

March 2024

PROTECTING AND EMPOWERING CONSUMERS OF BNPL PRODUCTS

Best practices from a credit
referencing perspective



BNPL



ABSTRACT

This paper delves into the dynamic landscape of **Buy Now, Pay Later (BNPL)** services in Europe and their interaction with the European credit referencing industry, aiming to ensure comprehensive consumer credit protection. It explores the definition and characteristics of BNPL products, the growth of the BNPL industry in Europe, the introduction of new consumer credit regulations, and the pivotal role of credit referencing in safeguarding and empowering consumers using BNPL products.

Furthermore, the paper outlines a set of best practices that credit reference agencies (CRAs) aim to contribute, fostering a sustainable and well-informed landscape for BNPL and credit referencing activities. These practices are designed to protect and empower consumers and provide guidance to the European regulatory community.

1. The figure of 3% refers to EMEA and is referenced in Buy now, pay later: a cross-country analysis. BIS Quarterly Review | 04 December 2023 by Giulio Cornelli, Leonardo Gambacorta and Livia Pancotto
2. Where BNPL services providers have access to credit databases, so called "soft" credit checks are performed. Soft checks refer to income and recent payment history, whereas a hard check is a thorough examination of the full credit history, financial behaviour and outstanding debts, and affordability.
3. Center for Responsible Lending (2022): Comment Regarding the CFPB's Inquiry into Buy-Now-Pay-Later, March
4. <https://tech.eu/2023/04/18/bnpl-market-europe/>
5. <https://www.globenewswire.com/news-release/2022/02/21/2388448/0/en/Europe-Buy-Now-Pay-Later-Market-Report-2022-Fintech-Startups-are-Entering-the-BNPL-Market-with-Niche-Product-Offerings.html>
6. <https://satchel.eu/blog/key-trends-in-the-european-bnpl-market/>

DEFINITION AND CHARACTERISTICS OF BNPL PRODUCTS

Buy Now Pay Later (BNPL) is a short-term financial arrangement that allows customers to pay for their purchases at a future date, typically without accruing interest, rather than settling the full amount at the time of checkout. BNPL represents, therefore, a form of unsecured credit. Widely adopted by consumers, BNPL is particularly popular for online transactions on e-commerce platforms.

A standard BNPL transaction involves three key players: a merchant, a customer, and a BNPL services provider. Upon a customer's selection of the BNPL option at checkout, the services provider grants approval for a credit line. Subsequently, the provider disburses the entire purchase amount to the merchant, assuming the customer's credit risk. Customers may receive a single invoice with a term of between 30 to max. 54 days, depending on the provider or have the option of paying the receivable in instalments. In the latter case, customers make the initial instalment payment to the provider, with the remaining amount typically spread over 3-4 weekly or monthly instalments although options with more extended repayment periods exist. BNPL services providers generate revenue by charging merchants fees, usually around 3% of the purchase¹.

In a standard BNPL transaction:

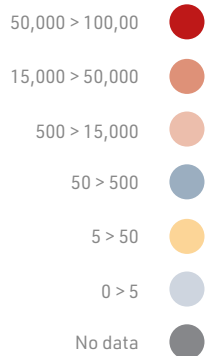
- Merchants benefit from the provision of BNPL services by encouraging higher average transaction amounts and reducing abandoned shopping carts. BNPL also alleviates the burden of underwriting credit risk independently.
- The BNPL provider acts as both a payment processor and lender. They pay the merchant at the time of the transaction, assuming the risk of non-repayment from the consumer. Revenue is generated through merchant fees. Late payment fees and penalties are also a significant revenue source for BNPL providers when customers fail to make timely payments.
- For consumers, BNPL allows them to make an upfront payment and split the total purchase into installments over a certain period. The process is further streamlined: compared with traditional consumer credit, BNPL credit is often extended based on no consumer information or less information². The process also requires minimal disclosure of personal information. Finally, BNPL credit is typically not communicated to CRAs and, consequently, does not affect a consumer's credit score³.

GROWTH AND ADOPTION OF BNPL SERVICES IN EUROPE

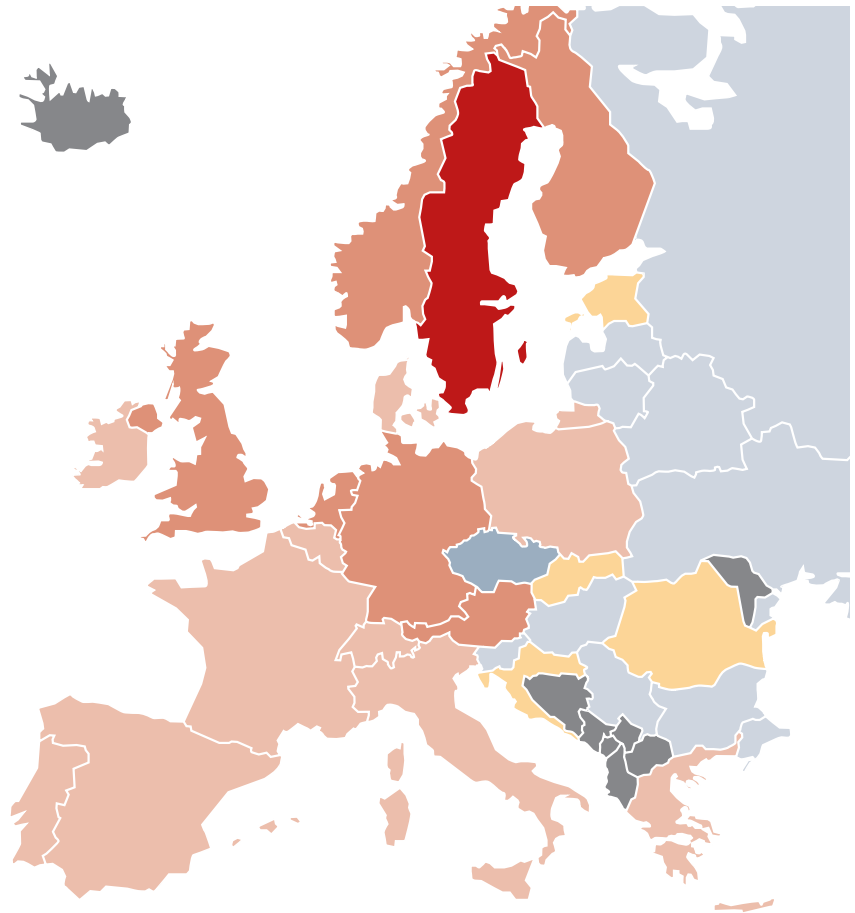
The European BNPL market has witnessed exponential growth in recent years, fuelled by several factors, including the rise of e-commerce and consumers' desire for flexible payment options. According to projections, the European BNPL market is poised to reach €300 billion by 2025⁴ and €803 billion by 2028, demonstrating a remarkable Compound Annual Growth Rate (CAGR) of 30.8% during the period 2022-2028⁵. Currently, Sweden, Germany, Norway, and Finland dominate the list of top BNPL markets⁶.

THE GRAPH BELOW SHOWS THE TOTAL NUMBER OF BNPL APPS DOWNLOADS FOR THE PERIOD AUG 2015–JUN 2023

BNPL DOWNLOADS PER 100,000 PEOPLE



per 100,000 people, based on population data for 2022⁷



E-commerce has been a significant catalyst for the adoption of BNPL services in Europe. By 2025, BNPL is projected to capture approximately

11%
of the European e-commerce market, up from **8.1%** in 2022⁸.

Prominent, independent players in the European BNPL market include Klarna, Floa, Afterpay, Scalapay, Alma, Billie, and Allegro Pay. Klarna is currently the dominant force in Europe, with 51% of BNPL users having used Klarna before and 47% saying it is their preferred provider⁹. Other important players are payment Processors with BNPL Services, such as Paypal and traditional banks and financial institutions.

NEW EU CONSUMER CREDIT REGULATIONS

Until recently, European providers have had the flexibility to offer BNPL products as non-consumer credit as they were exempted from the EU consumer credit regulations of 2008. Those regulations underwent a revision in 2023¹⁰, introducing the updated Consumer Credit Directive, commonly referred to as CCD II. This revision marks a significant step forward in enhancing consumer protection and modernising credit regulations.

A notable aspect of CCD II is its treatment of BNPL products. EU co-legislators observed that BNPL products often result in high costs or substantial compensation in the event of late or missed payments, despite giving the impression of having low or no costs. Additionally, lawmakers were

7. Buy now, pay later: a cross-country analysis. BIS Quarterly Review, December 2023
 8. <https://www.paymentsdive.com/news/bnpl-players-losses-grow-as-costs-soar/623068/>
 9. <https://www.electronicpaymentsinternational.com/news/buy-now-pay-later-on-the-rise-in-europe/>
 10. The CCD II was published in the EU Official Journal on November 30, 2023. See: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202302225

concerned that BNPL products might lead to hasty decisions by consumers, leaving them poorly informed about the credit conditions and potentially taking on financial commitments they cannot honour. Consequently, EU legislators opted for a more restrictive approach regarding the exemption of BNPL products from the 2008 Directive.



Under the new regulations, BNPL schemes where the creditor provides online credit to a consumer exclusively for purchasing goods or services from a supplier, allowing the consumer to pay overtime, must comply with EU regulations. This applies regardless of whether access to the BNPL product for consumers is interest-free or carries other charges.

Bringing typical BNPL products within the scope of EU regulations¹¹ implies that consumers, before accessing BNPL products, will undergo a creditworthiness and affordability assessment. This assessment is a crucial tool for consumer protection, ensuring that individuals access credit aligned with their financial capabilities, thereby reducing the risk of over-indebtedness, and promoting responsible lending practices among BNPL providers.

CCD II also underscores the essential role played by CRAs in maintaining the financial system's integrity. Recognising CRAs as vital for efficient credit assessment, risk management, fraud prevention, equitable credit access, and the promotion of responsible financial behaviour, CCD II lays the ground for credit databases run by credit referencing agencies to become a fourth key participant in typical BNPL transactions.

CREDIT REFERENCING: SOME BASICS

Credit referencing involves the collection, storage, and dissemination of credit-related information about individuals and businesses via databases. CRAs, also known as credit bureaus, serve as pivotal entities in this process. They facilitate a more complete credit assessment by collecting, maintaining, and providing credit-related data to lenders, calculating credit scores, and generating credit reports, and play a vital role in fraud detection and identity verification. The specific data collected and reported may vary among CRAs and jurisdictions. Stringent adherence to data privacy regulations and consumer protection laws ensures the responsible handling and reporting of credit data.

The European credit reporting market is heterogeneous, with each country often having its own CRAs and regulations. Some CRAs (CRIF, Experian, Creditinfo, Enento, etc.) operate across several countries.

¹¹. Only BNPL products offered by a seller of goods or services without the intervention of a third-party offering credit will be exempted, provided the deferred payment is free of interest and without any other charges except for limited charges for late payments in accordance with national law and payment by consumers is executed in a limited timeframe of 50 days from the delivery of the good or provision of the service. The period is shortened to 14 days for certain large online suppliers.

ROLE OF CREDIT REFERENCING IN PROTECTING CONSUMERS USING BNPL PRODUCTS

Credit referencing can play a critical role in protecting consumers who use BNPL products by providing BNPL providers with valuable insights into a borrower's creditworthiness and their ability to afford credit. By using credit referencing, BNPL providers can make more informed and accurate lending decisions about granting BNPL schemes. For other creditors, such as traditional banks or lenders, access to BNPL data can enhance their credit risk and affordability assessment. It provides additional insights into a consumer's borrowing and repayment behavior, helping creditors make more informed decisions about extending credit to all consumers.

SEVERAL ELEMENTS NEED TO BE CONSIDERED FOR AN EFFECTIVE, CONSUMER-CENTRIC INTERLINKAGE BETWEEN CRAS AND BNPL. THESE ARE:



1. Access to credit databases

Access to credit databases would allow BNPL providers to verify the identity of consumers and assess their creditworthiness. Access to credit databases and consumer reports requires signature of a contract or user agreement and payment of a membership/subscription fee.



2. Accessing entities

The EU-level obligation to assess creditworthiness concerns BNPL products offered by third parties. Those BNPL providers are expected to access credit databases. Although generally excluded from EU consumer credit regulations, merchants directly offering deferred payment solutions are effectively extending credit. It is not ruled out that those merchants may still become subject to similar creditworthiness obligations when EU rules are transposed into national law. CRAs encourage all entities providing BNPL solutions—regardless of whether they are third-party technology companies or merchants—to access credit databases.



3. Reporting of credit data

Consumers using BNPL products generate credit-related information, such as if they make repayments, which is an integral part of their credit history. This information should therefore be reported and kept in credit databases¹². Credit databases operate in accordance with the reciprocity principle: only data contributing BNPL providers that contribute credit data will be able to consult credit databases. The enforcement of the reciprocity principle ensures the integrity and completeness of a consumer's credit history.

12. By incorporating BNPL data into credit referencing, individuals such as young adults, immigrants, and those with limited credit history can be particularly benefited, as they can demonstrate their creditworthiness and access credit opportunities even in the absence of a "traditional" credit history.



4. Data reported

Comprehensiveness in the data reported helps paint a more complete picture of creditworthiness, giving all credit database users a fuller view to make credit decisions that protect consumers from over indebtedness and improve financial inclusion. BNPL providers should be encouraged to report information such as the account holder's identification details, the start and end dates of the BNPL account, the type of BNPL product (e.g., "pay-in-four" model, extended repayment periods), the credit limit or approved amount the outstanding balance, and the payment history. The reporting of both positive and negative data will ensure a comprehensive credit history for individuals using BNPL services and support responsible lending.



5. Reporting frequency

For traditional credit products e.g., a mortgage loan, reporting by creditors is usually done monthly. However, given the characteristics of BNPL products, this frequency is unlikely to reflect the needs of BNPL consumers. The credit reference industry and BNPL providers have to identify and agree on different reporting sequences. The goal should be to keep BNPL data as current as possible through regular bulk uploads (e.g. weekly) furnishing, while being mindful of the costs and resources required by BNPL providers and CRAs.



6. Inclusion of BNPL data in credit reports

BNPL data offers a more up-to-date reflection of an individual's payment behavior compared to traditional credit accounts. By including BNPL data in credit referencing, lenders can gain insights into an individual's ability to manage and repay short-term installment payments. CRAs should consider the best way BNPL data should appear within an individual's credit report, including whether it should appear as a separate section or category. The report may provide a breakdown of the BNPL accounts held, the payment history associated with these accounts and the current balances or amounts outstanding, for example.



7. Use of BNPL data in credit scores

Once data has been reported to credit databases and appears within an individual's credit report, CRAs will need to develop advanced risk assessment models and credit scores that specifically consider BNPL data. This should help CRAs accurately evaluate the creditworthiness of individuals who use BNPL services and better assist lenders in making informed lending decisions based on a broader range of credit information. As with other credit products, BNPL products' data can impact existing credit scores, both positively or negatively, depending on the individual's usage and repayment behavior, the credit scoring models used, and the specific practices of CRAs and lenders (see box).

HERE ARE SOME WAYS BNPL DATA CAN IMPACT CREDIT SCORES

1 Generally **POSITIVE** impact on credit scores

- **Diversification of credit mix:** BNPL can contribute to diversifying an individual's credit mix, which can positively impact credit scores as it indicates the borrower's ability to handle various credit products responsibly.
- **Enhanced credit history:** Responsible use, such as paying off BNPL installments as agreed, can contribute positively to creditworthiness. This history showcases the borrower's ability to handle short-term installment payments, which may be considered favorably by lenders.

2 Generally **NEGATIVE** impact on credit scores

- **Late or missed payments:** Late or missed payments on BNPL installments can indicate financial instability and may be seen as a risk factor by lenders and credit scoring models.
- **High credit utilization:** Utilizing a significant portion of the BNPL credit limit, especially across multiple BNPL accounts, can signal a borrower's heavy reliance on credit and potentially impact creditworthiness.
- **Defaults and collections:** Defaulting on BNPL payments or having accounts sent to collections can significantly harm credit scores and creditworthiness.



8. Regulatory compliance and data privacy

Data-sharing practices between BNPL providers and CRAs have to comply with applicable laws and regulations regarding data privacy and consumer protection, in particular the General Data Protection Regulation (GDPR). This is paramount to protect consumers as it covers:

- Accurate data reporting. GDPR mandates BNPL providers to furnish accurate data, ensuring credit reports precisely reflect a consumer's credit risk.
- Limited data use. BNPL providers are restricted to using consumer credit data solely for legitimate business purposes, such as underwriting.
- Secure data handling. Compliance with various regulations necessitates robust technical and physical security measures by both CRAs and BNPL providers, safeguarding sensitive financial information.
- Consumer access rights. GDPR grants consumers the right to review their data and dispute any errors directly with both BNPL providers and CRAs.
- Automated decisions. In the event of a BNPL credit refusal based on solely automated decisions, consumers, as per GDPR, retain the right to request reconsideration by a human reviewer rather than an algorithm.
- Transparency and dispute resolution. BNPL providers are required to maintain transparent policies on data sharing, offering clear information to consumers about how their data is shared with CRAs. Additionally, mechanisms should be in place to handle disputes and rectify any inaccuracies in data reported to CRAs.



9. Consistency with industry standards

With the help of CRAs, BNPL providers are expected to adhere to industry standards and guidelines when reporting and using data. This would ensure consistency and uniformity in reporting practices, enabling accurate assessment of creditworthiness by BNPL providers and fair treatment of individuals utilising BNPL services.

The key considerations outlined above for the effective collaboration between CRAs and BNPL providers offer prospective best practices aimed at safeguarding and empowering consumers of BNPL products, as summarized in [Annex I](#).

The credit referencing industry and BNPL providers have already initiated conversations and are starting to work together across different EU Member States to better protect and empower consumers of BNPL products.

THE BNPL CODE OF CONDUCT IN THE NETHERLANDS

Four prominent BNPL service providers in the Netherlands—Billink, Klarna, in3, and Riverty—have collaboratively established a comprehensive [code of conduct](#) aimed at enhancing the overall quality of their services. This code, effective since October 30, 2023, serves as a proactive measure in anticipation of upcoming regulatory changes. These leading providers encourage other BNPL entities to commit to the code as well.

One notable provision within the code, articulated in Article 7, emphasizes the responsibility of BNPL service providers. Co-signatories commit to refraining from offering BNPL services to consumers if there is a reasonable belief that such provision would be financially irresponsible given the respective consumer's financial capacity.

In anticipation of the revised European Consumer Credit Directive, the providers affirm their commitment to exploring the establishment of a registration system tailored specifically for BNPL

services. They express their dedication to investigating the feasibility of establishing a connection with Stichting Bureau Kredietregistratie (BKR), a prominent bank credit data database, to enhance their risk assessment processes (Article 17)

The Dutch Authority for the Financial Markets (AFM) has issued a [statement](#) acknowledging the code of conduct. The regulatory body notes that, currently, BNPL providers are not legally mandated to conduct income and expenditure audits or join the BKR. However, the AFM emphasises the necessity of preemptively consulting the BKR to avert problematic debts. Additionally, the statement asserts that BNPL arrears should be duly registered with the BKR. The AFM expresses a positive stance on the providers' initiative to research BKR connection, urging them to expedite the implementation of this endeavor to further enhance consumer protection and prevent potential financial challenges.

CONCLUSION

Balancing the growth of the BNPL industry with robust consumer protection and empowerment is paramount. This paper underscores the collaborative responsibility of BNPL providers and CRAs to create a secure and sustainable financial ecosystem for consumers.

Through thoughtful collaboration and adherence to evolving regulatory frameworks, the convergence of BNPL and credit referencing can empower consumers, expand credit access, and contribute to financial stability.



ANNEX I - BEST PRACTICES TO PROTECT AND EMPOWER CONSUMERS OF BNPL PRODUCTS

1. ACCESS TO CREDIT DATABASES

BEST PRACTICE BNPL providers should establish access to credit databases to verify consumer identities and assess creditworthiness.

→ *IMPLEMENTATION* BNPL providers should sign a contract or user agreement and pay a membership / subscription fee to gain access to credit databases and consumer reports. The agreement must align with permissible purposes defined by consumer privacy laws.

2. ACCESSING ENTITIES

BEST PRACTICE All entities providing BNPL solutions, including third-party technology companies and merchants, should access credit databases.

→ *IMPLEMENTATION* BNPL providers, especially third parties, should comply with EU-level obligations to assess creditworthiness. Merchants offering deferred payment solutions should consider accessing credit databases to meet potential future creditworthiness obligations.

3. REPORTING OF DATA

BEST PRACTICE BNPL providers should report BNPL data to credit databases.

→ *IMPLEMENTATION* CRAs should enforce the reciprocity principle, ensuring that only data-contributing BNPL providers can access credit databases to verify consumer identities and assess creditworthiness. The enforcement of the reciprocity principle guarantees the integrity and completeness of a consumer's credit history.

4. COMPREHENSIVE DATA REPORTING

BEST PRACTICE BNPL providers should report comprehensive data on customer payment activities.

→ *IMPLEMENTATION* BNPL providers' reporting should cover identification details, account dates, credit limits, outstanding balances, and payment history. Both positive and negative data should be reported to ensure a comprehensive credit history.

5. REPORTING FREQUENCY

BEST PRACTICE BNPL providers and CRAs should agree on reporting sequences that keep BNPL data in databases as current as possible.

→ *IMPLEMENTATION* BNPL providers and CRAs should identify and implement reporting sequences that balance the need for current data with the costs and resources required by both BNPL providers and CRAs. Regular bulk uploads or near real-time furnishing should be considered to keep BNPL data current.

6. INCLUSION OF BNPL DATA IN CREDIT REPORTS

BEST PRACTICE CRAs should consider how BNPL data is presented in credit reports, potentially as a separate section detailing account breakdown, payment history, and outstanding balances.

→ *IMPLEMENTATION* CRAs should design credit reports to accurately reflect an individual's payment behavior with BNPL services.

7. USE OF BNPL DATA IN CREDIT SCORES

BEST PRACTICE CRAs should develop advanced risk assessment models and credit scores that specifically incorporate BNPL data.

→ *IMPLEMENTATION* CRAs should implement credit scoring models that account for the impact of BNPL data on credit scores, both positively and negatively.

8. REGULATORY COMPLIANCE AND DATA PRIVACY

BEST PRACTICE Data sharing practices between BNPL providers and CRAs should comply with applicable laws and regulations, including GDPR.

→ *IMPLEMENTATION* BNPL providers and CRAs should collaborate to ensure adherence to GDPR / other data protection requirements for accurate data reporting. They should ensure strong technical and physical security measures to protect sensitive financial information. Within their respective responsibilities, BNPL providers and CRAs should provide consumers with access rights, transparency, and effective dispute resolution mechanisms.

9. CONSISTENCY WITH REPORTING STANDARDS

BEST PRACTICE BNPL providers, in collaboration with CRAs, should adhere to industry standards and guidelines for reporting and using data.

→ *IMPLEMENTATION* BNPL providers should follow industry standards to ensure consistency and uniformity in reporting practices, fostering accurate creditworthiness assessments and fair treatment of BNPL users.

These best practices aim to ensure a secure and standardized framework for the interaction between BNPL providers and CRAs, prioritizing consumer protection and empowerment, data accuracy, and regulatory compliance.

ACCIS is the voice of organisations responsibly managing data to assess the financial credibility of consumers and businesses. Established as an association in 1990, ACCIS brings together more than 50 members from countries all over Europe as well as associates and affiliates across the globe.

For more information, you may visit WWW.ACCIS.EU

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