

Consumer Morsel

Buy now, pay later: Spreading the pay(n)?

02 May 2024

Key takeaways

- Adoption of buy now, pay later (BNPL) is slowing year-over-year (YoY), with the share of Bank of America customers with a BNPL payment increasing by only half a percentage point (pp) in March 2024 compared to a one pp increase the previous year.
- Millennials comprised the largest share of BNPL households in March, followed by Gen Xers, according to Bank of America internal data. Overall, nearly half of households that used this payment method in March 2024 earned less than \$50K per year.
- Households with heavy BNPL usage appear to have higher levels of total credit and debit card retail spending relative to March 2019, but the fact that these households are a small share of the total population may limit tailwinds to consumer spending.
- Lower deposits and rising average credit card balances for medium to heavy BNPL users might pose an increasing risk. Although undersized credit card balances and slowing BNPL adoption may temper these risks.

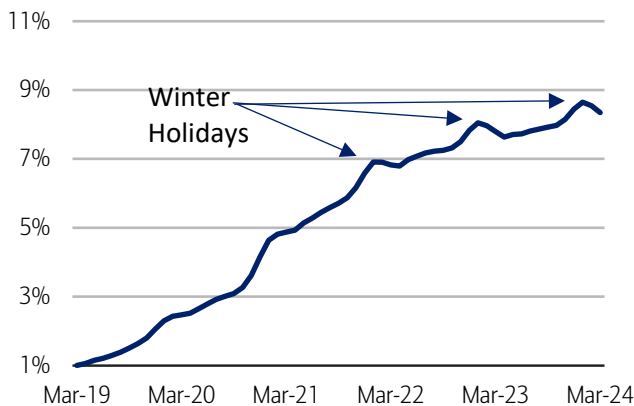
Buy now, pay later adoption is slowing after gains during the pandemic

What exactly is buy now, pay later? It allows consumers to make payments for goods or services over time and pay only portion of the total price upfront. The most common model is “pay-in-four,” in which the consumer foots 25% of the transaction value upfront and makes three subsequent 25% payments every two weeks. Other forms include installment plans, often used for larger purchases, and longer period schemes, some with potential interest and fixed finance charges.

A payment method largely used online, BNPL experienced significant growth during the pandemic when brick-and-mortar shops were mostly closed. Since then, however, the trend has slowed. In March 2024, year-over-year (YoY) growth in the share of Bank of America customers with a BNPL payment, mostly via a debit or credit card or automated clearing house (ACH), rose only half a percentage point (pp) compared with a one pp increase in March 2023 and a nearly two and a half pp increase in March 2021 (Exhibit 1). A payment could be an initial payment, subsequent payment, or loan repayment to buy now, pay later firms.

Exhibit 1: The March 2024 YoY growth in the share of customers with a BNPL payment decelerated compared to March 2023, with adoption slowing nearly fourfold compared to March 2021

Share of Bank of America customers with a BNPL payment (3-month moving average, %)

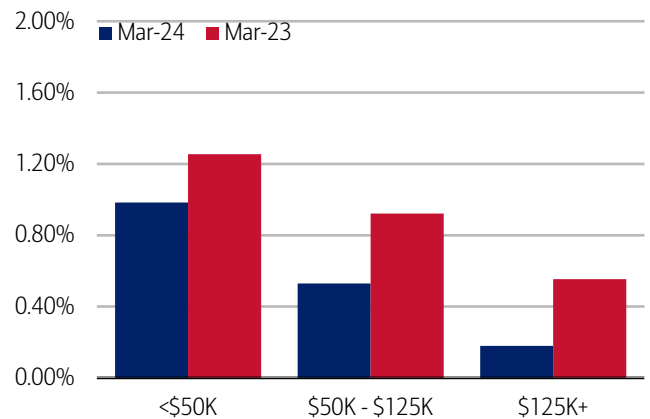


Source: Bank of America internal data

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Exhibit 2: March 2024 YoY growth in the share of customers with a BNPL payment slowed across all income cohorts, but was most pronounced for households earning \$125K+

YoY change in the percentage share of Bank of America customers with a BNPL payment by household income (3-month moving average, %)



Source: Bank of America internal data

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Internal Bank of America data shows that adoption was weaker across all income cohorts over the past year, but the slowdown was especially prominent for households with incomes greater than \$125K (Exhibit 2). The year-over-year (YoY) increase in share for that group was less than 0.2 percentage points, dropping more than threefold from the previous year, likely indicative of higher discretionary income.

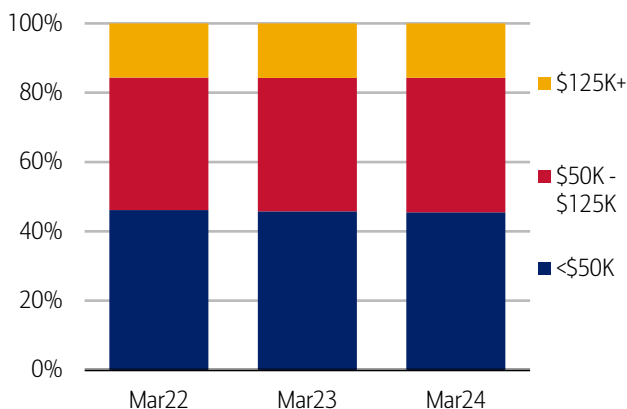
Millennials, lower- to middle-income households are among biggest BNPL users

Nearly half of households that used BNPL in March 2024 earned less than \$50K per year (Exhibit 3), according to internal Bank of America data. The second-largest cohort was middle-income households, those earning between \$50K and \$125K, annually. These shares have been relatively stable over the last three years.

Bank of America internal data also shows that Millennials comprised the largest share of households with a BNPL payment as of March 2024 (Exhibit 4). That was followed by Gen X and Gen Z; however, Gen Z-led households have been increasing their share of BNPL households compared to March 2022.

Exhibit 3: Households earning <\$50K annually make up the largest proportion of BNPL users as of March 2024

Share of BNPL users by household income (monthly, %)

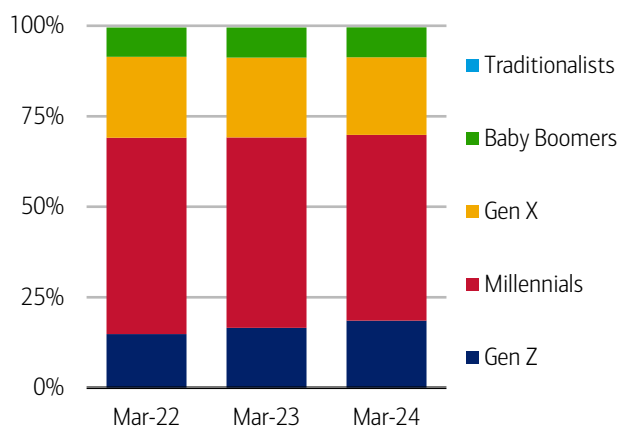


Source: Bank of America internal data

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Exhibit 4: Millennial households comprise the largest cohort of BNPL users

Share of BNPL users by age generation (monthly, %)



Source: Bank of America internal data

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Share of “heavy” use BNPL households has increased

While overall BNPL usage is decelerating, internal Bank of America data shows that the share of households with heavy usage has increased every year since 2022.

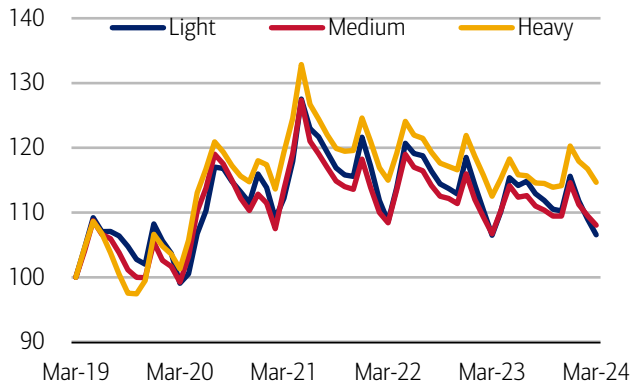
Using internal Bank of America data, we examined the number of BNPL payments per month and analyzed households by frequency of use. Among our findings: debit and credit card retail spending by households with 20 or more BNPL payments per month, our proxy for “heavy” usage, has risen 15% since 2019 (Exhibit 5).

Furthermore, we define “medium” BNPL use as 10-19 payments per month and “light” as 1-9 BNPL payments per month. Over the last year, internal Bank of America data shows that medium and light BNPL use households’ aggregated credit and debit card retail spending appears to be decelerating relative to March 2019, while heavy BNPL use households remains elevated and steady.

What does this mean for overall US consumer retail spending? Given that the heavy use BNPL cohort remains less than half a percent of total households (Exhibit 6), in our view, the broader impact is likely limited.

Exhibit 5: Bank of America credit and debit card retail spending per household is higher for heavy users of BNPL, relative to March 2019

Total credit and debit card retail spending per household by BNPL usage level per month (3-month moving average, indexed to March 2019 = 100)

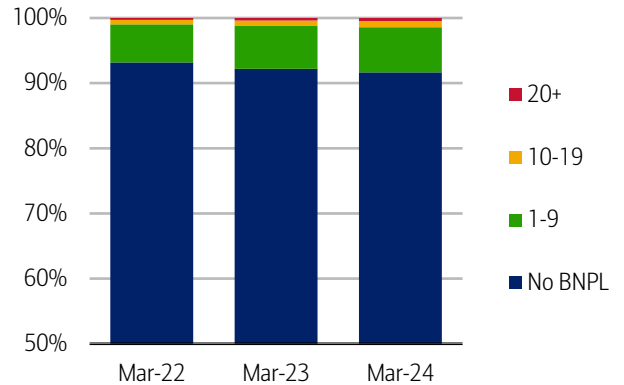


Source: Bank of America internal data

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Exhibit 6: Heavy users of BNPL make up a growing, but very small, portion of Bank of America customers at less than half a percent as of March 2024

Share of Bank of America households by BNPL usage (3-month moving average to March, %, yearly)



Source: Bank of America internal data

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Risky business? BNPL households have lower deposits and rising credit card balances

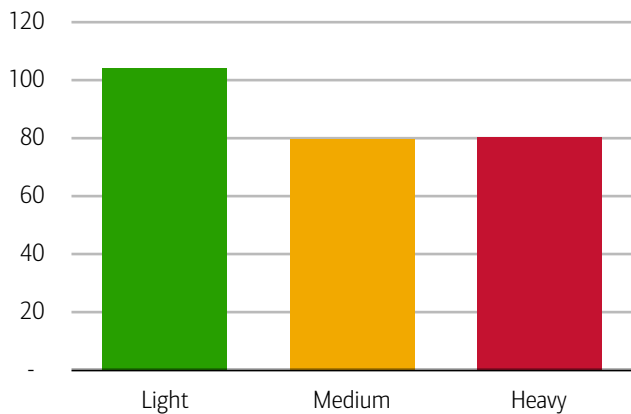
According to a 2023 global analysis by the Bank of International Settlements, buy now, pay later payments may induce customers to make purchases or spend more than they otherwise would have.

Looking for evidence of this in internal Bank of America data, overall, we find that the average deposit per household is generally lower for those that use BNPL. In our view, this is largely because such households skew both younger and with a lower income. Yet, households that are heavy users of BNPL also had lower average deposit balances as of March 2024, than light users (Exhibit 7).

Perhaps more significantly, while internal Bank of America data shows that average credit card balances have been increasing from 2021 through March 2024, they've been rising faster for medium- and heavy-use BNPL households since mid-2021 (Exhibit 8). So there appears to be some evidence that BNPL users, particularly heavy users, may have a less robust financial position than the average household.

Exhibit 7: Average deposits are lower for heavy BNPL users relative to the average BNPL deposit balance

March 2024 average deposit balances per BNPL usage (3-month moving average, index to average BNPL deposit balances = 100)

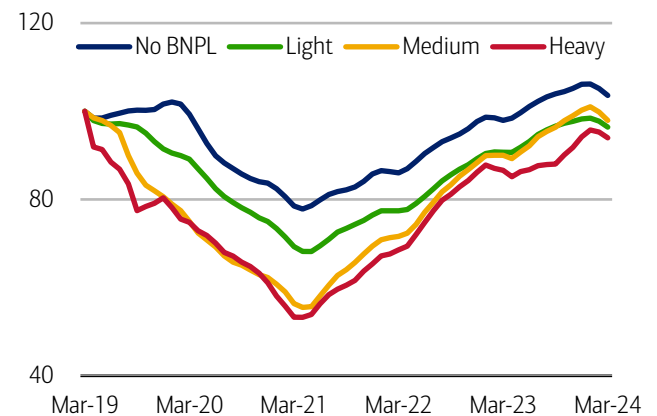


Source: Bank of America internal data

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Exhibit 8: Average credit card balances relative to March 2019 have been increasing since mid-2021, but are increasing quicker for medium to heavy BNPL users

Average credit card balances per BNPL usage (monthly, index to March 2019 = 100)



Source: Bank of America internal data

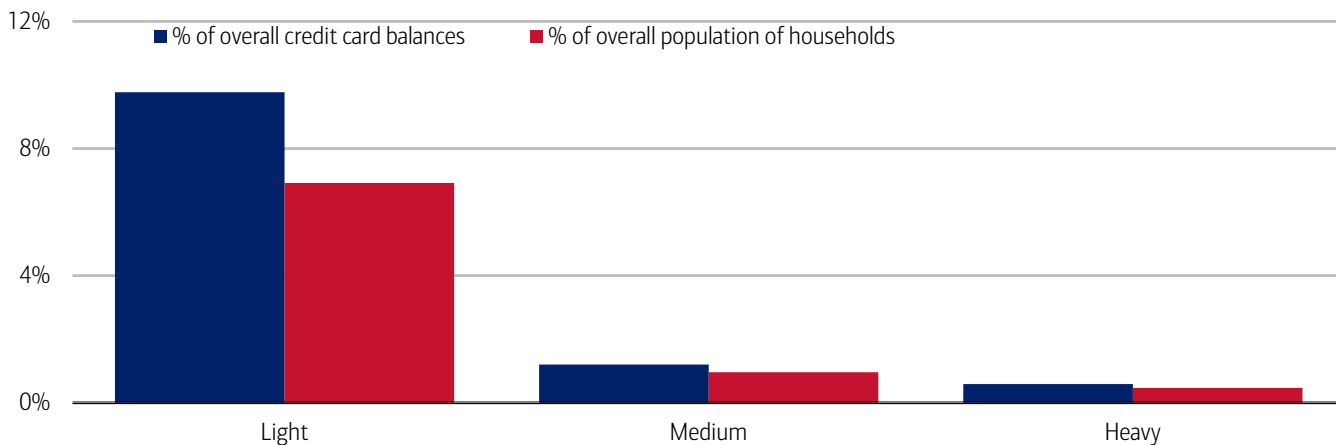
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It is important, however, to note that BNPL users make up a small share of overall credit card balances. Exhibit 9 shows that the percentage share of overall credit card balances for households with medium- or heavy- use of BNPL are a very small percentage of overall credit card balances, according to internal Bank of America data. This undersized share of overall credit is likely due to the small percentage of households with medium and heavy users of BNPL.

Therefore, in our view, although heavier use of buy now, pay later may be associated with greater individual consumer risk, smaller shares of overall credit card balances combined with slowing adoption of the payment method, likely limits the overall risk to consumers and the wider economy.

Exhibit 9: The aggregate credit card for households with heavy or medium use of BNPL are a very small percentage of overall credit card balances, likely reflecting their smaller share of the population

March 2024 percentage share of overall credit card balances compared to the overall share of total households per BNPL usage category (3-month moving average, %)



Source: Bank of America internal data

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Methodology

Selected Bank of America transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

If mentioned, total payments include total credit card, debit card, ACH, wires, bill pay, person-to-person, cash and checks. The payments data represents aggregated spend from Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. All exhibits with internal Bank of America data are based on households that have a deposit account.

BNPL payments are analyzed across credit card, debit card, ACH, wires, bill pay, person-to-person, cash and check channels, where applicable.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1996
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalists: pre-1946

Additional information about the methodology used to aggregate the data is available upon request.

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Sources

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Disclosures

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