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Credit reporting will level the playing field for Buy Now, Pay Later

From the consumer’s perspective, checkout finance and credit cards fulfil more-or-less the same function. They both allow the consumer to purchase an item through a short-term loan, which is repaid through monthly instalments.

Where they differ is in their benefits. When it comes to hard financials, checkout finance is the clear winner. While credit cards charge an average 21.4% APR, checkout finance offers 0% interest on repayments so long as the loan is paid back within a short time frame, usually around three to four months.

On the other hand, while checkout finance is used for one purchase at a time, credit card companies run on a revolving credit model that rewards regular users with points and other incentives. Checkout finance may therefore be easier to apply for, but consumers miss out on those extra benefits.

And this doesn’t just apply to airmiles and restaurant vouchers – it extends to points added to one’s credit score, too. Indeed, perhaps one of the greatest incentives to choosing a credit card is that a customer can use it to build their credit score. This has huge implications in other areas of their lives, such as when they apply for a mortgage or personal loan.

Since most providers of checkout finance – especially those at the lower end of the market, which more commonly goes by the name “Buy Now, Pay Later” or

BNPL – use only a soft credit check to approve borrowers and do not report details of their loans to credit reference agencies, BNPL shoppers miss out on this benefit.

Having said that, BNPL shoppers still face the jeopardy of losing points off their credit scores in the event they miss a payment or fail to pay back their loan. In other words, where credit reporting is concerned, BNPL carries all the risk with none of the reward.

Still, BNPL is surging in popularity, while consumer interest in credit cards is declining. This is especially true among the younger generation: only 2% of credit cards in the UK are now owned by 18–24 year olds, whereas *almost half of young adults* will have purchased something using Buy Now, Pay Later in the last 12 months.

This is exactly the demographic that could benefit most from building their credit. Young adults tend to have the lowest credit scores, are more likely to fall into debt, and yet are also in need of financial products such as mortgages. Without credit cards, they have very few opportunities to build their credit.

That's not to say they don't have an appetite for building credit. A survey by MoneySuperMarket found that one-third of young credit card holders in the UK took theirs out *specifically to improve their credit score*. Were BNPL to start reporting to credit reference agencies in the same way that credit card providers do, checkout finance would surely dominate the credit market, having one of the most fundamental benefits of credit cards while still being able to offer interest-free loans.

It is good news, then, that incoming government regulation arriving sometime around 2023–2024 will mandate that BNPL loans should be reported to credit reference agencies in a similar way to credit card transactions. While the nature of BNPL is such that the impact of responsibly paying back loans will not be as great as it is with credit cards, it is still a step forward.

Equifax, Experian and TransUnion – the three largest credit reference agencies – have already gone on record to say that they are willing and ready to start reflecting data from BNPL transactions on consumer credit files. And several Buy Now, Pay Later providers have already made in-roads to start credit reporting.

This is a positive first step, but we as an industry need to go much further. It is not enough to sit around and wait for the government regulation to kick in. Instead, we must be proactive and take steps to implement credit reporting from our own initiative.

This will of course be a big change in the way we run our businesses, but it is a step we will need to take sooner or later. The benefit of acting sooner is that we can help to improve perceptions of *Buy Now, Pay Later* for the benefit of both our merchant clients and our end-users.

As more and more people flock towards Buy Now, Pay Later, the opportunity is ripe. The marketing potential of being able to offer a cost-free way to build credit, in contrast to credit cards charging high APR, is plain to see. So too is the benefit to the industry's reputation. Thus far, a lack of regulation has made it all-too-easy for commentators in the media to tarnish this reputation.

At Divido, we are watching the development of credit reporting in checkout finance with great anticipation. We provide a platform that connects lenders with merchants at the point of sale – our roster of lenders is composed predominantly of Tier One organisations who already have mature approaches to credit reporting. We believe that when credit reporting becomes more comprehensive, we will see even greater growth in the sector, as customers start to use checkout finance specifically as a means to improve their credit.

Checkout finance has become popular for its quick and easy application process, its non-subscription based business model and its low barriers to entry. A lack of regulation has facilitated its fast growth, but has also exposed the industry to reputational damage. All that is about to change. Credit reporting is one of the most essential steps towards achieving this, and the benefits will be felt by all parties involved in a transaction – *the merchants, the lenders and of course the consumers*.

Now is the time to take action. Checkout finance providers must do what they can to get ahead of the regulatory curve and start to implement credit reporting within their own Buy Now, Pay Later programmes at the earliest opportunity.

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