



Pilot Study: Buy Now Pay Later Services in Canada





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Introduction

A key component of the Financial Consumer Agency of Canada's (FCAC's) mandate is to monitor and evaluate trends and emerging issues that may have an impact on consumers of financial products and services¹. Technological innovations in financial services and shifting consumer behaviours have resulted in a steady increase in retail e-commerce sales over the past several years, and the COVID-19 pandemic has had a significant impact on how consumers make retail purchases. Retail e-commerce sales reached record levels during the pandemic.² This has further contributed to the proliferation of buy now, pay later (BNPL) services in Canada.

BNPL services include a wide range of credit arrangements. Generally speaking, these services are a type of consumer credit, similar to instalment loans. However, traditional instalment loans have typically been used for larger-scale purchases (for example, home appliances paid over 4 years), with consumers generally subject to lengthier in-store application processes. Many modern BNPL services can be accessed almost instantly online at the point-of-sale (and, in some cases, in-store), and can be used to pay for a much broader (and less expensive) range of products and services than before, including clothing, household essentials, groceries, entertainment, travel, and so on. Similar to instalment loans, these services allow consumers to purchase goods and services immediately, and either defer their payments for a period of time, or spread them out into equal, smaller instalments. In Canada, these services can generally be grouped into two categories; online BNPL services³, which are mainly used to make purchases online at the point-of-sale, and BNPL services that are linked to the use of a credit card.

¹ Financial Consumer Agency of Canada. (2021). About FCAC: <https://www.canada.ca/en/financial-consumer-agency/corporate/about.html>

² Statistics Canada. (2021). Retail e-commerce sales (x 1,000). <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2010007201&cubeTimeFrame.startMonth=03&cubeTimeFrame.startYear=2020&cubeTimeFrame.endMonth=07&cubeTimeFrame.endYear=2021&referencePeriods=20200301%2C20210701>

³ Throughout this report, the term "Online BNPL services" is used primarily to refer to online "fintech"-enabled BNPL services used at the point-of-sale, but it may include a small number of users where a credit card-based BNPL service was used online.



Important information about the research for this report

For this pilot study, the Financial Consumer Agency of Canada contracted the services of EKOS RESEARCH ASSOCIATES INC. to conduct public opinion research into Canadians' use and understanding of BNPL services. The goal of this research was to broaden the Agency's understanding of the BNPL market in Canada, from the perspective of Canadian consumers. A survey was conducted with 1,034 Canadians 18 years of age or older. Among these respondents, the sub-sample of actual users of buy now, pay later services consisted of 66 people. Of these 66 people, 20 individuals also participated in follow-up interviews conducted by EKOS. Given that most of the findings presented in this report are drawn from the small sub-sample of actual users (66 people), these early findings should not be generalized to Canadians at large. Therefore, unweighted percentages and frequencies are used throughout this report for clarity. To inform the content of this report, FCAC also conducted a literature review, consulted with other relevant federal and provincial financial regulators and stakeholders, and examined similar international experiences with BNPL services.

For access to the full methodological report and data tables (which use weighted percentages and unweighted frequencies), please visit [Library and Archives Canada](#).

Key findings

Who is using buy now, pay later services?

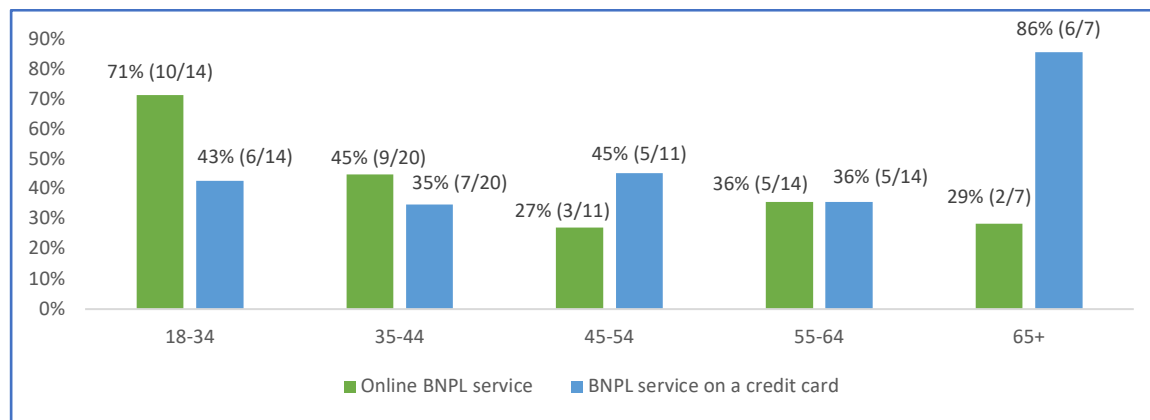
Among the Canadians surveyed in this body of research, 34% (347 out of 1,034) indicated that they were familiar⁴ with these services, and 8% (66 out of 806)⁵ indicated that they had used at least one BNPL service during the survey reference period, from September 2019 to March 2021.

Use of these services did not differ between male and female respondents. Overall, users tended to be younger, with the largest group being 18 to 44 years of age. Although short of statistical significance, the type of service used did appear to differ across age groups (Figure 1), particularly with respect to credit card-enabled services. Younger users, 18 to 34 years of age, appear more likely to have used an online service, whereas older users, those 65 and over, appear more likely to have used a credit card-based service.

⁴ This figure (34%, or 347 out of 1034) combines survey responses where respondents indicated they were "familiar" or "very familiar" with BNPL services.

⁵ 806 survey respondents (respondents who indicated that they had "never heard of" BNPL were excluded from the survey question) were asked whether they had used at least 1 BNPL service from September 2019 to March 2021, and 8% (66 out of 806) said "yes."

Figure 1. BNPL service types used by age group



Reasons for using a buy now, pay later service

The most common reasons for having used a BNPL service were:

- “to help me budget” at 42% (28 out of 66)
- “I couldn’t afford the entire purchase right away” at 39% (26 out of 66)
- “to avoid interest and fees” at 23% (15 out of 66)

For those who participated in follow-up interviews, a common motivation for using the service was that it made payments more manageable, and sometimes helped bridge a “timing gap” where a sudden need or opportunity arose and the user did not have the funds available at the time.

Of the 347 respondents who indicated that they were familiar with these services, 287 had not used one. Of those 287 respondents, 74% (213 out of 287) stated that they would not consider using a BNPL service. The most common reasons given were that they “prefer other payment methods” at 50% (106 out of 213) and “don’t need the credit” at 49% (105 out of 213).

Frequency of use

With respect to frequency of use, 59% of users (39 out of 66) indicated that they had used a BNPL service only once from September 2019 to March 2021, and 8% (5 out of 66) indicated that they had used a BNPL service more than 5 times during the survey period.

Among BNPL users, 41% (27 out of 66) indicated that they had used such a service more than once. Of those 27 users, 26% (7 out of 27) indicated that they had used the service through 2 or more different providers, and 44% (12 out of 27) had to make 2 or more scheduled BNPL payments at the same time.



Table 1. Frequency of use of BNPL services [by users/ active users]

Have used BNPL services...*	Number of users (out of 66)	Have used BNPL services more than once and...*	Number of users (out of 27)
Only once	39	Have used services from 2+ providers	7
More than once	27	Made 2+ scheduled BNPL payments at the same time	12
More than 5 times	5		

*During the survey period of September 2019 to March 2021

Amount spent using buy now, pay later services

Traditional instalment loans are generally used for larger purchases, such as appliances and furniture. BNPL services allow instalment loans to be used for a much broader range of goods and services than before, and for smaller purchase amounts.

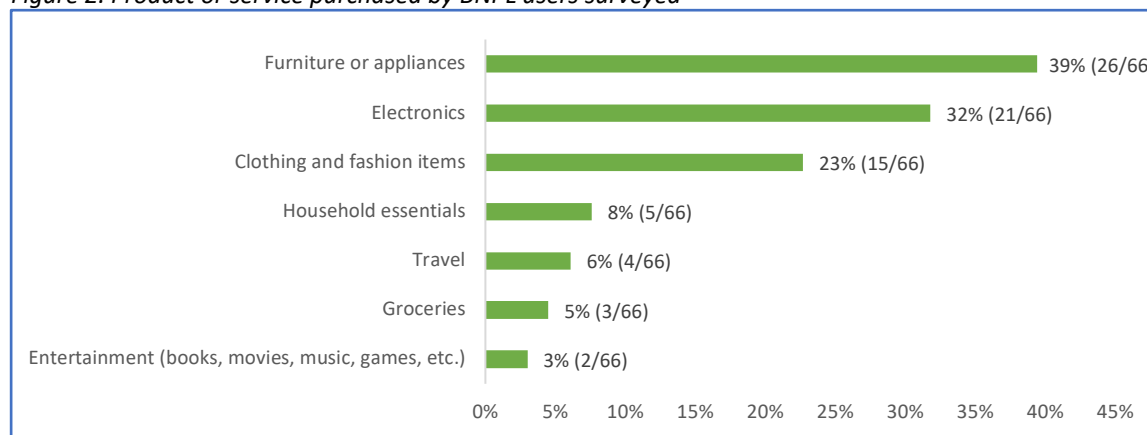
When asked about their last purchases, 74% of BNPL users (49 out of 66) said they spent more than \$200, 15% (10 out of 66) said they spent between \$100 and \$200, and 11% (7 out of 66) spent less than \$100.

When BNPL users were also asked what impact, if any, using a BNPL service had on the amount they spent, 20% (13 out of 66) indicated that they had spent “a bit more” or “much more” using a BNPL service than they would have if they had not used it.

Purchases made by buy now, pay later users

The most common items purchased using a BNPL service included furniture or appliances at 39% of users (26 out of 66), electronics at 32% (21 out of 66), and clothing and fashion items at 23% (15 out of 66). However, BNPL services were used to purchase a broad range of products and services (Figure 2).

Figure 2. Product or service purchased by BNPL users surveyed





Buy now, pay later service payments

Regarding payments, 42% of BNPL users (28 out of 66) made their scheduled payments through a credit card, while 30% (20 out of 66) made their payments through a linked bank account. Of the 41 users who had already paid off their purchases in full, 95% (39 out of 41) reported that they had made their payments on time.

However, 15% of users who made their payments on time and in full (6 out of 39) reported having to make unfavourable financial trade-offs such as delaying the payment of another bill, incurring an overdraft on their bank account, borrowing money from family or friends, exceeding their credit card limit, cutting back on essentials or taking out a loan or cash advance.

Understanding of buy now, pay later features and characteristics

Many BNPL users reported that certain features were difficult to understand. Notably, 44% of users (29 out of 66) found it difficult to understand the potential impact on their credit score, 36% (24 out of 66) found it difficult to understand how to resolve a potential dispute, and 21% (14 out of 66) found it difficult to understand the penalties or interest charges for missed or partial payments.

Key observations

BNPL services, like other forms of credit, can serve an important and sometimes necessary function for some consumers. Those that offer zero-interest point-of-sale credit can be a particularly cost-effective way to borrow money and make payments for goods and services quickly and conveniently through familiar channels, such as retail e-commerce. These services can also help certain consumers budget and smooth out expenditures, particularly during periods of economic hardship or uncertainty.

However, there are risks that merit further exploration to help mitigate potential consumer harm and negative outcomes. The most important of these are the risks of over-borrowing and over-indebtedness, as linked to the psychological and behavioural biases that may make BNPL products and services attractive to consumers. Other risks to explore are the impact of these services on financially vulnerable Canadians, the impact of missed payments on consumers' overall financial well-being, the level of consumer understanding of key BNPL features, the impact of these services on users' credit scores, and BNPL dispute resolution processes. In particular, many BNPL users surveyed for this study found the latter two difficult to understand.

Conclusion

Buy now, pay later services in Canada are evolving rapidly. The data collected for this research suggest that for the majority of BNPL users surveyed, the experience of using such a service was positive. At the same time, these data also point to potential risks that warrant further research and examination.



Next steps for FCAC

1. FCAC will continue to monitor the evolution of the BNPL market in Canada. Building on the findings and observations from this pilot study, the Agency will conduct targeted follow-up research on BNPL services in Canada. This will serve to develop a more comprehensive understanding of how Canadians are using these services and will help ensure that Canadians can maximize the benefit and utility of these services while minimizing (and, where possible, eliminating) potential negative consumer outcomes.

Through this additional research, FCAC will seek to determine whether the findings from this pilot study can be generalized to the broader Canadian population, and will seek to:

- understand how financially vulnerable Canadians use and interact with BNPL services
 - identify the circumstances under which consumers experience negative outcomes associated with the use of these services
 - evaluate the dispute-resolution processes for BNPL services
 - examine the regulatory environment for BNPL service providers operating in Canada
2. FCAC will monitor the evolution of the BNPL market internationally through continued engagement with its international counterparts.
 3. FCAC will seek to coordinate with relevant provincial and territorial financial oversight authorities to help support, to the extent possible, the sharing of insights and expertise and the harmonization of approaches to oversight.
 4. FCAC will continue to provide consumers with access to timely, effective, and unbiased educational information on BNPL services to foster responsible use of BNPL services.