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Buy now pay later: the insidious societal debt cycle

Debt is not inherently bad, but it should come with a warning. The rise of the ‘Buy Now Pay Later’ movement as a means to afford everyday spending has evolved the world of credit – and while competition is good for customers, it weighs even more of the financial system towards credit.

Credit has been orchestrated as a cornerstone in how to ‘be an adult’. Even in today’s revolutionised financial landscape, there are still huge societal challenges that force (predominantly younger) generations into incremental debt cycles. Want the best rates for credit cards? You need a good credit score. Want to buy a house? You need a good credit score. Thinking about getting a loan to do up said house – you need a good credit score!

And the reason it’s been built this way is because traditional financial business models benefit from keeping you in debt.

> *Traditional banks encourage debt as it’s how they make their money.*

Banks profit from the money they ‘lend’ you and you have to borrow from the bank in order to reach everyday life milestones. We have created a system where, in most cases, you owe debts to the bank in order to get the mortgage for your house, the insurance for your car, or the credit score for basically everything. I’m not suggesting that all debt is bad – far from it in fact – but should it be so central to our ability to ‘adult’.

And for Gen Z specifically, this is probably something they’re already aware of. While millennials came of age during an economic boom, Gen Zers have been shaped by the economic pressures their families and communities faced, including rental markets, debts and the rising cost of living. They grew up watching their parents take huge financial hits during the recession, witnessing their struggles. As a result, financial mindedness is a trait many of the younger generations have internalised and they are driven by pragmatism and security.

Gen Zs therefore value the stability that comes with conservative spending habits, saving, having a stable job and making smart investments. In a recent Ernst & Young research report, Gen Zs were far more likely to spend with cash than with a credit card – this being said by a generation which never has cash. Their preference is to step away from credit wherever possible, and traditional financial players should take note. What would an under-leveraged financial ecosystem look like when the economic majority save more and borrow less?

The popularity of ‘buy now pay later’

So why is it that despite a desire to not get into debt, the likes of Klarna continue to boom? Buy now pay later (BNPL) now equates to more debt in Britain than that of ‘traditional debt’, including mortgages and car loans, which is exactly why the BNPL leaders don’t want traditional banking to change. Perhaps it’s due to the fact that according to *new research* in 2022, a third of Brits are actually unaware that BNPL is a form of borrowing and debt.

The BNPL players have changed the game with a brilliant business model that clearly gives customers a product they truly love. As a fintech founder hoping to support those who have been financially underserved, I aspire to do the same.

I have no doubt that the BNPL space will welcome tighter regulatory oversight. After all, looking after their customer interests reduces churn and increases the lifetime value of a customer. I believe it will be vital to install greater clarity around BNPL eligibility and to educate customers on what it means *before* they commit. It should be the job of the credit provider to ensure their customers are informed. They need to know what will happen if they don’t pay? What are the monetary costs associated with these *forms of debt* and what will be the impact on future credit? Currently this information is too obfuscated and improving this will only deliver a better user experience.

When providing any financial service affordability should be at the top of the agenda, and it's clear that this could and should be solved using smarter, better suited technology. Open banking is an obvious option. The important questions are can they afford this loan alongside outgoing payments and everyday spending, and how can we educate people effortlessly to stay within their means? How do we flag those that live in debt and how do we support them to extricate themselves from this mentally taxing cycle? I believe these are the questions that financial services providers have a duty of care to answer.

Our current financial system is not perfect but it has improved exponentially over the last 10 years. I would love to see more of a celebration, promotion and reward for people for spending within their means.

> *It cannot be good for society for individuals to get deeper into debt, to step further and further outside of what's financially possible and be lured into the dark depths of unhealthy debt.*

I've had my own experiences with debt and felt compelled to create something that would celebrate everyday spending and promote healthy spending habits and to pave the way for a financial future that doesn't have to exclusively rely on debt and credit scores.

At EVERYTHING, we're incentivising users to save frequently – to build up savings for larger purchases and to learn good financial habits. By reinventing the UK's most popular savings method, Premium Bonds, and adding a social twist that rewards and excites our users, we're giving everyone the chance to win instant cash rewards between £1 to £1M whenever they *tap*, spend or save their own money. To increase the chance of winning, they can invite their friends and family to their "Squads" where they can chat, complete challenges and games, access brand drops and celebrate winning together. Our app and Debit Mastercard will be launching later this year.

Michael Wilkinson is cofounder and COO at *EVERYTHING*.

Article by MICHAEL WILKINSON