. Missing payments would not affect my credit score D. It allows me to buy goods or services where other credit isn't available E. It is often the only way to pay when you get to the online checkout F. It allows me to try items before spending any money G. It helps me budget H. There are no late payment fees I. Because it is interest-free J. I took it out by accident K. It stops me missing payments, e.g. because they are easy to track, they can be snoozed L. Using it does not affect my credit score M. Other (write in) N. Don't know	Financial Lives 2022 survey
DPC3. "Thinking about all the times you have bought goods or services using this type of payment service in the last 12 months, how easy was it to keep track of your repayments?"	A. Very easy B. Fairly easy C. Neither easy nor difficult D. Fairly difficult E. Very difficult F. Don't know	Financial Lives 2022 survey
DPC4. "Thinking about all the times you have bought goods or services using this type of payment service in the last 12 months, have you ever paid a fee for late payment?"	A. Yes B. No C. Don't know	Financial Lives 2022 survey
DPC5. "Thinking about all of the purchases you have made recently using this type of payment service, how much do you currently have outstanding (i.e. left to pay)?"	A. £0 B. £1 to £49 C. £50 to 99 D. £100 to £199 E. £200 to £499 F. £500 to £749 G. £750 to £999 H. £1,000 or more I. Don't know	Financial Lives 2022 survey
Q10/Q10aSum. "Thinking about the last 6 months, have you bought goods using a 'Buy Now, Pay Later' payment service?"	A. NET: Yes B. NET: No	Financial Lives cost of living (Jan 2023) recontact survey
Q11. "Over the last 6 months, what have you bought or paid for using 'Buy Now, Pay Later'?"	A. Clothes, shoes B. Electrical goods (eg TV, washing machine) C. Home improvements (eg new furniture, fittings) D. Laptop, tablet, mobile phone	Financial Lives cost of living (Jan 2023)

	E. Groceries F. Special occasions (eg weddings, birthday parties) G. Beauty products H. Jewellery and fashion accessories I. Holidays J. Animal or pet supplies K. Sports and fitness equipment L. Energy bills M. Medical/ dental expenses N. Other general living expenses (write in) O. Veterinary bills P. Other things (write in)	recontact survey
Q12. "Other forms of credit include credit and store cards, store credit, personal loans of all kinds, and overdrafts. Since using 'Buy Now, Pay Later' has your use of other forms of credit…?"	A. Increased a lot B. Increased a little C. Stayed about the same D. Reduced a little E. Reduced a lot F. I have stopped using other forms of credit since using 'Buy Now, Pay Later' G. I don't use other forms of credit	Financial Lives cost of living (Jan 2023) recontact survey

Definitions

In the report we refer to "characteristics of vulnerability". We define a vulnerable consumer as somebody who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. We consider consumers to have characteristics of vulnerability if they display one or more of our four drivers of vulnerability:

- **Poor health**: having health conditions or illnesses that reduce one's ability to carry out day-to-day activities a lot.
- **Negative life events**: life events such as bereavement, job loss, or relationship breakdown.
- **Low resilience**: low ability to withstand financial or emotional shocks.
- **Low capability**: low self-assessed knowledge of financial matters or low confidence in managing money (financial capability), or low capability in other relevant areas such as digital skills.

Methodology

Descriptive results (such as the proportion of UK adults who have used DPC) are based on the published results of the Financial Lives 2022 survey and Financial Lives cost of living (Jan 2023) recontact survey. For more information about the methodology of these surveys please see the linked web pages.

In addition to the descriptive results, two sets of regression analyses were conducted in Python using the Statsmodels package: the first on whether the respondent had used DPC within the 12 months prior to May 2022, and the second on their frequency of use.

For the purposes of analysis, we classified those who answered that they had used DPC 10 or more times within the last 12 months as "frequent users". Where we report average number of times of use, we use the mid-point of the category options.

The independent variables in our model were:

- Age
- Sex
- Ethnicity, split into the following categories:
  - White
  - Black and Black British
  - Asian and Asian British
  - Mixed/multiple ethnicity
  - Other ethnicity
  - Prefer not to say
- Whether respondent has a degree
- Estimated household income, split into the following categories:
  - <£10,000 per annum
  - £10,000-20,000
  - £20,000-40,000
  - £40,000-60,000
  - £60,000-£100,000
  - £100,000+
  - Don't know
  - Prefer not to say
- Number of dependent children in respondent's household
- Whether the respondent is living in a couple
- Whether respondent reports having a mental health condition or illness
- Self-assessed financial knowledge (scored out of 10), split into the following categories:
  - Low (0-6 points)
  - Moderate (7-8 points)
  - High (9-10 points)
  - Don't know

Further information about these variables and their construction can be found on our web page about the Financial Lives 2022 survey.

Research limitations

The Financial Lives survey is the UK's largest tracking survey of UK adults' financial behaviour. It is nationally representative, using a stratified random probability-based sample design, sampled from the Postcode Address File and analyses are weighted to be representative of the UK adult population along a number of key demographic characteristics. It uses a mixed-mode data collection approach to ensure maximum response. Full information can be found about the 2022 survey in its accompanying Technical Report.

Potential non-response bias has been limited as far as possible by the robust design and weighting process. Where possible we have also limited the impact of question non-response ("don't know" or "prefer not to say") on the analysis by including these as categorical variables. This substantially increases the representativeness of the results, especially on household income where "prefer not to say" response is relatively high.

We also separately conducted regression of our independent variables on "don't know" response to the two outcome questions (any use of DPC/ high frequency of use). For the most part we find these are only associated with "don't know" response on other questions, which is not surprising, but we do remark that older people are more likely to say they don't know whether or not they have used DPC.

Regression analysis assumes that there is no severe multicollinearity among the explanatory variables. We conducted tests of the variance inflation factor on our selected models to ensure we did not have severe multicollinearity. The only variable which showed high multicollinearity was age. This is unsurprising as age is a known strong predictor of many of our other variables. We have opted to leave this in the model as-is, as age is an important variable of interest and the effect size of age remains fairly consistent across sensitivity tests.

We also perform a set of sensitivity tests on each of the models, described in the regression tables section below. These tests show strong consistency of results.

Regression tables

The first set of regressions (reported in Table 1 below), on whether the respondent had used DPC, were binominal generalised linear models, weighted using the standard FLS frequency weights to be representative of the UK adult population. In addition to the original model, we also conduct three sensitivity tests:

1. An unweighted model
2. Excluding mental health from the model
3. Excluding self-assessed financial knowledge from the model

Table 1. Any use of DPC within the 12 months to May 2022

	Original	Sensitivity tests 1-3		
	(0)	**(1)**	**(2)**	**(3)**
Intercept	0.73** (0.113)	0.84 (0.122)	0.96 (0.107)	0.79* (0.108)
Age	0.96*** (0.001)	0.96*** (0.002)	0.96*** (0.001)	0.96*** (0.001)
Sex [T.2. Male]	0.69*** (0.043)	0.7*** (0.046)	0.68*** (0.043)	0.69*** (0.042)
Sex [T.3. PNTS]	0.5** (0.261)	0.56* (0.266)	0.53* (0.26)	0.44** (0.26)
Ethnicity [T.2. Black]	1.62*** (0.112)	1.83*** (0.169)	1.51*** (0.112)	1.68*** (0.11)
Ethnicity [T.3. Asian]	0.74** (0.091)	0.78* (0.104)	0.7*** (0.09)	0.74** (0.09)

Ethnicity [T.4. Mixed]	0.92 (0.129)	1.09 (0.146)	0.93 (0.128)	0.91 (0.128)
Ethnicity [T.5. Other]	1.15 (0.234)	1.07 (0.312)	1.09 (0.233)	1.15 (0.233)
Ethnicity [T.PNTS]	1.29 (0.133)	1.47** (0.146)	1.27 (0.13)	1.29 (0.133)
Couple [T.2. Yes]	1.14** (0.05)	0.97 (0.051)	1.12* (0.05)	1.16** (0.049)
Couple [T.3. DK/PNTS]	1.09 (0.165)	1.03 (0.185)	1.07 (0.165)	1.07 (0.163)
Dependent children	1.22*** (0.022)	1.23*** (0.023)	1.22*** (0.022)	1.22*** (0.021)
Degree	0.62*** (0.047)	0.61*** (0.046)	0.61*** (0.046)	0.63*** (0.046)
Household income [T.£10-20k]	1.43** (0.109)	1.63*** (0.115)	1.43** (0.108)	1.39** (0.105)
Household income [T.£20-40k]	1.96*** (0.1)	1.71*** (0.107)	1.84*** (0.1)	1.96*** (0.097)
Household income [T.£40-60k]	1.93*** (0.106)	1.76*** (0.113)	1.79*** (0.105)	1.92*** (0.103)
Household income [T.£60-100k]	1.63*** (0.113)	1.48** (0.119)	1.5*** (0.112)	1.63*** (0.11)
Household income [T.£100k+]	1.56*** (0.113)	1.46** (0.12)	1.43** (0.112)	1.57*** (0.109)
Household income [T.DK]	0.95 (0.117)	0.91 (0.131)	0.9 (0.116)	0.92 (0.113)
Household income [T.PNTS]	1.33** (0.106)	1.15 (0.116)	1.22 (0.105)	1.3* (0.103)
Financial Knowledge [T.Moderate]	1.18*** (0.048)	1.12* (0.05)	1.14** (0.047)	.
Financial Knowledge [T.High]	1.04 (0.062)	0.99 (0.065)	1 (0.061)	.
Financial Knowledge [T.DK]	0.53 (0.337)	0.51 (0.414)	0.53 (0.337)	.
Mental health [T.2. Yes]	1.69*** (0.058)	1.63*** (0.061)	.	1.66*** (0.056)
Mental health [T.3. DK/PNTS]	1.09 (0.075)	1.07 (0.084)	.	1.06 (0.075)
Observations	18087	18087	18087	18329
Log likelihood	-7386.5	-6921.7	-7426.6	-7534.2

**Note: *** p<0.05; **p<0.01; ***p<0.001. Log odds were transformed into odds ratio for ease of interpretation (e.g. 1.58 is interpreted as a 58% increase in likelihood). Standard error in brackets.

As the sensitivity tests showed results consistent with the original model, we report the original results in the main report, except for couple status which appears to show a weak relationship and is not consistent across models.

The second set of regressions (reported in Table 2 below), on frequency of use of DPC, were binomial generalised linear models, weighted using the standard FLS frequency weights to be representative of the UK adult population. In addition to the original model, we also conduct four sensitivity tests:

1. An unweighted model

2. Excluding mental health from the model
3. Excluding self-assessed financial knowledge from the model

Table 2. Frequency of use of DPC within the 12 months to May 2022

	Original	Sensitivity tests 1-3		
	(0)	(1)	(2)	(3)
Intercept	0.23*** (0.238)	0.31*** (0.26)	0.33*** (0.222)	0.22*** (0.233)
Age	0.95*** (0.004)	0.95*** (0.004)	0.95*** (0.004)	0.95*** (0.004)
Sex [T.2. Male]	0.33*** (0.115)	0.34*** (0.133)	0.32*** (0.114)	0.33*** (0.113)
Sex [T.3. PNTS]	0.27 (0.714)	0.16 (1.013)	0.29 (0.714)	0.25 (0.714)
Ethnicity [T.2. Black]	1.07 (0.279)	1.62 (0.376)	0.96 (0.278)	1.07 (0.278)
Ethnicity [T.3. Asian]	0.54* (0.259)	0.52* (0.313)	0.5** (0.258)	0.56* (0.251)
Ethnicity [T.4. Mixed]	0.88 (0.284)	1.13 (0.307)	0.92 (0.282)	0.86 (0.284)
Ethnicity [T.5. Other]	0.56 (0.663)	0.89 (0.73)	0.52 (0.663)	0.56 (0.663)
Ethnicity [T.PNTS]	2.06** (0.264)	1.9* (0.311)	2.06** (0.254)	2.07** (0.264)
Couple [T.2. Yes]	0.93 (0.113)	0.94 (0.121)	0.9 (0.113)	0.94 (0.112)
Couple [T.3. DK/PNTS]	1.13 (0.352)	0.81 (0.47)	1.1 (0.352)	1.12 (0.352)
Dependent children	1.12* (0.05)	1.17** (0.052)	1.12* (0.051)	1.12* (0.05)
Degree	0.75** (0.111)	0.71** (0.114)	0.72** (0.111)	0.75* (0.111)
Household income [T.£10-20k]	1.06 (0.228)	1.15 (0.241)	1.05 (0.228)	1.2 (0.224)
Household income [T.£20-40k]	1.52* (0.205)	1.32 (0.223)	1.43 (0.204)	1.66* (0.205)
Household income [T.£40-60k]	1.38 (0.225)	1.2 (0.244)	1.26 (0.223)	1.49 (0.224)
Household income [T.£60-100k]	1.18 (0.247)	1.05 (0.262)	1.06 (0.245)	1.28 (0.246)
Household income [T.£100k+]	0.85 (0.265)	0.8 (0.285)	0.76 (0.264)	0.96 (0.262)
Household income [T.DK]	0.88 (0.238)	0.74 (0.27)	0.82 (0.237)	0.9 (0.237)
Household income [T.PNTS]	0.75 (0.237)	0.67 (0.266)	0.69 (0.234)	0.79 (0.236)
Financial Knowledge [T.Moderate]	1.12 (0.111)	1.02 (0.119)	1.07 (0.11)	.
Financial Knowledge [T.High]	1.17 (0.147)	0.93 (0.166)	1.11 (0.146)	.
Financial Knowledge [T.DK]	0.43 (0.912)	0.53 (1.026)	0.44 (0.911)	.
Mental health [T.2. Yes]	1.84*** (0.12)	1.67*** (0.131)	.	1.81*** (0.117)
Mental health [T.3. DK/PNTS]	1.27 (0.173)	1.16 (0.198)	.	1.25 (0.172)
Observations	18036	18036	18036	18276
Log-likelihood	-1815.4	-1579.2	-1827.7	-1852.4

Note: * p<0.05; **p<0.01; ***p<0.001. Log odds were transformed into odds ratio for ease of interpretation (e.g. 1.58 is interpreted as a 58% increase in likelihood). Standard error in brackets.

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