



Buy Now, Pay Later

A study of a new market trend



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Summary

Consumers are increasingly seeing the option of 'Buy Now Pay Later' (BNPL) when making online purchases. This allows them to defer payment to 14 or 30 days after delivery or to pay in 3 instalments. BNPL is not subject to consumer credit legislation, as long as it is offered against insignificant charges and repaid within three months. At EU level, it is currently being negotiated whether BNPL should be brought within the scope of the Consumer Credit Directive (the CCD), and if so, how BNPL should be regulated.

BNPL appears to be an addition to the existing offer of payment services for both consumers and retailers. This is also evident from the growth in the number of transactions and the number of customers of BNPL providers in recent years.

Reasons why retailers use BNPL

Increasing sales is the main reason for online retailers to offer BNPL. Customers often abandon the purchase at the moment of payment. The promise behind BNPL is that a smooth purchase process, with the option of full or partial deferral of payment, will lead to more and/or more expensive purchases. A partnership with a known BNPL provider can also increase customers' confidence in a webshop. For these benefits, retailers pay a fixed fee for the use of BNPL and a variable fee per transaction of up to 4% of the purchase amount.

Reasons why consumers use BNPL

The benefits of BNPL for consumers are flexibility, certainty and convenience. The service is either free or against a small fee, as long as the consumer pays the BNPL provider on time. According to the AFM Consumer Monitor, the main reasons why consumers opt for deferred payment are: certainty that the order is complete and satisfactory, wanting to see the actual products first and not having to pay for orders that will be returned. At the same time, there are also consumers who use BNPL for financial reasons or even because of financial necessity. The AFM Consumer

Monitor shows that 16% of consumers use BNPL to determine the timing of payment themselves, and 7% do not have sufficient funds in their account at the time of the purchase.

Normalising deferred payment and debt habituation

BNPL might change the social norm of saving first and paying immediately for a purchase. Purchasing via BNPL is highly convenient. BNPL enables consumers to immediately enjoy the purchase without the negative association with the payment. BNPL could change the norm of waiting to order a product until the consumer has enough money to pay for it. Deferred payment is becoming the norm, and this contributes to debt habituation. The AFM sees this as undesirable and as a social issue.

The risks of BNPL

The four risks that the AFM identified in this study concern the provision of information, the acceptance process, arrears management, late payment fees and the revenue model. The most serious risk that this study revealed is that BNPL may contribute to debt problems of consumers who are financially vulnerable. This concerns a small proportion of all consumers using BNPL.

Unclear information provision

In retailers' ordering process, the terms and conditions of BNPL and information about late payment fees are not automatically displayed when a consumer completes an order. In most cases, customers have to first click on a link to access this information. The information on late payment fees in the terms and conditions is usually written in legal language, and the amount of these fees is not always stated. The AFM also notes that BNPL providers advertise with notions such as 'free of charge' and '0% interest'. As a result, consumers may be surprised by having to pay relatively high fees if they fail to pay on time.



Irresponsible lending and debt accumulation

BNPL providers use certain acceptance criteria to determine whether they will offer BNPL to a customer. Some providers apply these criteria to every transaction, while others use them to set a customer's spending limit. BNPL providers obtain information on matters such as a consumer's housing situation, bankruptcy, debt restructuring, guardianship or death from public data sources and track the payment behaviour of existing customers. They are not, however, legally obliged to check a consumer's income, expenditure or debt. Most providers are not affiliated with the Credit Registration Agency¹ (*Bureau Krediet Registratie*, or BKR). Since BNPL providers do not collect and verify information on the income, expenses and debts of their customers, there is a real risk that they will offer BNPL to consumers who are already overindebted or will become overindebted as a result.

If a consumer misses a payment, only one provider will temporarily pause the option to use BNPL for that consumer. Not pausing the possibility of using BNPL for consumers who do not pay on time, or only pausing this possibility when they are handed over to a collection agency, leads to the risk that the consumer will (continue to) accumulate debts.

Possibly unlawful late payment fees

BNPL products are exempt from consumer credit legislation if they are repaid within three months and against insignificant charges. BNPL products the AFM included in this study have to be repaid within three months. The study also shows that several BNPL providers impose fees on their customers if they fail to pay on time. These fees are only lawful if they qualify as collection charges within the meaning and scope of the Collection Charges Act (*Wet Incassokosten*, or WIK). If this condition is not met, BNPL will fall within the scope of credit legislation and be subject to supervision by the AFM.

Risk of perverse incentives in the revenue model

The AFM notes that the revenue model varies from one BNPL provider to another. All the providers receive income from their partnerships with retailers, but some providers also earn income from late payment fees. Income from late payment fees amounts to up to 40% of the total income of these BNPL providers. Late payment fees exceed the actual costs incurred by providers and are, therefore, profitable and a significant part of the revenue model. This means that the current revenue model of these BNPL providers includes incentives that are contrary to the customer's interests.

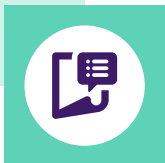
Good practices in arrears management

While BNPL providers are not legally obliged to offer solutions to customers in arrears, all the providers participating in this study state that they at least offer the possibility of payment deferral for customers in arrears. Besides payment deferral, some BNPL providers also offer payment holidays, payment arrangements and write-offs. Since BNPL providers have limited information on their customers' financial position and do not establish with certainty whether a BNPL product is suitable for an individual customer, the AFM welcomes the fact that they offer solutions to customers in arrears. The AFM notes that the best practices in this context consist of offering more than one solution and offering solutions such as payment arrangements and write-offs, as these are solutions that can help both consumers with temporary and structural financial problems.

The AFM favours regulation

The European Commission has proposed that BNPL should be regulated within the CCD. If BNPL falls within the scope of the CCD, BNPL providers will have to meet various requirements with respect to the provision of information, creditworthiness assessment and arrears management. Given the risks of BNPL, the AFM considers it necessary to enhance that protection of consumers using this product through regulation of BNPL.

¹ In the Netherlands, all regulated consumer credit loans above 250 euro must be registered in a single credit database – the BKR – which is an independent non-profit foundation established by Dutch banks and financial service providers in 1965. This is a condition for obtaining an AFM-license.



01 Introduction

1.1 Rationale behind the study

Consumers are increasingly offered the option of paying for their online purchases with a 'Buy Now, Pay Later' (BNPL) payment service. Some webshops have their own BNPL service, but most of them work with specialised providers. Some of these providers, such as Klarna and Afterpay/Riverty,² operate in multiple countries, while others, such as Tinka and In3, are currently operating in the Netherlands. Market researchers foresee significant growth of BNPL services in the Netherlands in the coming years. Whereas around 8% of purchases are now paid for using BNPL, some market researchers expect this percentage to grow by as much as 30% per year.³

With BNPL, consumers defer payment of their purchase until after delivery. They can also choose to pay in instalments. In addition to this flexibility, BNPL gives consumers the convenience (and security) that they will pay only for what they receive and decide to keep. Some providers offer the service entirely free of charge, while others charge a small fee.

BNPL also involves risks. The ease with which consumers can purchase products without having to pay for them immediately, and the way in which BNPL plays into (unconscious) human tendencies, could lead consumers to scrutinise their purchases less critically than if they had to pay immediately at checkout. There is thus a risk that consumers will purchase more than they can afford. If consumers have to obtain credit in order to finance their purchase, they might reconsider it, even if they can finance it.

² On 4 October, Afterpay changed its trade name to Riverty.

³ This is an estimate of the market research agency Research and Markets in 'Netherlands Buy Now Pay Later Business and Investment Opportunities Databook' Q3 2022.

Due to the rapid growth of BNPL and the risks it poses, several countries are currently examining whether BNPL needs to be regulated in a similar way to consumer credit.⁴ At the EU level, the European Commission proposed to regulate BNPL within the Consumer Credit Directive⁵ (CCD), which is currently under review (see next section). These developments prompted the AFM to explore BNPL in greater detail.

1.2 New regulation on the way

BNPL falls within the definition of consumer credit as stated in Article 3(c) of the CCD and Article 1:1 of the Financial Supervision Act (*Wet op het financieel toezicht*, or Wft) because it is a form of financing for the purchase of goods or services. However, most BNPL providers use the exception in Article 2(2)(f) CCD and Article 1:21(1)(e) Wft, which states that the CCD and the Wft do not apply to financial services repaid within three months and against insignificant charges. In June 2021, the European Commission proposed that this exception should be removed from the CCD. This would mean that the various provisions of the CCD would also apply to BNPL providers. They would then become subject to supervision of the AFM and would have to comply with legal requirements regarding (among other things) information provision, creditworthiness assessment and arrears management. No decision on this proposal has yet been made.

⁴ For instance, in Australia and the United Kingdom.

⁵ Directive 2008/48/EC of the European Parliament and the Council on consumer credit agreements (Consumer Credit Directive/CCD).



1.3 Objective of the study

The aim of this study is to obtain insight into BNPL products and their provision in the Netherlands. We are interested in learning more about the consumers who use BNPL and their reasons for using BNPL. We also want to gain better understanding of the potential risks of this new financing form. For example, how do young people use BNPL? They are more likely to be financially vulnerable, as they have not had time to build up financial buffers.⁶ With a better understanding of BNPL, the AFM also aims to contribute to the debate on possible new regulation of BNPL in Europe and prepare for it.

1.4 Reading guide

This report concerns a study of BNPL: a relatively new financial product that is growing in popularity in the Netherlands. **Section 2** describes the main features of the product and the BNPL market based on information from supervisors in other countries, which already studied this market. Additionally, we present the results of a consumer research that the AFM has commissioned to gain insight into the use of BNPL in the Netherlands.

The AFM's consumer research mentions five BNPL providers (AfterPay,⁷ Billink, In3, Klarna and Tinka). We included these five providers in this study. We mapped the customer journey of these BNPL providers and shared our insights into consumer behaviour in **Section 3**. The AFM understands that BNPL caters to a clear need of consumers shopping online: it offers a payment option that is provided either free or against a small fee and is smooth and frictionless. But this payment option involves risks as well. We explain these risks in **Section 4**. We look into, for instance, market practices regarding the treatment of consumers in arrears, late payment fees and the impact these fees have on providers' revenue model. In our analysis, we rely on information we obtained from BNPL providers through an information request and interviews.

Finally, we present our main conclusions in **Section 5**.

⁶ Dutch Youth Institute, 28 October 2020 (<https://www.nji.nl/nieuws/aantal-jongeren-met-betalingsproblemen-groeit>).

⁷ On 4 October, Afterpay changed its trade name to Riverty.



02 The market landscape

2.1 The BNPL concept

What is BNPL?

BNPL providers make it possible for consumers to defer payment of their purchases (either partially or in full) until after delivery. This can be done in several ways:

- o *Pay later*: the consumer pays the full amount once they he decided to keep the ordered goods or services, for instance within 14 or 30 days of delivery. Deferred payment is either free of charge or against a small fee, as long as the consumer pays on time.
- o *Payment in three instalments*: the consumer pays in three instalments. The first instalment is paid at the time of the purchase, and the outstanding amount is spread over the remaining instalments. Payment in three instalments is either free of charge or against a small fee, as long as the consumer pays on time.
- o *Spread payment*: consumers apply for a revolving credit against payment of interest and service charges and repay the principal flexibly or in fixed instalments.

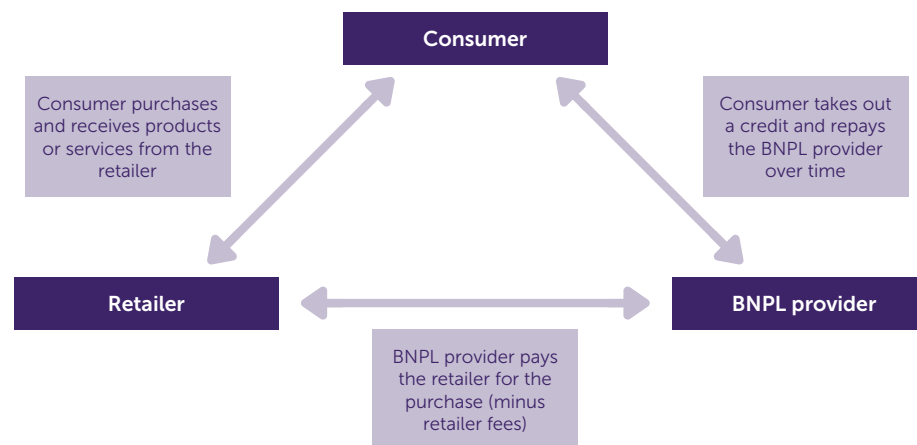
This last option, *Spread payment*, is a form of regulated consumer credit. The first two options rely on the exemption in the Wft mentioned in Section 1.2. Not all the providers offer all three services, and some offer only one of them.

Consumers use the *Pay later* option mostly for smaller online purchases, with an average purchase amount of less than €100.⁸ Consumers use the *Payment in three instalments* option for more expensive purchases, with an average amount of around €500.⁹ The number of brick-and-mortar shops offering BNPL is also increasing.

This study focuses on the online channel, and the information that the AFM requested from BNPL providers shows that the number of online shops offering BNPL as a payment option has increased by about 40% from 2020 to 2021.

If a consumer chooses BNPL when making a purchase, the retailer delivers the product to the consumer and receives the money from the BNPL provider. The consumer enters into an agreement with the BNPL provider, as shown in Figure 1 below.

Figure 1. Diagram of a BNPL agreement



8 The answers of BNPL providers to our information request show that the average purchase amount in 2020 was €96, and in 2021 €95.

9 The answers of BNPL providers to our information request show that the average purchase amount in 2020 was €481, and in 2021 €497.



Existing studies of the BNPL market

Deferred payment or payment in instalments is not new. What is new, however, is the rapid growth of BNPL specifically. This development has also prompted other supervisors to investigate the market for BNPL. Supervisors in Australia, the United Kingdom and the United States have previously published studies regarding their respective BNPL markets.¹⁰ These studies show that BNPL providers successfully engage with and retain consumers by offering a smooth shopping and purchasing experience. Consumers can use mobile apps to order and pay quickly and easily. In this regard, BNPL is proving to be an important alternative to credit cards.¹¹

Studies that other supervisors conducted mention various reasons why consumers use BNPL:¹²

- The ability to view the product before paying for it (try-now-pay-later);
- No problems with refunds after returns;
- Temporary additional financial capacity;
- No need to use a credit card or give other personal details;
- BNPL bears the risk of an unreliable or fraudulent webshop.

The main reason why retailers offer BNPL as a payment option is its ability to increase sales. Many consumers abandon a purchase at the moment of payment. Since BNPL defers the time of payment and provides a smooth purchase process, this leads to more purchases and/or more expensive purchases. In return, retailers have to pay to 4% of the purchase amount to BNPL providers as commission for the use of BNPL. This commission is the primary, or in some cases the only, source of revenue for BNPL providers. Consumers either do not pay for the use of BNPL or pay a small fee.¹³ If a consumer fails to pay on time, most BNPL providers charge a penalty (usually referred to as administration costs, reminder fees or late payment fees). Studies show that these penalties are an important source of revenue for some BNPL providers.¹⁴ We address this topic further in Section 4.

10 These are the ASIC in Australia, the FCA in the UK and the CFPB in the US.

11 CFPB 2022 'Buy Now, Pay Later, Market trends and consumer impacts'.

12 See e.g., ASIC 2018 [Review of buy now pay later arrangements](#); FCA 2021 [The Woolard Review](#).

13 See e.g., [Mollie tariffs overview: pay per transaction only](#).

14 See [ASIC 2018](#), [ASIC 2020](#) and [CFPB 2022](#).

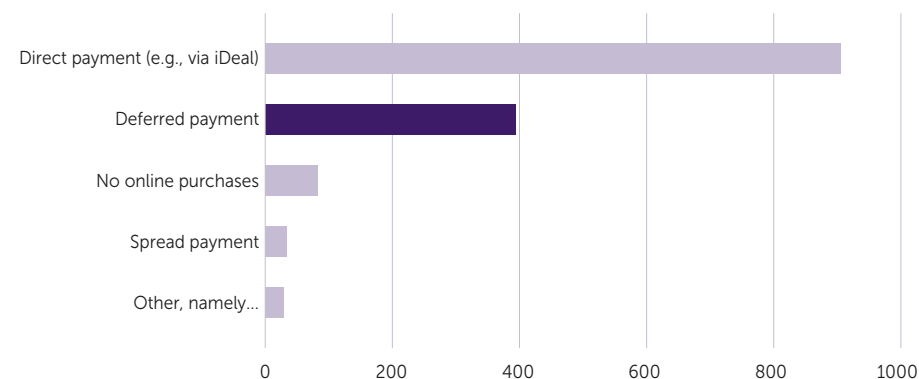
Besides for the purpose of increasing sales, online retailers in the Netherlands offer BNPL as a payment option in order to satisfy their legal obligation to enable partial payment.¹⁵

2.2 The supply in the Netherlands

The providers

Online shopping is growing rapidly. The volume of online payments has sharply increased in 2021. Both the amount of transactions (+14%) and expenditures (+20%) increased. However, the number of payments at the till is still ten times the number of payments to webshops.¹⁶ The information that BNPL providers shared with the AFM shows that the number of BNPL transactions is growing rapidly, with an increase of 35% in 2021.

Figure 2. Payment method(s) used for online purchases in the past 12 months



Source: AFM Consumer Monitor Spring 2022

15 When shopping online, consumers have the right to pay at least half the due amount upon delivery. Online retailers are legally obliged to offer this option.

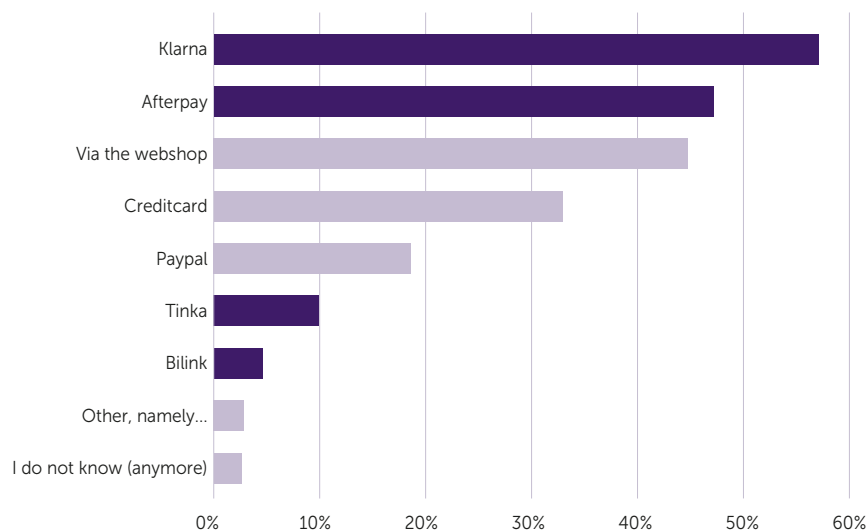
16 Annual report of the Dutch Payments Association <https://www.betaalvereniging.nl/wp-content/uploads/Jaarverslag-Betaalvereniging-Nederland-2021.pdf>.



The AFM commissions the research institute Centerdata to conduct online consumer surveys twice a year. This gives us greater insight into the reasoning and behaviour of consumers in the financial markets. We posed several questions to over 1,000 respondents on how they pay for online purchases. The answers are listed in Figure 2. Out of the 1,000 respondents involved, almost 400 stated that they had used the option to defer their payment at least once in the past year, and 34 stated that they had used the option to spread their payment at least once.

We asked the respondents who used the deferred payment option to state exactly which methods they had used. Consumers mentioned BNPL providers Klarna (57%) and Afterpay (47%) most frequently. Consumers also mentioned other providers, such as Tinka (10%) and Billink (4%), as shown in Figure 3.

Figure 3. Deferred payment method(s) used for online purchases in the past 12 months



Source: AFM Consumer Monitor Spring 2022

2.3 The demand in the Netherlands

The users

The information that BNPL providers shared with the AFM shows that the number of customers is growing rapidly. In 2021, the number of customers increased by 18%. As shown in Figure 4, consumer research shows that the use of deferred payment is not linked to any age group specifically. This method is only less popular among people aged 65 or more.

Figure 4. Age distribution of deferred payment users

Age	Deferred payment
18 to 34 years	29%
35 to 49 years	29%
50 to 64 years	25%
65 years and over	17%

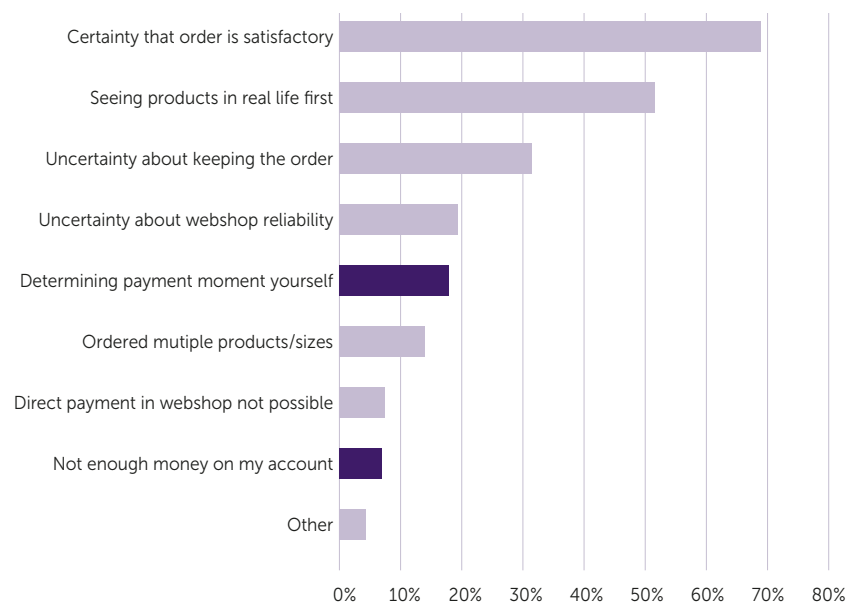
Source: AFM Consumer Monitor Spring 2022

Reasons for use

We asked respondents to state why they used a deferred payment method, as shown in Figure 5. The main reasons stem from the uncertainty associated with online shopping. Respondents mentioned financial reasons less frequently. For example, 16% of respondents said they want to determine the time of the payment themselves. About 7% of respondents said they chose to defer the payment because they did not have enough money in their account at the time of the purchase.



Figure 5. Reasons for deferring a payment



Source: AFM Consumer Monitor Spring 2022

Consumer experiences

We asked respondents who used BNPL at least once whether they would use it again for another purchase. As shown in Figure 6, the answers were positive. More than half of the respondents said they would very likely use BNPL again. The percentages barely differ per provider in this regard.

We also asked respondents how often they met their payment deadline. In Figure 7, we have broken down the answers by age groups. Most respondents said they never forget a payment date, especially in the group aged 65 and over. Respondents between the ages of 18 and 49 forget a payment date relatively often.

Figure 6. Intention to use BNPL again

Intention to use BNPL again	Tinka	Klarna	Afterpay	Via the webshop itself	Paypal	Creditcard
1 Very likely not	8%	5%	3%	2%	4%	2%
2	5%	3%	3%	1%	3%	4%
3	13%	11%	10%	7%	15%	6%
4	16%	20%	24%	22%	19%	23%
5 Very likely	58%	61%	59%	68%	59%	65%
Average	4,1	4,3	4,3	4,5	4,3	4,5

Source: AFM Consumer M



Figure 7. Payment date met

Age	Payment date met	
18 to 34 years	Yes, I have never forgotten a payment date	81%
	Mostly yes, but I have occasionally forgotten a payment date	17%
	No, I often forget payment dates	2%
35 to 49 years	Yes, I have never forgotten a payment date	73%
	Mostly yes, but I have occasionally forgotten a payment date	24%
	No, I often forget payment dates	3%
50 to 64 years	Yes, I have never forgotten a payment date	88%
	Mostly yes, but I have occasionally forgotten a payment date	10%
	No, I often forget payment dates	2%
65 years and over	Yes, I have never forgotten a payment date	97%
	Mostly yes, but I have occasionally forgotten a payment date	3%
	No, I often forget payment dates	0%

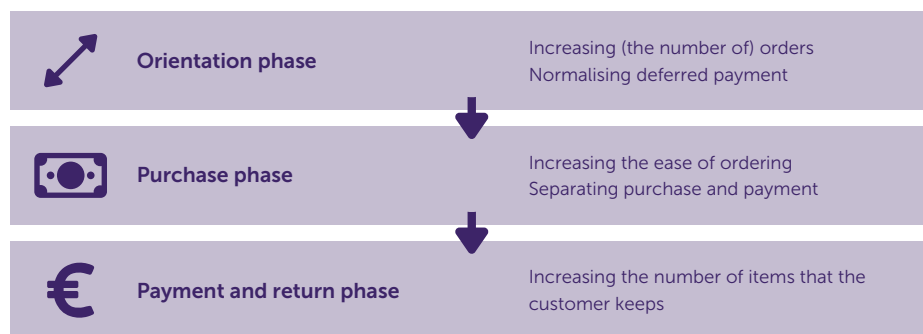
Source: AFM Consumer Monitor Spring 2022



03 Customer journey

The customer journey can be roughly divided in three phases: the orientation phase, the purchase phase and the payment and/or return phase. See also Figure 8. BNPL can influence consumer behaviour in any of these phases by playing into human tendencies.¹⁷ This may cause customers to spend more than they would without BNPL. In this section, we discuss this issue further per phase of the BNPL customer journey.

Figure 8. The BNPL customer journey



3.1 The orientation phase

The consumer focuses on a product in the webshop. Some webshops state already on their homepage or product page that deferred payment is available. By doing so, they give the consumer a form of assurance: consumers who are doubtful or sceptical are persuaded to make a purchase. After all, there is always a way back if the consumer does not like the purchase. 'Safe deferred payment' thus assures consumers that they can try out their purchase and return it if it is not to their liking.

Although the retailers are the ones who display the option of deferred payment in their webshop, BNPL providers actively encourage webshops to mention BNPL during the purchase process. For instance, some providers offer guidelines to retailers explaining how mentioning BNPL can increase conversion.¹⁸ For the sake of comparison; if BNPL were a regulated credit product, it would not be allowed to advertise purchase on credit.

"Get immediate results with Tinka. Boost your sales with minimal effort. Using our payment methods, you will reach up to 32% more customers, existing customers will shop up to three times more frequently and the average order value will be around five times higher. Also, with our introductory fee, you can generate extra income with minimal effort."
Source: <https://merchantinfo.tinka.nl/>

Examples of nudges in the orientation phase



*) Pay as you will: upfront, afterwards or in instalments; Pay afterwards with Klarna

17 For a more detailed description, see 'Understanding, guiding and measuring' (AFM, 2021).

18 See e.g., www.klarna.com/nl/zakelijk/marketing-toolbox/.



Increasing (the number of) orders

When they are shopping online, consumers have to decide whether to make a purchase on the basis of photos and product information. They cannot test or try out a product, or evaluate the quality of the used materials, like in a physical store.

BNPL addresses this problem: consumers place orders without having to pay for them right away. Consumers can try the products they ordered at home and only have to pay (in full) once they have decided to keep them. With *Payment in three instalments*, the consumer pays the first instalment when purchasing a product and the outstanding amount in the remaining instalments. With *Pay later*, the consumer does not pay for returned products. This is different from a credit card, where money is automatically deducted from a bank account after a certain period, even when the consumer returned a product. Since consumers only pay for products that they keep, BNPL ensures they are more willing to place an order as well as possibly order more products than they originally intended to. This effect is less present in the case of *Payment in three instalments*, as the consumer has already paid the first instalment at the time of the purchase.

What is going on here?¹⁹

In almost all financial choices, we make trade-offs between outcomes at different times. We attach more value to outcomes in the present than to outcomes in the future. This is called the present bias. For example, our tendency to focus on the present outcomes of our financial decisions sometimes leads us to spending more money than our 'future self' would wish. As a result, we may borrow money, even if this leads to problematic debts in the long term. The present bias makes consumers more likely to make impulse purchases and to use BNPL to pay for them.

¹⁹ Frederick, et al, 2002; O'Donoghue & Rabin, 2015; Ericson & Laibson, 2019; Joireman et al., 2010; Laibson et al., 2007; Skiba & Tobacman, 2008; Meier & Sprenger, 2007; Meier & Sprenger, 2010; Ottaviani & Vandone, 2011

"The online retailer as a psychologist. Play into the consumer's shopping emotions and boost conversion

Phase 1: searching and filling the shopping cart Emotions during the initial phases of the online shopping process.

When visiting the webshop, consumers are mostly inspired, amused and full of desire. Looking at the available offer causes the same emotions, but the feeling of inspiration becomes stronger. When they find an item that they like, consumers mostly mention joy and excitement as the emotions they first experienced. Women in particular experience a joyful kick: more than two out of five women experience this. Consumers generally say that they experience mostly positive emotions during this first phase of the shopping process. Good news for online retailers: online shopping generally starts as a pleasant experience. But this phase should not be forgotten when optimising the customer journey. It is important to get the most out of this positive moment. In other words, feed these emotions and ensure that they make a strong enough impression to outweigh any negative emotions later on."

Source: https://www.klarna.com/assets/sites/7/2019/11/14075033/Klarna_Onderzoeksartikel_Webwinkelier-als-psycholoog_LR.pdf

Normalising deferred payment

Webshops allowing deferred payment focus often on consumer goods such as clothing and cosmetics: trend-sensitive products that lend themselves for impulse purchases.²⁰ Additionally, BNPL advertisements often focus on aspirations and play into consumers' desire to lead a particular lifestyle and to belong. BNPL can thus change the norm of saving for a purchase first or paying for it immediately. Once these norms become 'fixed', they are difficult to change. This can lead to debt habituation.

²⁰ See e.g., <https://www.riverty.com/en/business/insights/riverty-ecommerce-review/bnpl-profiling/>.

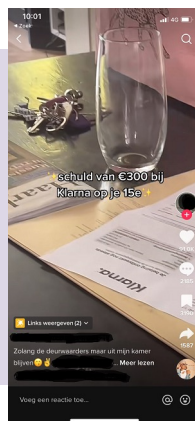




Deferred payment normalises. A search on TikTok for BNPL-related debt reveals many clips of young people showing how high their debt is or that they are waiting for their salary to pay off their debt.²¹

What is going on here?²²

People are social beings and are susceptible to what others do and think. The beliefs of others also influence us indirectly, for example through social norms. A social norm is what you think the majority does or what the majority thinks you should do. People look at others around them to determine the right thing to do in a given situation.



3.2 The purchase phase

When a consumer places products in his shopping cart and goes to 'check out', BNPL appears in the list of payment options alongside options such as iDeal, PayPal, credit card, etc. If a consumer selects a BNPL provider for the first time, he is asked to give some basic personal information (name, email address, date of birth and telephone number). After entering this information, the consumer sees immediately whether he can order with BNPL; the consumer does not see the process that takes place in the background.

In the few seconds that the consumer has to wait for an answer, BNPL providers carry out an age and identity check. They also collect information on the consumer's personal and financial situation from public sources. The result of this check determines whether a transaction is approved and/or the payment limit is increased or reduced (see also Section 4.2). The customer is not aware of the result of a check that determines his access to BNPL. Consumers who are rejected and not allowed to use BNPL, will not see the reason behind the rejection. In the case of returning customers, BNPL providers mostly monitor their previous payment behaviour. Returning BNPL customers often have to only enter their email address. Their order is then placed and completed within a few seconds. *Payment in three instalments* asks more from consumers: in this case, the consumer also has to pay the first instalment of the purchase.

Increasing the ease of ordering

As mentioned above, consumers have to enter only a few personal details to place an order. In this way, BNPL removes barriers in the purchase process. The easier it is for consumers to place an order, the more likely it is that they will actually place an order.

"It reduces friction in the purchase process

Deferred payment separates the purchase process from the payment process, thus minimising friction. In the first stage, the consumer is done after entering a few basic details (name, email address, date of birth and address). Payment takes place later, reducing an obstacle in the purchase process. Especially when shopping via a mobile device, consumers are more likely to place an order."

Source: <https://www.klarna.com/assets/sites/7/2019/10/18112444/NL-Report-2019-09-De-achteraf-betalen-encyclopedie.pdf>

²¹ See e.g., <https://nos.nl/artikel/2211652-schulden-liggen-op-de-loer-bij-onwetende-scholieren-en-mbo-ers>
<https://wnl.tv/2022/05/20/jongeren-zijn-door-afterpay-snel-een-financiele-prooi-ik-heb-een-schuld-van-30-000-euro/>
<https://www.linda.nl/meiden/shopverslaafd-schulden-linda-meiden/>.

²² Cialdini, 2007; Cialdini & Trost, 1998; Raymond et al., 1993

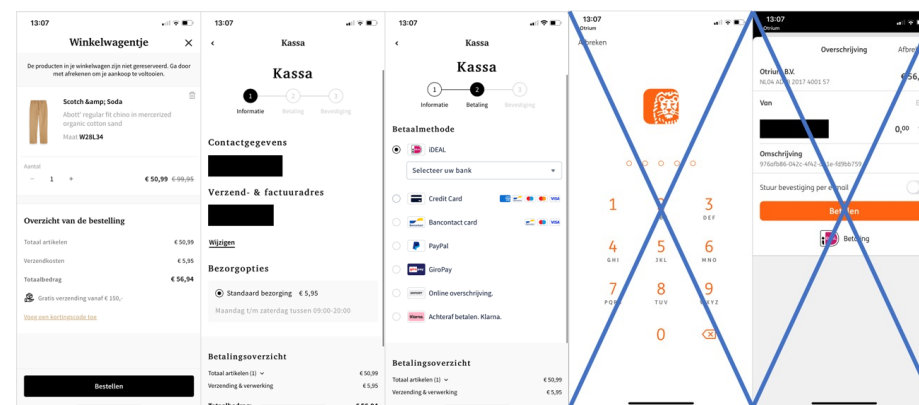


Separating purchase and payment

Consumers paying a webshop using iDeal have to go through a number of more or less conscious steps. For instance, consumers are first confronted with their current account balance and then have to approve the payment. This is not the case when paying with BNPL. The moment of purchase is separated from the moment of payment. This allows consumers to immediately enjoy the pleasure of the purchase without the negative association with the payment. As a result, consumers are less aware of the fact that they are spending money and they feel more positive about the purchase. This may lead them to take on more payment obligations than they would have without BNPL. However, there are differences between the various forms of BNPL. This effect is not as present with *Payment in three instalments*, where the first instalment is due immediately.

Figure 9 shows the payment process using iDeal. The last two steps, in which the customer has to actively log in to their bank and is confronted with his account balance, do not occur when paying with BNPL.

Figure 9. The payment process with iDeal.



What is going on here?

The value we attach to money depends on several factors, such as where it comes from (earned or received, a tax refund or a holiday allowance) and the intended use (groceries or a new television). The 'label' or the purpose we attach to money, influences how we use it. This is called 'mental accounting'. The effects of this become apparent when the timing of a purchase and the actual payment for the purchase using BNPL are disconnected. In our mental accounting system, we register the pleasure of the purchase but pay little attention to the negative feelings surrounding the payment, which only occur later.²³

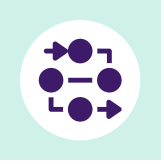
3.3 The payment and return phase

The consumer receives the order. The BNPL provider then informs the consumer of the payment deadline via e-mail or in the app. If the consumer decides to return a product, the BNPL provider will adjust the outstanding amount as soon as the webshop notifies it of the return.

Increasing the number of items that the customer keeps

With BNPL, consumers are more easily convinced to order more products than they may wish to purchase, as everything can be returned. In practice, however, consumers return fewer products than they thought they would. BNPL providers benefit from this by promoting their services as a way for consumers to order more products at once, so they can try them out in the comfort of their home and return them if they do not like them. This effect is less present with *Payment in three instalments*, as the consumer has already paid the first instalment at the time of the purchase.

²³ Kahneman & Tversky, 1984; Prelec & Loewenstein, 1998; Thaler, 1985; Thaler, 1999



What is going on here?

The endowment effect means that people attach more value to things that they own or feel that they own. This effect happens when customers receive their orders at home, regardless of whether they have paid for them or not. The consequence is that customers wish to keep more products (and return fewer) than they originally intended. BNPL providers play into the endowment effect by emphasising that everything can be returned. This would not be profitable (or would be less profitable) if customers would actually return everything like they originally intended.

"A deferred payment solution helps to convince consumers to order more items. Many webshops are concerned that the number of returns will increase if they offer a deferred payment option. In their view, returns cost money. This is true in the short term, but not in the long term. Returns are actually a powerful means of increasing conversion. Klarna's data shows that so-called serial returners do order and return a lot of items at once, but they also keep more items. Returns, in combination with deferred payment, are a way of removing doubt about an order and winning consumers over."

Source: <https://www.klarna.com/assets/sites/7/2019/10/18112444/NL-Report-2019-09-De-achteraf-betalen-encyclopedie.pdf>



04 The risks of BNPL

BNPL meets a clear consumer need when shopping online: it offers a payment option that is either free or against a small fee and ensures a smooth and frictionless purchase process. In this section, we present a number of reservations with respect to BNPL, which are based on the risks associated with it. We also discuss matters such as market practices regarding the treatment of consumers in arrears, late payment fees and the impact these fees have on providers' revenue model.

4.1 Provision of information

Late payment fees

When consumers use BNPL to pay for a purchase in a webshop, the terms and conditions of use of BNPL and any information about late payment fees are often difficult to find. During the purchase process, the fact that late payment fees will be charged in case of late payment is often not mentioned, and the amount of these fees is not shown. Consumers can usually only read these terms and conditions if they click on a link displayed with the payment option. This link leads to the website of the BNPL provider.

One provider clearly states the amount of late payment fees and when these will be due in its terms and conditions. The other providers use legal language, making their terms and conditions less easy to understand. They often do not state the amount of the late payment fees, although they do charge them in practice. It is striking that providers, through retailers, promote their service as being 'free' or at '0% interest'. Consumers who subsequently incur late payment fees may therefore be surprised.

Comparison to regulated consumer credit

The information, which BNPL providers currently provide, would not be sufficient if BNPL were a regulated consumer credit product. The law requires that consumer credit advertisements are correct, clear and not misleading. It is, moreover, forbidden to advertise with a statement that existing debts are not taken into consideration in the acceptance process. Credit providers must also provide information that enables consumers to assess the credit product, the costs related to it and compare it with alternatives.²⁴

Besides improving their own provision of information, BNPL providers could use their influence on retailers to enable customers to make balanced decisions regarding deferred payment. From our interviews with BNPL providers, we understand that they make agreements with retailers regarding marketing and the information that retailers have to show to consumers during the order process.

4.2 Provision of BNPL to consumers

Assessing consumers based on acceptance criteria

All BNPL providers use acceptance criteria to establish whether a consumer can use their service. Some providers conduct this assessment on each occasion that a consumer wishes to defer a payment,²⁵ while others use these criteria only to establish a total spending limit for each customer.

²⁴ In the case of consumer credit, the credit provider is legally obliged to provide the consumer with an information document before the conclusion of the credit agreement. This document describes, among other things, the main characteristics of the product, as well as the (total) costs associated with the credit. Its purpose is to enable the consumer to adequately assess the credit product prior to the conclusion of a contract and to compare the credit with other products.

²⁵ One of these BNPL providers is working on integrating an acceptance process based on a spending limit.



All the providers require their customers to be at least 18 years old and have checks in place to establish the consumer's identity. These checks sometimes fall short: consumer and industry organisations signal that fraud checks are not always effective. Their signals mostly concern minors looking to circumvent age checks and forms of identity theft.²⁶

Besides age and identity checks, all the providers use publicly available data sources to obtain information on consumers' personal and financial situations. These checks are usually conducted by external data companies. They provide information on matters such as a consumer's housing situation, debt restructuring or guardianship, bankruptcy and death. In the case of returning customers, BNPL providers mainly monitor their previous payment behaviour. Based on this data, BNPL providers determine whether to approve a transaction and/or increase/decrease the payment limit.

No check of income and expenditure

At the time of publication of this report, none of the BNPL providers involved in our study check an individual consumer's income and expenditure.²⁷ In this regard, BNPL differs from regulated consumer credit. Providers of regulated consumer credit are obliged to obtain information on a consumer's income, expenditure and debt, and assess whether a loan is responsible before providing it.²⁸ BNPL providers are not obliged to carry out this check, as BNPL is not subject to consumer credit legislation.²⁹ This may change in future, if BNPL falls within the scope of the CCD after its revision.³⁰

Since BNPL providers do not gather and verify information on a consumer's income, expenditure and debt, there is a real risk that they will allow consumers who are already in financial difficulties, or who will get into financial difficulty as a result of a BNPL transaction, to use the deferred payment option. Moreover, most BNPL

providers are not affiliated with the Credit Registration Agency (*Bureau Krediet Registratie*, or BKR), which means they cannot check whether a consumer already has debts or is in arrears. In addition, debts (and the accumulation thereof) arising from the use of BNPL are not registered with the BKR and are, therefore, not visible. One BNPL provider stated that it can see when a consumer is in arrears based on its data sources, although it cannot see the source of the arrears. Another provider took the view that its data model gives sufficient insight into a customer's creditworthiness, without having to ask the customer for information regarding his income.

Other safeguards

In addition to acceptance criteria for consumers, some providers use other safeguards to prevent problems with payments. Some providers critically assess the suitability of products and retailers that they work with. For instance, some BNPL providers have a list of evident products, which cannot be purchased via BNPL (such as drugs and weapons) and a list of products for which use of BNPL is limited (such as travel). Additionally, one BNPL provider stated that it developed a policy based on which it looks at the number of arrears a retailer has when deciding whether to partner up with that retailer, and that it can adapt its acceptance criteria per retailer based on this information. As a result of this policy, this provider barely works with clothing stores. Another BNPL provider developed risk scores based on the expected payment behaviour of consumers per product type. Consequently, higher risk scores will apply to retailers offering electronics than to pharmacies, as customers usually can be expected pay their pharmacy bills. The AFM views the application of such safeguards as a positive development since this can help prevent problems with payments.

4.3 Arrears management

Since BNPL providers do not check the income, expenditure and debt of consumers and thus do not know for sure whether a BNPL product is suitable for an individual consumer, they run the risk that a consumer will not be able to fulfil his payment obligation. Unlike providers of regulated consumer credit, BNPL providers are not obliged to develop an arrears management policy or offer adequate solutions to customers in arrears.

²⁶ This kind of identity fraud occurs, for instance, by placing an order through BNPL and then contacting the delivery service and changing the delivery address.

²⁷ One of the BNPL providers involved in our study is working on the integration of this check in its acceptance process.

²⁸ Article 4:34 Wft.

²⁹ See also Section 1 of the report.

³⁰ Article 18 in proposal for the review of the CCD.



Help with payment problems

The AFM considers it positive that BNPL providers help consumers when they fall into arrears. In order to be offered a solution, customers have to reach out to their BNPL provider. Consumers have to contact most providers telephonically in order to get help. One provider also offers help in its app. All BNPL providers included in this study offer payment deferrals to consumers in arrears, usually without any charge. There is one provider that asks for a small fee if a customer requests a deferral for a longer period. Some providers also offer the option of a payment holiday, a payment arrangement and a write-off. The AFM notes that, while a payment deferral might be sufficient in case of temporary financial difficulties, consumers with structural financial problems will probably require more tailor-made, far-reaching solutions. We, therefore, see offering solutions such as payment arrangements and write-offs as good practices.

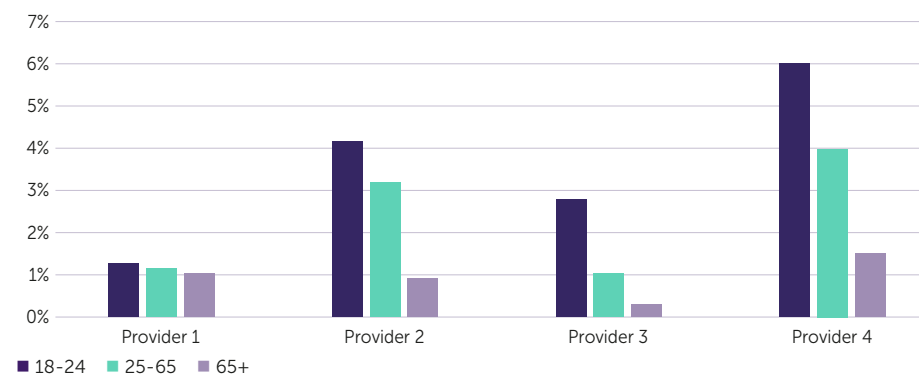
Measures to prevent debt accumulation

Several BNPL providers state that, in addition to offering one or more solutions for consumers in arrears, they can (temporarily) pause the possibility of use of BNPL for an individual consumer. One BNPL provider will do this if a customer misses a payment. Others will do this when the customer is handed over to a collection agency. The latter practice only prevents consumers to continue to accumulate debts after they have been handed over to a collection agency.

Handover to collection agencies

After a certain period, all BNPL providers hand over consumers who fail to resolve their payment problems to a collection agency. Four BNPL providers shared information with the AFM on the percentage of consumers that are handed over to a collection agency per age group, as shown in Figure 10. The percentage of consumers aged between 18 and 24, which are handed over to a collection agency, amounts up to 6%. While there are clear differences in percentages, it is notable that the youngest consumers are the largest age group across all four providers.

Figure 10. Handover to collection agencies per age group.



Source: AFM data

The collection process

Almost all BNPL providers use an external collection agency. The agencies mentioned are affiliated to the Dutch Association of Certified Collection Agencies (*Nederlandse vereniging van gecertificeerde incasso-ondernemingen*, or NVI). The AFM considers this positive as they are bound by the NVI code of conduct and the Collection Charges Act (*Wet Incassokosten*, or WIK). One provider stated that it has its own collection agency and that 11.7% of its revenue comes from collection charges. An internal collection agency can keep collection costs for customers low. However, if the provider benefits from collection charges, activities of an internal collection agency can become a profitable part of the revenue model. This creates an incentive to initiate a collection process as soon as consumers fail to meet their payment deadline.

The charges that a collection agency can impose on consumers are capped by law. Nonetheless, these charges can represent a substantial financial burden for consumers.³¹ It is thus important that BNPL providers attempt to prevent handovers to a collection agency by, for instance, proactively contacting the customer. However, we have not found any examples of providers who do this systematically.

³¹ The amount of collection charges is set in the Collection Charges Act (*Wet Incassokosten*, or WIK).



4.4 Late payment fees

Amount of late payment fees

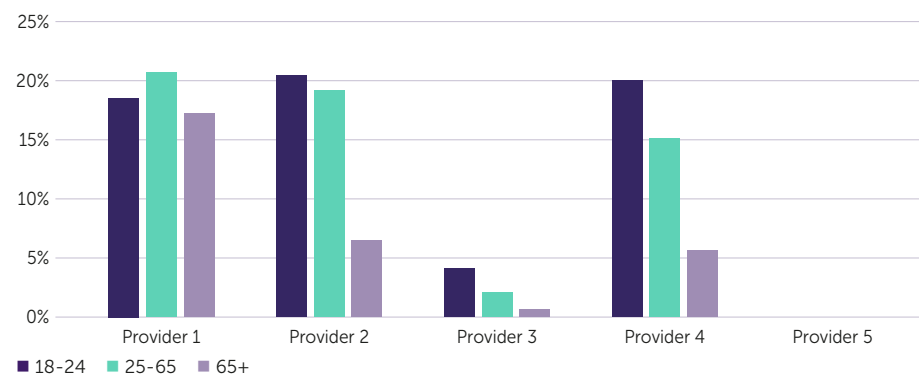
From the information we received from BNPL providers, it appears that late payment fees average around €15. If a consumer is handed over to a collection agency, an outstanding claim of €100 may incur €40 in collection charges. Figure 11 shows that up to 20% of customers aged up to 65 years have incurred late payment fees. Looking at different age groups, it can be observed that young consumers are the most affected and senior consumers are the least affected. There are significant differences between providers. The percentage of consumers who incur late payment fees is less than 5% when it comes to Provider 3. One BNPL provider does not charge any late payment fees.

Exception in the Wft

As explained in Section 1, BNPL products are a form of credit. The provision of credit is regulated in the Wft. Credit that is repaid within three months and against no or insignificant charges is, however, exempt from the application of the Wft.^{32,33} This exception comes from the CCD.³⁴

The BNPL products reviewed by the AFM in this study comply with the condition of having to be repaid within three months. The payment period varies from 2 weeks to 30 days. The payment period can usually be extended, but the total payment period remains within three months. BNPL is in principle provided either free of charge or against a small fee, but several BNPL providers impose fees that are more than insignificant in cases where consumers fail to meet their payment obligations.

Figure 11. Late payment fees per age group



Source: AFM data

In case consumers fail to meet their payment obligations, BNPL providers may impose collection charges on consumers for outstanding claims (see the box on qualification of collection charges on the next page). This is different in case of consumer credit providers, which are only allowed to impose a delay fee.³⁵

Legal developments

Some legal rulings state that specific fees, which a BNPL provider charges to a consumer for late payment, have to be considered as part of the total costs of the credit, as a result of which the requirement of insignificant charges is no longer met. Currently, the Supreme Court of the Netherlands is considering the question whether late payment fees charged by BNPL providers have to be considered as part of the total cost of the credit or whether these costs are permissible collection charges. Depending on the answer to this question, it is possible that the current practices of (some) BNPL providers are not in line with the exemption in the Wft. The AFM awaits the Supreme Court's decision.

³² Based on Article 1:20(1)(e) Wft, the Wft does not apply to financial services in relation to credit that meets these two conditions.

³³ In June 2021, the European Commission proposed to review the CCD. One of the proposed changes is to delete the scope exception that BNPL providers currently use. Negotiations between the European Commission, the European Council and the European Parliament on the final text for the revised CCD began in September 2022.

³⁴ Article 7:76 DCC in conjunction with Article 11 Cost of Credit Decree (*Besluit Kredietvergoeding*).

³⁵ District Court of Gelderland 4 May 2022, ECLI:NL:RBGEL:2022:2441. Before the Supreme Court, the question is known under '[prejudiciële vraag \(preliminary question\) 22/01716](#)'. See also the underlying case before the District Court of Gelderland 1 December 2021, ECLI:NL:RBGEL:2021:6428.



Box: qualification of late payment fees

Below, we outline two scenarios relating to the fees charged by BNPL providers for late payment.

- 1. A consumer fails to meet his payment obligation on time and remains in default after being reminded about his payment obligation. The BNPL provider imposes on the consumer collection charges and/or statutory interest that are not insignificant.** In this scenario, the credit does not comply (or no longer complies) with the conditions of Article 1:20 Wft. Articles 3c and 43(4) of the Exemption Regulation of the Financial Supervision Act (*Vrijstellingsregeling Wft*) enable the exemption from the obligations to obtain a licence and comply with Part 4 of the Wft and allow the imposition of statutory interest and collection charges on a consumer who remains in default. The Extrajudicial Collection Charges Decree (*Besluit vergoeding voor buitengerechtelijke incassokosten*) prescribes the collection procedure and the maximum allowed amount of collection charges. If these legal requirements are met, the credit remains outside the scope of the Wft.
- 2. A consumer fails to meet his payment obligation on time and remains in default after being reminded about his payment obligation. The BNPL provider imposes charges that are not insignificant and do not qualify as collection charges or statutory interest.** In this scenario, the credit does not comply with the condition that charges are insignificant in Article 1:20 Wft. The Exemption Regulation of the Financial Supervision Act does not allow for costs other than collection charges and statutory interest to be imposed on the consumer. In this case, the credit does fall within the scope of the Wft and is subject to supervision by the AFM.

*) Statutory provisions apply to the interest rate and collection charges. See (respectively) Article 120(1) of Book 6 of the Dutch Civil Code (DCC) and Article 96(2)(c) of Book 6 DCC in conjunction with Article 2 of the Extrajudicial Collection Charges Decree.

4.5 The revenue model

Various sources of income

The revenue models of BNPL providers involved in the study vary. Income from partnerships with retailers is the main source of revenue for all the providers. Some providers also earn a substantial proportion of their income from charging late payment fees to consumers. This income stream amounts to between 20% and 40% of their total revenue. Our discussions with BNPL providers have shown that late payment fees (of around €15 on average) more than cover the cost for the work done in return (e.g., sending payment reminders). The income from late payment fees is therefore profitable and can form an essential part of the revenue model.

Income from late payment fees is a vulnerable

If providers benefit from consumers failing to pay for their purchases on time, this can lead to a perverse incentive. This will be the case where a revenue model relies significantly on income from late payment fees and becomes vulnerable when more consumers actually pay on time. In this case, providers will benefit from the lack of clarity regarding payment deadlines and late payment fees. This may lead to consumers incurring unnecessary costs and even getting into financial difficulties in the most severe cases.

The providers we spoke to point out that late payment fees have a deterrent effect. Customers pay on time more if there is a 'penalty' for late payment. BNPL providers that charge late payment fees mention that between 80% and 90% customers pay before receiving the first reminder. However, this is the same where providers do not charge late payment fees.



Modernising the revenue model

BNPL providers that charge late payment fees stated in the interviews that they were considering adjusting their revenue models. One provider stated it was working on a revenue model based solely on income from partnerships with retailers. Another provider stated that strong competition in the BNPL market makes it difficult to charge higher fees to retailers. This provider would prefer to see legislation in future that would allow it to offer a payment arrangement at (low) cost instead of a late payment fee, without this leading to a qualification of the product as regulated consumer credit. Given the vulnerability in the revenue model that late payment fees create, it is good that BNPL providers continue to develop their revenue models.





05 Conclusion

The study has allowed the AFM to get insight into the BNPL market. This is a growing market, with a diverse offer. BNPL meets consumer needs such as flexibility, certainty and convenience. However, the AFM also sees that BNPL poses risks for consumers. It is very easy for consumers to complete an order using BNPL. So easy that BNPL can lead to debt habituation and accumulation. The AFM also notes that late payment fees are unclear and possibly unlawful.

BNPL meets consumer needs

The AFM Consumer Monitor shows that deferred payment meets consumer needs. The three main reasons why consumers choose deferred payment are: certainty that the order is complete and satisfactory, wanting to see the actual products first and not having to pay for orders that will be returned. It is also clear that the use of deferred payment is not linked to any one age group. This payment method is only less popular among respondents aged 65 or more. More than half of the respondents who have used deferred payment at least stated they were very likely to do so again for subsequent orders.

Late payment fees are unclear and possibly unlawful

From the information we received from the BNPL providers, late payment fees are on average around €15. Collection charges for consumers handed over to a collection agency usually amount to €40. Charges are only justified if they qualify as collection charges in line with the provisions of the Collection Charges Act. The AFM expects that BNPL providers can clearly demonstrate that they, and the collection agencies they work with, comply with these statutory requirements. If consumers incur fees other than legally allowed collection charges, the credit will fall within the scope of the Wft and, therefore, be subject to supervision by the AFM.

BNPL providers can also improve the quality of the information they provide to consumers. The emphasis currently lies on the message that BNPL is free of charge.

The fact that relatively high fees are charged in case of late payment may, therefore, come as a surprise to consumers.

Normalising deferred payment and debt habituation

BNPL can change the norm of saving for a purchase first or paying for it immediately. Deferred payment is normalised. This can create debt habituation. Once these norms are 'fixed', they are difficult to change. It is very convenient for consumers to complete an order using BNPL. The easier it is to place an order, the more likely it is that consumers will actually place it. Completing an order using BNPL allows consumers to immediately feel the pleasure of the purchase without the negative association with the payment. The result is that BNPL can change the norm of waiting to place an order until there is enough money on the bank account. The AFM sees this as undesirable and as a social issue. We are publishing our observations so that policymakers, researchers and stakeholders can use them to determine whether they need to take further action to mitigate the risks.

Possibility of debt accumulation

The use of BNPL may lead to debt accumulation. Since BNPL providers have no information on a consumer's income, expenditure and debt, there is a risk that they will allow consumers who are already in financial difficulties, or who will get into financial difficulty as a result of a BNPL transaction, to use the deferred payment option. The fact that this risk is real is visible from (among other sources) the AFM Consumer Monitor, which shows that 16% of consumers use BNPL to determine the timing of their payment and 7% because they do not have sufficient funds in their account at the time of the purchase. In addition, the information that BNPL providers shared with the AFM shows that up to 20% of customers aged less than 65 years incur late payment fees. Moreover, we note that young people aged between 18 and 24 years form a disproportionately high percentage of consumers handed over to a collection agency across all BNPL providers and that this percentage can be as



high as 6%. The AFM sees this as a cause for concern and calls on BNPL providers to prevent consumers from using BNPL because of financial necessity. It is not clear whether, and to what extent, BNPL in itself contributes to debt problems. This topic lends itself for follow-up research.

Good practices for arrears management

Good arrears management is needed to limit debt problems. Customers who are temporarily unable to meet their payment obligations will usually benefit from a payment deferral, but more tailor-made, far-reaching solutions are needed for consumers with structural financial problems. We see that there are some providers that offer payment arrangements or write offs in such cases. We see this as good practice. In addition, it is important to ensure that debt does not accumulate. We, therefore, consider that immediately pausing access to BNPL to customers in arrears, at least until the arrears have been settled, is a sensible approach.

Regulation of BNPL

In view of the risks of BNPL, the AFM believes that regulation of BNPL is necessary to improve consumer protection. Therefore, the AFM supports the proposal of the European Commission to regulate BNPL within the scope of the Consumer Credit Directive. BNPL providers will then have to comply with various requirements relating to the provision of information, creditworthiness assessment and arrears management.



Appendix 1 **Explanation**

This section explains the approach used in this study. We also give a brief list of the main sources we have consulted.

Approach

The AFM undertook the following activities for this study:

- Consumer research – questions to a representative panel of consumers in the AFM Consumer Monitor Spring 2022;
- Desk research – based on online/publicly available information. The relevant sources are stated in the list of literature below;
- Conducting customer journeys – making purchases and payments via BNPL to map out customer journeys of the five BNPL providers included in the study;
- Interviews with (socially relevant) stakeholders – including Nibud, InRetail, the Dutch Consumers Association and the Dutch Payments Association, as well as interviews with (foreign) supervisors (ACM, ASIC, FCA) to obtain greater insight into the market (on both the supply and demand sides);
- Information request and interviews with BNPL providers – we have sent an information request to the five BNPL providers included in this study and further discussed the information they provided us with in interviews.

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