

Buy now pay later: what is it and how does it work?

Are you one of the millions of shoppers who has already taken advantage of buy now pay later (BNPL)? Perhaps this is a concept that you have heard of, but you are unsure how it works. In this article, we will be sharing all that you need to know about BNPL so that you can decide if it is the right option for you.

[Recent figures](#) have revealed that there are some 5 million people in the UK who have accessed buy now pay later services. Often seen as providing quick access to credit, the providers of these services have lent an astonishing £2.7 billion between them. This is a figure that is only set to grow, with the BNPL industry expanding by around [39% each year](#).

When looking at buy now pay later as an option, consumers need to know exactly what it involves. Does it really offer cheap borrowing and quick access to credit? Are there any watch-outs to be aware of? Read on to find out.

What is buy now pay later?

Buy now pay later, in simple terms, is fairly self-explanatory: it allows you to purchase goods now and to pay for them later. When it comes to checking out with a retailer, rather than paying them directly, you opt to use one of the BNPL providers. These providers then pay the retailer directly and you then owe them this amount.

Rather than having to pay for goods straight away, BNPL allows you to spread the payments. This is usually over the course of weeks or months. This allows people to access goods that they perhaps can't afford to pay for in one go. However, the likes of Klarna also offer a pay now service which sees you pay the balance in full when checking out.

The main providers of buy now pay later in the UK are:

- Klarna
- Clearpay
- Laybuy

When checking out online, you will often see these options listed as ways to pay. You may also see a new service offered by PayPal known as 'Pay in 3'. There is also a new offering from Monzo which has seen it become the first bank to enter the BNPL market.

The BNPL options that are available to you will depend upon the retailer that you are shopping at. Some retailers will offer one provider whilst others may have chosen to partner with all of them. To give you a feel of the number of retailers that you can choose from, Klarna alone partners with over 6,500 retailers.

We have, so far, only referred to BNPL as an online option. This was certainly the case when these providers first entered the market. However, that has now changed. It is possible to use buy now pay later providers while shopping in bricks and mortar stores too.

How does buy now buy later work?

If you decide that buy now pay later is the right option for you, then you'll need to apply to a provider first. When it comes to checking out for the first time, and you select one of the BNPL providers, you will be sent to a short application form. This will ask for basic information such as your name, address and date of birth.

The provider that you are trying to use will then carry out a check on you. This is partly done to confirm your identity, but it also looks at your credit file. The important point to note here is that this is a soft credit check as opposed to a hard one. This means that it doesn't leave a footprint that other lenders can see.

The application process is extremely fast and this is what makes BNPL convenient. It allows quick access to credit that, even with the application process, can see you checking out in a matter of moments. Of course, when your account has been approved, future checkouts are even faster.

With an account set up, you are given a credit limit that you can spend up to. This is usually in the hundreds of pounds rather than the thousands that you may be able to access with a credit card. When you make a purchase, the amount of the purchase comes from the balance that is available to you.

Your purchase is paid for by the BNPL provider and you then agree to repay them the full amount. With Klarna, this sees monthly payments being made. Laybuy charges you weekly whereas Clearpay takes fortnightly payments. This is seen as cheap borrowing as there are no fees for you to pay to access, and use, the credit: the companies make money by charging the retailers.

Who uses BNPL, and why?

With buy now pay later offering a cheap borrowing option, it is perhaps unsurprising that it is a popular service. [Figures show](#) that some 37% of Brits use BNPL. It appears that it is particularly popular with millennials, with 54% of this generation using buy now buy later services.

BNPL is great for people who are looking to manage their cash flow. If they know that an item is affordable, just not all in one go, then BNPL allows them to go ahead and make the purchase that they want. Spreading the payments means that buyers are left with more money in their banks when they need it.

The draw of buy now pay later for some people is the ease with which you can make returns. If you are buying clothes, as an example, it may be that these don't fit or look quite as you had expected. As you have not paid the full amount yet, there is no need to wait for an age for refunds to be made if you return the items.

BNPL can be used to purchase almost anything that you can think of. While its popularity began with clothing, you can now use it for tech devices, jewellery, and even groceries.

Are there are any downsides to buy now buy later?

While the appeal of cheap borrowing and quick access to credit may be welcomed, there are some downsides that are worth being aware of. These include:

BNPL is unregulated

This is something set to change, but, as it stands right now, there is no regulation of the market. Also, when it comes to paying a BNPL company with a credit card, you are not covered by valuable [Section 75 protection](#). However, it is still possible to pursue a chargeback if you are unhappy with a purchase.

Temptation

With quick access to credit, it is often worth stopping and asking yourself if you really need the purchase. Being able to access so quickly, and cheaply, means that there is the temptation to buy for the sake of buying.

Late fees and credit scores

It is worth remembering that BNPL is still a form of credit so you should only borrow what you can afford to repay. Missed or late payments can be reported to credit reference agencies and they can also incur late payment fees.

Key takeaways

While buy now pay later has its advantages, you need to be sure that you don't end using it inadvertently. Often, BNPL is set as a default option so you'll possibly need to remove this before you check out. If it is your chosen method, be sure not to overspend just because you have the option to pay later.

Be careful with how much you are borrowing. While this is a cheap form of borrowing, missed payments will see you being charged fees and cause damage to your credit file. Also, remember that you are not afforded the same consumer protections that you would be if you were buying directly from a retailer.

It is always worth remembering that there are other options available to you. It could be that an overdraft or a credit card is more suited to the type of borrowing that you want. Buy now pay later is often limited to short timescales and smaller amounts of money.

Recent figures - <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>

39% each year - <https://www.finextra.com/blogposting/20478/looking-beyond-the-buy-now-pay-later-hype>

Figures show - <https://www.finder.com/uk/buy-now-pay-later-statistics>

Section 75 protection - <https://www.moneysavingexpert.com/reclaim/section75-protect-your-purchases/>