

Buy Now, Pay Later explained

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Buy Now, Pay Later has become an incredibly popular way to shop, with millions of people in the UK regularly using the service to make purchases both online and in-store.

For some, it's a convenient way to buy what they like without waiting for next month's paycheck. To others, it's a gateway to money trouble, and a process the Financial Conduct Authority recently announced it would be regulating more tightly.

So what exactly is Buy Now, Pay Later, and what should you be aware of before using it?

In this guide, we'll explain:

- What Buy Now, Pay Later is
- How Buy Now, Pay Later works
- The risks involved in using Buy Now, Pay Later
- How you can use Buy Now, Pay Later more responsibly



What is **BUY NOW, PAY LATER?** (BNPL)

At its simplest, Buy Now, Pay Later operates exactly the way you might think. It's a way for people to purchase items online or in-store, and pay for those items at a later date.

First coming to prominence in the mid-2010s, the Buy Now, Pay Later model typically involves BNPL firms going into partnerships with popular retailers. When the customer arrives at the cash desk or online checkout, they can then select Buy Now, Pay Later as a payment option.

Millions of people in the UK now use BNPL as a way of purchasing goods and repaying over time, and market leaders like Klarna and Clearpay have a presence with most major retailers, from ASOS to Urban Outfitters.



68%

**of Creditfix customers
use Buy Now, Pay Later
to make purchases**

How does BNPL work?

Buy Now, Pay Later works by allowing you to spread the cost of your purchase over weeks or months rather than paying the entire amount upfront.

It works in much the same way as a mortgage. When you have an offer accepted for a house, you become the homeowner. You're free to live in it, modify it, and do as you please with it. But you haven't paid for it upfront - you pay for it over time, via monthly mortgage payments.

It's the same with Buy Now, Pay Later. Instead of paying full price for an item at the checkout or online, the BNPL provider pays the retailer for you. You then repay the provider in installments, whether that's over days, weeks, or months. And unlike a mortgage, there's no interest.

How it works

To buy a £90 coat with BNPL, you might pay:

- **£30 at purchase**
- **£30 after 30 days**
- **£30 after 60 days,**
clearing your balance

BNPL in numbers

In a recent survey of Creditfix customers...



70%

said they use Buy Now, Pay Later for household goods, while 57% said they use it to purchase clothes

14.5%

said they use BNPL most or all of the time when making a purchase

MORE THAN 10%

believe there is an unlimited time frame for them to repay for goods bought with BNPL

8.5%

think purchasing goods with BNPL works out cheaper than buying them outright

Are there risks to shopping with BNPL?

While Buy Now, Pay Later can be a convenient way to shop, there are risks attached if you don't fully understand what you're getting involved with.

Every BNPL firm has a different payment structure. Some like you to pay a portion at purchase and the rest in set installments. Others don't require you to pay a penny upfront, and give you a set period of time to clear your entire balance as you choose.

Confusion can lead to missed payments, and with missed payments, come fees. Most firms charge a fixed fee of between **£6 and £12** for every late payment, but some charge you twice per installment, leaving you with a double fee on top of the amount you owe for your purchase.



Buy now, pay later was trigger for mum-of-three

Ashley owed thousands of pounds using the service despite having a poor credit rating

Buy now, pay later provided Ashley* a sense of relief when she struggled to cover the cost of an unexpected household essential at short notice.

However, it soon became a much-needed crutch for the bipolar 34-year-old who found herself turning to the service when experiencing the extreme highs associated with the condition.

Before she knew it, Ashley owed £3,000 in debt thanks to buy now, pay later bringing the total amount she owed in various debts to £20,000.

Now the Nottingham woman is warning others not to get caught up in the “store card of our generation” and is encouraging those struggling with debt to find support.

“The thing for me is, I find using it easy,” the mum-of-three revealed.

“Being bipolar I get highs so when I’m online and they’re throwing it in your face that you can buy now pay later, it’s a trigger to spend more than I can afford.

Ashley initially applied to Pay Pal Buy Now, Pay Later to cover the cost of a cooker to keep food on the table for her young family but soon found herself splurging on new clothes using Clear Pay without giving repayment a second thought.

“I bought a cooker at first using buy now, pay later with Pay Pal, then a TV and before I knew it, I was making loads of little impulse buys like clothes using Clear Pay,” Ashley admitted.

“I didn’t even think about what I was going, it was just east to fill the basket. With the way it’s thrown at you, it’s a second thought to pay straight away because they’re advertising so much pay later.”

And while Ashley was happy at being able to spend using the service, in the back of her mind she was confused about how accessing the credit was so simple despite having a poor credit rating.

She added: “I didn’t have control to say no. With my credit rating being so rubbish I was shocked they even let me get into that situation.

“I don’t know if they do checks. I knew my rating was really bad, but I just made a log in like you would with anything else and they said right yes, you can use it and that was it.

“At the time that was happening I maxed out the Pay Pal then I moved to Clear Pay and a couple of others like Littlewoods. It was all at the same time. I kept thinking why they keep giving me this credit, my credit rating is really bad. I wasn’t expecting to be

accepted and I just tried, and it did.”

Ashley even admits that she was always more cautious spending on her credit card for fear of soaring interest than continuing to use buy now, pay later services.

“The thing is I was more careful with my credit card because I knew about the interest but a lot of buy now, pay later services are interest free and that makes you think it’s alright I can pay over four months. Whereas with your credit card you’re always aware that it’s really high interest and I always stay away from using it.”

Soon Ashley was struggling to put food on the table after paying £600 month towards her debt. Eventually she opened up to a friend who had recently entered an IVA and found the confidence to deal with her debt.

Now, thanks to Creditfix she pays just £100 towards her debt a month and feels that her life is finally under control.

“I pretty much had a meltdown. The debts weren’t going down because of the interest on other stuff like loans and I couldn’t see it changing. What I was paying was just not doing anything so that’s when I ended up sorting out my IVA.

“It’s completely changed my life since. I’ve got it under control and the process with Creditfix was so smooth.

“I feel like myself again. It’s taken the stress off me and helped me control myself more. I’ve got more to treat me and the kids, so I don’t feel the urge to get into debt anymore. I’ve got money there to get the clothes they need or whatever, it’s not getting me into any trouble. Whereas before I was always catching up because I was in debt I had to take more.”

Following her experience Ashley is warning others to be aware of the pitfalls of buy now, pay later schemes encouraging people only to use it if they have no other option.

“My advice would be make sure you can afford to pay it back later rather than doing it just on a whim, don’t do it on an impulse,” she said.

“If you need to use it and it’s short term help fair enough but I wouldn’t rely on it for the novelty just because you can. I think a lot of people do that.

“If you’re struggling to pay I’d say definitely get in touch with someone to talk about options. Struggling isn’t good in the long term it’s better to get help.

“It’s such a relief when you do get the help. It takes so much pressure off.”

How do I use BNPL responsibly?

While there are risks attached to using Buy Now, Pay Later, it doesn't have to be that way. When used responsibly, it can buy you some extra time to pay for a purchase, helps with cash flow, and won't cost you a penny extra.

It's important to remember that Buy Now, Pay Later is interest and fee-free - if you know how to use it. You will never be charged interest on your BNPL installments, and you will only encounter additional costs if you miss, or are late with, your payments.

That said, late fees are common among BNPL users, with 25% of Creditfix customers saying they've incurred fees and charges for missed payments. If you are going to use BNPL to make a purchase, make sure you follow the tips below.

Top tips for using Buy Now, Pay Later

Set a schedule:

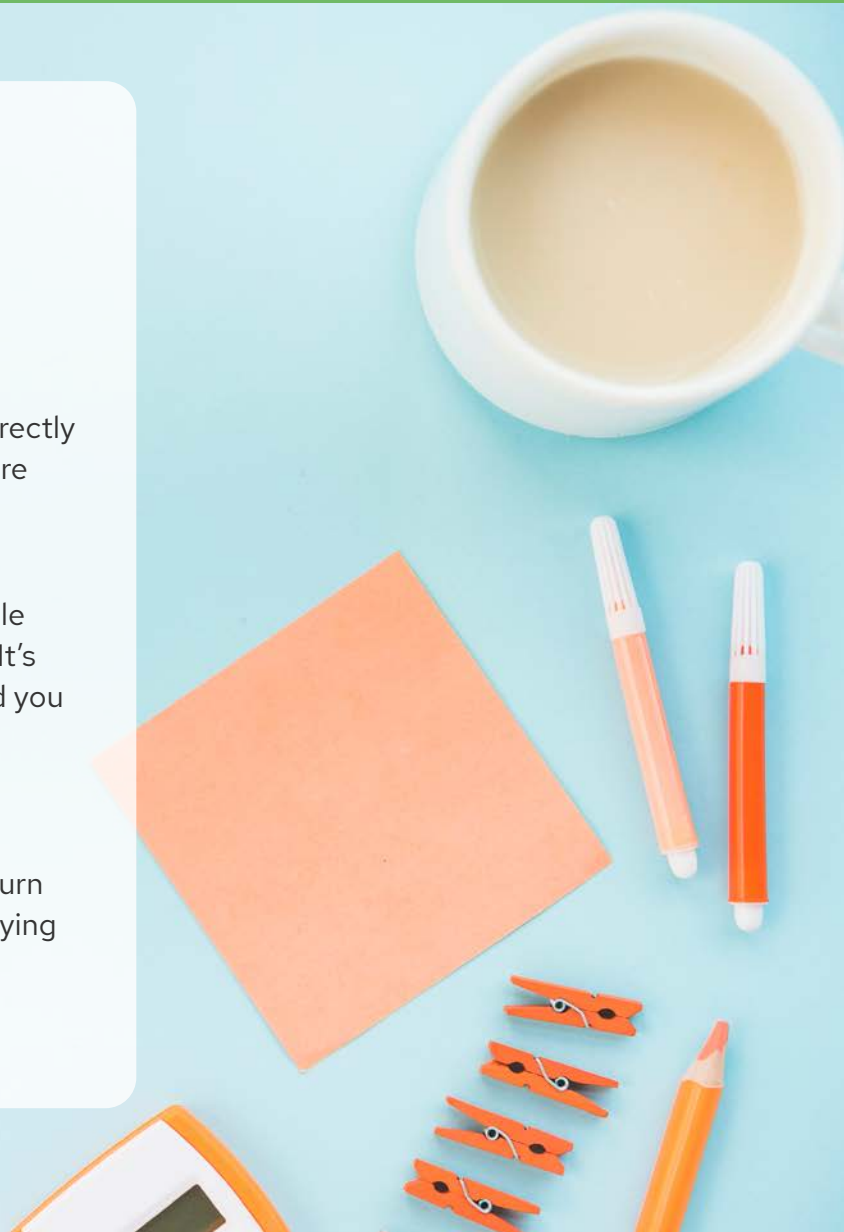
Each company has a different policy on installments, and most will take payments directly from your account, so set reminders to ensure you have enough to cover it.

Learn your late fees:

Some companies don't charge late fees, while others charge up to 25% of the order value. It's important to know what you're facing should you miss a payment.

Don't love it? Return it:

BNPL is not the same as a free wardrobe. If you've ordered a range of styles or sizes, return them quickly, or you could spend months paying for items you don't want.



Buy Now, Pay Later: Perception vs Reality

Perception



It's cheaper than buying outright



It allows me to afford high-value items



It's interest-free, so it won't affect my credit score

Reality

Items bought on BNPL will cost you exactly the same as items paid for upfront - unless you're late with a payment, in which case it could end up costing you more.

Although BNPL gives you more time to get money together, it won't help you afford expensive things. If you can't afford it now, will you be able to afford it later?

While BNPL purchases are interest-free, they can harm your credit. BNPL firms often file late payments with credit reference agencies, meaning they could be listed on your credit report for as long as six years.

If you've used Buy Now, Pay Later and you're struggling to repay your debts, complete our quick Debt Quiz to find out if you qualify for debt relief.