Payment behaviour in the arrears phase

Study in collaboration with in3

In short The AFM and BNPL provider in3 tested the effect of adjustments to the customer journey on the payment behaviour of 7,425 customers in the arrears phase. The study showed that extending the period before transfer to the debt collection agency by 14 days had no effect on the proportion of customers still in arrears two months later. However, later transfer did prove beneficial: the proportion of customers facing a debt collection process and fees decreased by nearly a third due to the adjustments. An additional reminder and its contents were found to be particularly important for this. The AFM encourages providers to conduct research into adjustments to the customer journey to help reduce risks for consumers.

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OCCASIONAL PAPER

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1. Introduction

Buy Now, Pay Later ('BNPL') has become a widely used service among Dutch consumers in recent years.[1] BNPL allows the payment for a purchase to be postponed until 14 or 30 days after delivery, or to be paid in three instalments.

The use of BNPL is not without risk. In previous research by the AFM, about one in eight BNPL users indicated that they had missed at least one instalment in the past 12 months.[2] Consumers who do not pay on time may face fees, such as late payment fees and debt collection fees. Debt counsellors also report an increase in the number of clients with problematic debts and link this to the growing use of BNPL.[3] Such signals have led to media and political attention to the risks of BNPL. Plans to offer BNPL in physical stores have further fuelled public debate.

Due to new European legislation, BNPL providers will come under the supervision of the AFM in November 2026 and will be required to comply with rules regarding information disclosure, creditworthiness assessment and arrears management. In the meantime, four major BNPL providers have drafted a code of conduct to better protect their customers.[4] This upcoming regulation and the current code of conduct are intended to enhance consumer protection. Ahead of the new legislation, providers can promote responsible use of BNPL by making adjustments to the customer journey.

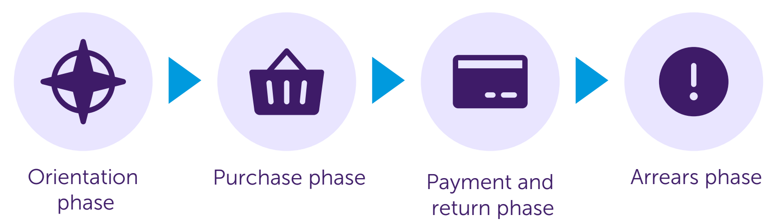
1 AFM, 2024; AFM, 2022
2 AFM, 2024
3 Volkskrant, 2024
4 BNPL-Gedragscode, 2024

1.1 Supporting the responsible use of BNPL through adjustments to the customer journey

The BNPL customer journey can be roughly divided into four phases: the orientation phase, the purchase phase, the payment and return phase, and the arrears phase (see Figure 1). During the orientation phase, consumers browse products in a shop or online store and may consider the option to pay later when making choices. At the time of purchase, consumers choose to check out with BNPL. BNPL providers use acceptance criteria to assess whether a consumer is eligible for their services.

In the payment and return phase, customers who do not return their purchases must pay within a period of 14 or 30 days, or in two remaining instalments of 30 days each. The arrears phase follows if customers do not pay fully within the set period(s). If payments continue to be missed, customers are transferred to a debt collection agency.

Figure 1. The four phases of the BNPL customer journey



Adjustments can be made in all phases of the customer journey to support the responsible use of BNPL by consumers. Previously, the AFM and BNPL provider Riverty jointly examined the impact of SMS reminders in the payment and return phase.[5] That study showed that customers who received an SMS reminder paid earlier, which meant that they were less likely to incur late payment fees. In this report, we focus on the arrears phase. In a new field experiment conducted in collaboration with BNPL provider in3, we study the impact of customer journey adjustments on the payment behaviour of customers who have missed one or more instalments.

5 AFM, 2024

2. Study with in3 on payment behaviour in the arrears phase

In this report, we describe a research study in collaboration with in3, a Dutch provider of payment in three equal instalments. Customers who use in3 pay the first instalment at checkout, the second instalment after 30 days and the third instalment after 60 days. See Figure 2 on page 8 for a description of the regular customer journey. In3 is primarily available in product categories such as home furnishings, large household appliances and vehicles. Customers of in3 place an average order of about €500, which is relatively high in comparison to the average BNPL transaction of around €100.[6]

With the present study, we focus on customers who have missed one or two instalments. In3 does not charge these customers reminder fees, but after a certain period customers in arrears are transferred to a debt collection agency that charges a debt collection fee. We test three adjustments to the process that customers go through after the third instalment has passed, when they have fully or partially failed to meet their payment obligations. The aim of these adjustments is to get more customers to pay before they are charged a debt collection fee. Missing payments can be the start of more serious financial problems. Consumers who fall into arrears may also experience stress and uncertainty, which can negatively impact other financial decisions and overall well-being.

To design effective adjustments, it is important to understand why consumers who are in arrears fail to make payments. We distinguish three possible causes here but note that this list should not be considered exhaustive. First, it is possible that consumers make purchases using BNPL that they cannot afford due to a temporary or structural lack of financial resources. This situation can arise because people often pay limited attention to long-term consequences or are overly optimistic about their current and future financial situation.[7] Moreover, when accepting customers, BNPL providers do not have full insight into the financial situation of consumers placing an order. For example, they may not be aware of existing loans or any arrears on those loans. A consumer's financial situation may also change unexpectedly after placing an order. Second, consumers who do have sufficient financial resources may still miss a payment due to forgetfulness, not receiving or noticing payment reminders or lacking an overview of their obligations. Third, consumers may not be aware of the consequences of late payments – such as additional costs – which may reduce their sense of urgency and lead them to delay payment too long.

Based on these possible causes, we examine the effect of three adjustments to the process that in3 customers go through during the arrears phase: later transfer to a debt collection agency, later transfer combined with an extra reminder and later transfer combined with an extra reminder that includes information on the consequences of late payment.

These proposed adjustments to the arrears phase are not aimed at customers whose payment arrears are due to structural financial problems. The likelihood that they will remain in arrears despite the adjustments is high, simply because they lack the financial means to meet their obligations. We address additional support for these customers in the Discussion section.

2.1 Later transfer to the debt collection agency

Under in3's existing process (before the study), customers who were still in arrears three weeks after the final instalment deadline were transferred to a debt collection agency. At that point, the agency takes over communication and imposes statutory collection fees: 15% of the outstanding amount, with a minimum of €40.

6 AFM, 2024
7 Meier & Sprenger, 2010; Dawson & Henley, 2012; Grubb, 2015

Determining the optimal timing for transfer requires careful consideration. On the one hand, a later transfer may give customers more financial leeway – for example, if they receive their salary in the meantime. It might also allow customers more time to get organised, reducing the likelihood of forgetting. On the other hand, a later transfer might reduce the chance of payment, as customers may feel less urgency when there are no penalties. Previous research has shown that charging late fees can influence the repayment of credit card debt and overdue taxes.[8] Other research shows that delaying a payment deadline for short-term credit can lead to procrastination.[9]

In this study, we test the effect of delaying the transfer by two weeks. Instead of being transferred three weeks after missing the final instalment, customers in the adjusted process are transferred after five weeks. We expect this later transfer to be beneficial because the advantages for customers with temporary financial problems outweigh the potential disadvantages for those who can afford to pay.

The effect of a later transfer may depend on the communication customers receive during this period. Therefore, we also test the effect of a later transfer in combination with two communication-related adjustments.

2.2 …including an extra reminder

A later transfer to the debt collection agency may result in customers unnecessarily deferring payment or losing track of their outstanding debt during this time. An additional reminder during this period may help. Previous research shows that reminders can strongly influence financial behaviour.[10] For example, sending reminders to customers with 30-day overdue credit card payments improved repayment behaviour.[11]

Therefore, we test the effect of an additional reminder during the extended period (adjustment 1). We expect that more customers will complete their payment if they receive a reminder during this time compared to those who do not.

2.3 …including information on the consequences of late payment

The effectiveness of a payment reminder may depend on its content. For instance, customers may fail to pay on time because they are unaware of the financial consequences or have forgotten them. Research into emphasising consequences in reminders shows mixed results: some studies found that highlighting a fine increases timely payments,[12] while a previous AFM study with BNPL provider Riverty found that the effectiveness of SMS reminders did not depend on the content.[13]

Therefore, we also test the effect of reminder content. In addition to a standard reminder, we test a version that informs the customer that failure to pay will lead to transfer to a debt collection agency and at least €40 in debt collection fees (excluding VAT). It also states that if payment is not made, the customer will be blocked from using in3 for two years.

With this adjustment, we aim to motivate customers to make their payment by providing clarity about the consequences of non-payment during the extended transfer period (adjustment 1). We expect that more customers will meet their payment obligations when they receive a reminder during this period that includes information on the consequences, compared to when they receive a reminder that does not mention these consequences (adjustment 2).

8 Agarwal et al., 2013; Skov, 2023
9 Carter et al., 2022
10 DellaVigna & Linos, 2022
11 Campbell et al., 2022
12 Dusek et al., 2022
13 AFM, 2024

3. Method

3.1 Procedure

This study focused on customers in the arrears phase. Customers of in3 who, on day 64 (four days after the payment date for the final instalment), had not paid one or two instalments were randomly assigned to one of four research groups. This experimental setup allows us to draw conclusions about the effect of different adjustments to the customer journey. Figure 2 shows the process that customers followed from day 64 onward, broken down by research group.[14]

In the *control group* (group 0 in the figures), customers followed the standard arrears phase process. One week after missing the final instalment, they received an advance notice email concerning the transfer to the debt collection agency (the so-called 'WIK notification').[15] This email stated that debt collection fees would be charged if the outstanding amount was not paid within 14 days. Two weeks later, customers who were still in arrears were transferred to the debt collection agency. At that point, the agency takes over all communication and charges debt collection fees. The agency contacts customers in arrears through various channels, such as phone, email and post.

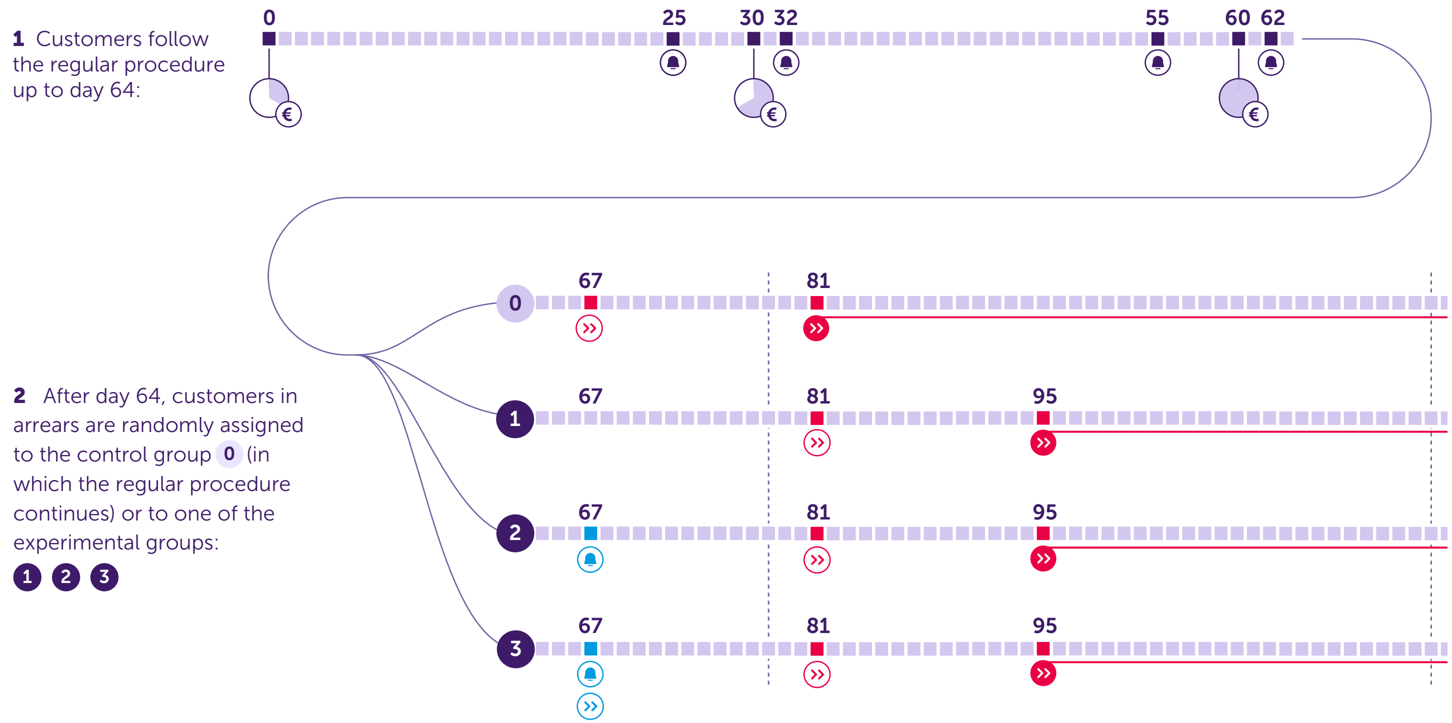
In the other three groups, customers were transferred to the debt collection agency two weeks later than the *control group*. Customers in the *later transfer without extra reminder* group (group 1 in the figures) received no additional communication during the extended period. Customers in the *later transfer with extra reminder* group (group 2 in the figures) received an extra payment reminder on day 67 — seven days after the final payment deadline. Customers in the *later transfer with extra reminder including information on consequences* group (group 3 in the figures) also received an extra payment reminder on day 67, but with additional details of the consequences of continued arrears (i.e., debt collection fees and suspension of future access to in3 services).

In all three research groups, customers also received the standard WIK notification by email 14 days before the delayed transfer to the debt collection agency.

14 According to the intended (and preregistered) procedure, communication and transfer to debt collection were to take place at three points in time: days 67, 82 and 97. However, during the execution of the experiment, a number of small, unplanned deviations from the procedure occurred. By adjusting the evaluation dates, we are still able to examine the effect of the three interventions on payment behaviour based on the collected data. See the statistical appendix for more information.

15 This refers to the legally mandated final reminder that creditors are required to send to customers by email or letter before they are handed over to a debt collection agency, in accordance with the Dutch Debt Collection Costs Act ('Wet Incassokosten' or 'WIK'). This reminder must state a payment term of at least 14 days after receipt and announce that debt collection fees will be charged if the debt is not paid within this period.

Figure 2. The regular in3 customer process up to day 64 (1), and the process during the study for customers with payment arrears in each of the four groups from day 64 onwards (2).



Legend

- Evaluation date
- Regular reminder
- Extra reminder
- Information on consequences of arrears
- Advance notice of transfer (WIK)
- Transfer to debt collection agency

0 **Control group**

1 **Later transfer without extra reminder**

2 **Later transfer with extra reminder**

3 **Later transfer with extra reminder including information on consequences**

Note: (1) For the regular reminders, customers received an email, text message and app notification. For the additional reminders, customers received only an email. (2) In the second part of the customer process, the days on which communication and transfer to the debt collection agency occurred may differ by up to two days for some customers compared to the days shown. See the statistical appendix for more details on deviations in the procedure.

3.2 Sample

The sample consisted of 7,425 unique customers divided across four groups (*control group*: 1,863; *later transfer without extra reminder*: 1,825; *later transfer with extra reminder*: 1,859; *later transfer with extra reminder including information on consequences*: 1,878). These were customers who, during the period from 5 July 2024 to 10 October 2024, were in arrears on day 64 and met the criteria for inclusion.[16] On average, the customers were 36 years old, had an average order amount of €500 and had placed an average of 1.6 previous orders with in3.[17]

3.3 Analyses

To draw solid conclusions about the effect of later transfer and reminders on customer payment behaviour, it is important to formulate hypotheses and conduct statistical tests. Prior to the experiment, AFM and in3 jointly defined the hypotheses, the analysis plan and the sample inclusion criteria. These and all additional analyses are described in detail in the statistical appendix.

16 This concerns, among others, customers who during the experiment had no more than one outstanding payment with in3 and customers who were not granted a payment deferral. The criteria for inclusion in the sample are explained in the statistical appendix.

17 In the statistical appendix, we describe additional analyses showing that customers in the four groups did not differ significantly from each other in terms of these characteristics.

4. Results

In this chapter, we discuss the main findings of the study and several additional analyses. To test the hypotheses, we examine the percentage of customers in arrears on two key evaluation dates (see Figure 2). To assess the effect of later transfer to the debt collection agency, we look at the share of customers in arrears on day 119 — almost two months after group assignment, and one day before in3 marks the loan as "potentially irrecoverable". To assess the effect of the extra reminder and its content, we look at the share of customers in arrears on day 78, two weeks after the start of the experiment and before the WIK notification is sent. In additional analyses we also look at the share of customers transferred to the debt collection agency, payment timing and the share in arrears on day 94. Full details are provided in the statistical appendix.

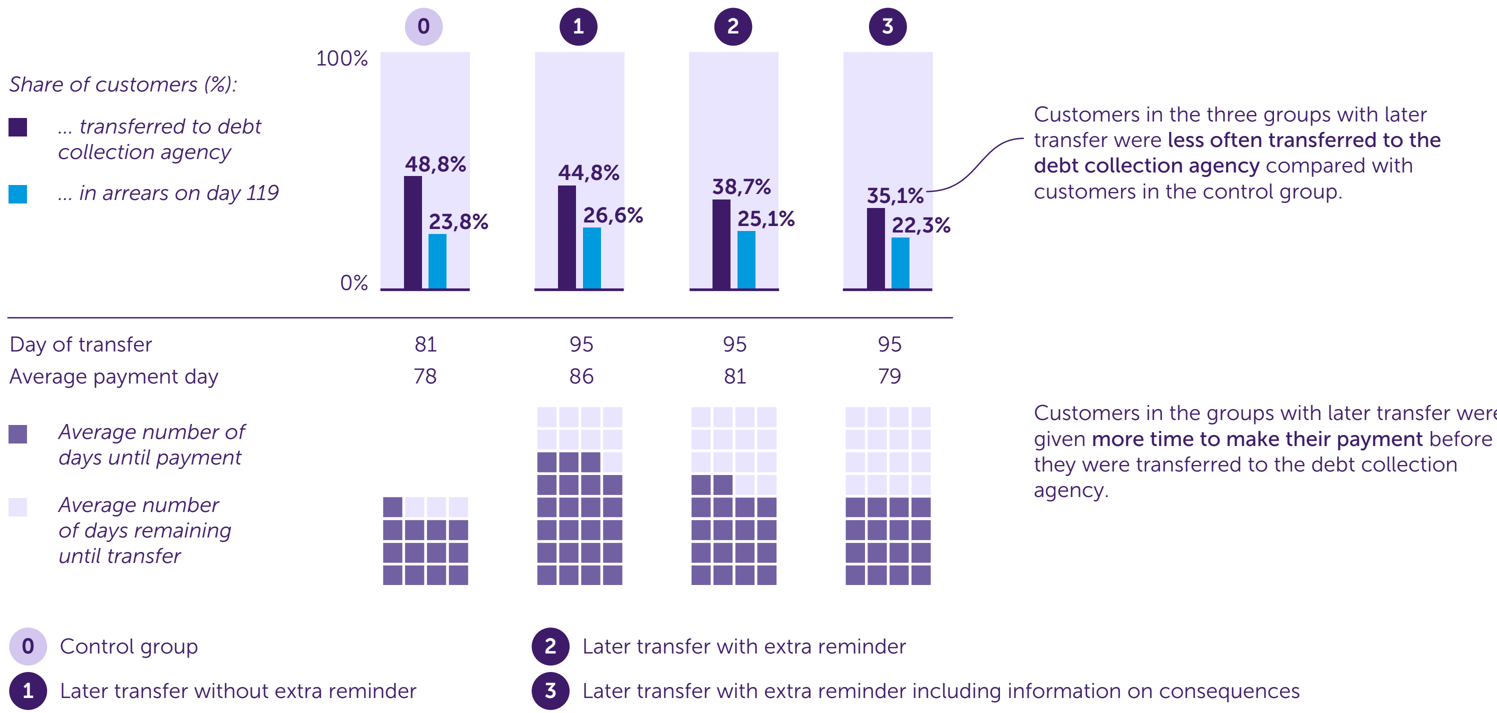
4.1 Later transfer does not improve payment behaviour but still benefits customers

Among customers in arrears at the start of the experiment (day 64), just under a quarter (23.8%) in the *control group* were still in arrears at the end of the study (day 119). This proportion did not differ significantly from the three groups where customers were transferred to the debt collection agency two weeks later. In other words, later transfer did not reduce the share of customers in arrears on day 119.

Figure 4 shows that the timing of payments did differ between groups. Additional analysis revealed that the average time to payment was significantly shorter in the *control group* than in the *later transfer without extra reminder* group and the *later transfer with extra reminder* group. No significant difference was found between the *control group* and the *later transfer with extra reminder including information on consequences* group. The average payment day was notably later for the *later transfer without extra reminder* group (day 86) compared to the *control group* (day 78, see Figure 3).

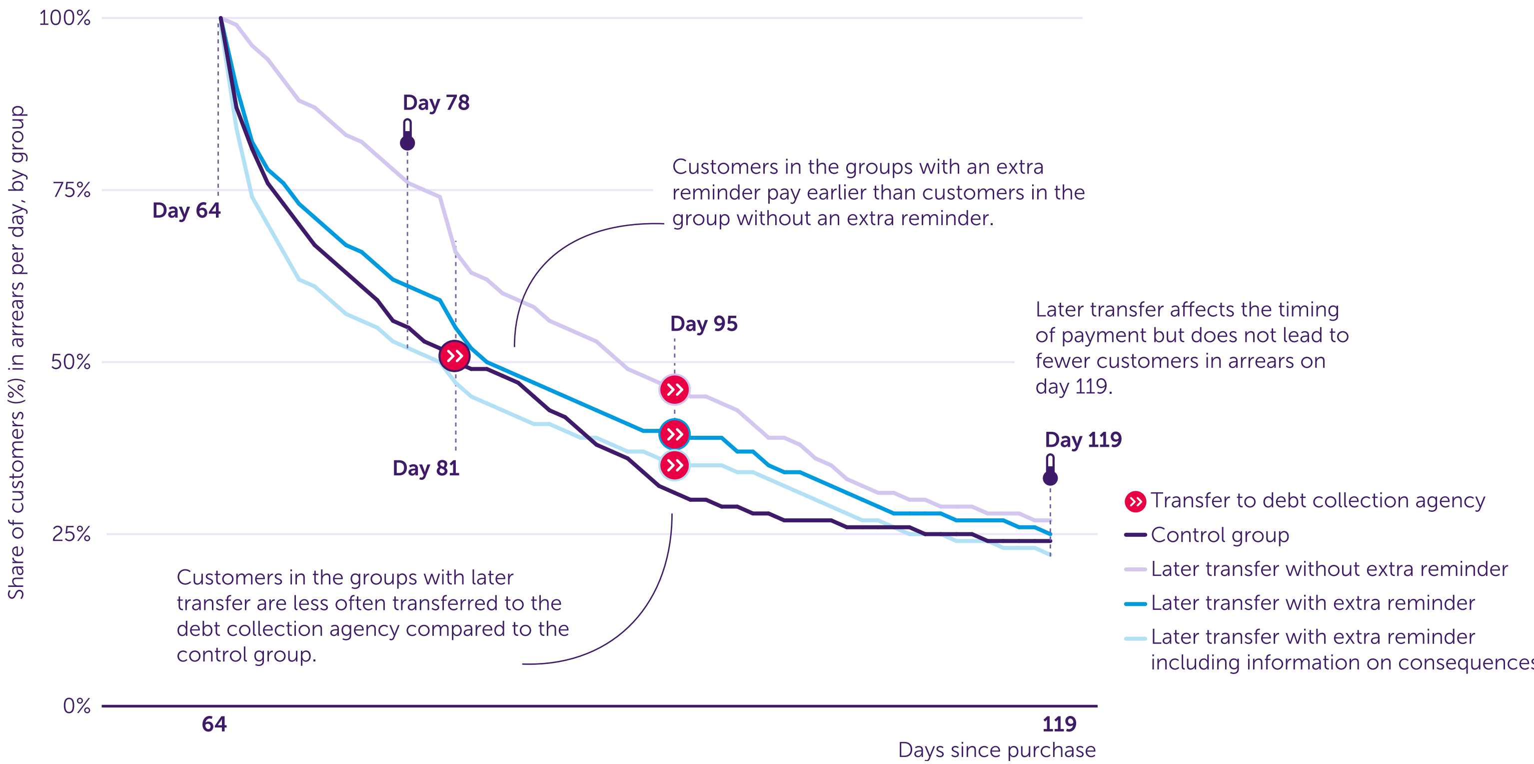
The above analyses show that the later transfer does not have the desired positive effect on customers' payment behaviour. Nevertheless, the adjustment does prove beneficial for customers in these groups. In the groups with later transfer to the debt collection agency, significantly more customers make payments before the transfer takes place compared to the control group (see Figure 3). As a result, they are less often confronted with debt collection fees. As shown in Figures 2 and 3, the transfer to the debt collection agency in the control group took place on day 81. Almost half of the customers in this group were actually transferred. In the three groups with later transfer, this transfer occurred on day 95. Some of the customers in these groups made payments during this extended transfer period and were therefore not transferred to the debt collection agency. The largest difference is visible in the *later transfer with extra reminder including information on consequences* group; the share of customers transferred to the debt collection agency in this group is one-third lower than in the control group (a difference of 13.7 percentage points). For the customers who were not transferred to the debt collection agency due to this adjustment to the customer journey, this results in a saving of at least €40 in collection fees excluding VAT. A rough calculation shows that during the study period an estimated minimum of €20,800 in collection fees was saved across all groups. This saving is mainly due to the lower proportion of customers transferred to the debt collection agency in the groups that received an extra reminder during the extended transfer period. This suggests that communication during the later transfer phase has an impact — something we explore further in sections 4.2 and 4.3.

Figure 3. Share of customers transferred to the debt collection agency, share of customers in arrears on day 119 and average payment day per group



Note: Only customers who paid in full before day 119 are included in the calculation of the average payment day.

Figure 4. Share of customers in arrears per day, by group



Note: To visualise payment behaviour as clearly as possible, the data in the figure has been edited. For more details, see the section 'Variations in procedure' in the statistical appendix.

4.2 The extra reminder leads to earlier payments by customers

If customers are given more time to pay before being transferred to the debt collection agency, does it matter whether they receive an extra reminder or not? To answer this, we look at day 78; this is before all customers with later transfer received the WIK notification. We compare the *later transfer without extra reminder* group to the *later transfer with extra reminder* group and the *later transfer with extra reminder including information on consequences* group. Table 1 shows that the share of customers with an outstanding balance on day 78 is at least one-fifth lower in the groups with an extra reminder compared to the group without an extra reminder (a difference of 15.5 percentage points). Sending the extra reminder during the extended transfer period therefore leads to significantly more customers paying before day 78.

In additional analyses, we compare the groups with and without extra reminders at later points in time. Also on day 94, before the transfer to the debt collection agency took place, significantly more customers in both groups with an extra reminder had paid than in the group without an extra reminder. On day 119, there is only a difference between the *later transfer without extra reminder* group and the *later transfer with extra reminder including information on consequences* group. In supplementary analyses, we also compare the time to payment: customers in the groups with an extra reminder pay significantly earlier than customers in the group without an extra reminder. This is also visible in the differences in average payment day shown in Figure 3.

The extra reminder during the extended transfer period therefore causes customers to pay earlier. As seen in Figure 3, this results in customers in the groups with an extra reminder being transferred to the debt collection agency significantly less often than customers in the group without an extra reminder.

Table 1. Share of customers in arrears on day 78

Group	Share of customers in arrears on day 78
Later transfer without extra reminder	75,9%
Later transfer with extra reminder	60,5%
Later transfer with extra reminder including information on consequences	51,7%

4.3 The extra reminder is more effective when it contains information on the consequences of late payment

The content of the extra payment reminder differed between the two groups that received this reminder. This allows us to test whether the content of the reminder influences the payment behaviour of customers in arrears. Table 1 shows that the share of customers in arrears on day 78 is nearly one-seventh lower in the *later transfer with extra reminder including information on consequences* group than in the group where the reminder did not contain this information (a difference of 8.7 percentage points).

Additional analyses show that the share of customers in arrears also differs significantly between the groups with and without information on consequences on day 94, before the transfer to the debt collection agency took place, and on day 119. In supplementary analyses, we also compare the time to payment between the two groups: customers in the *later transfer with extra reminder including information on consequences* group pay significantly earlier than customers in the group where the reminder did not contain this additional information.

The extra reminder is therefore more effective when it includes additional information on the consequences of late payment. As shown in Figure 3, this leads to customers in the *later transfer with extra reminder including information on consequences* group being transferred to the debt collection agency significantly less often than customers in the group where the reminder did not contain this additional information.

5. Discussion

Many Dutch consumers use BNPL to pay for online purchases. The use of BNPL is not without risks, for example because consumers may face late payment fees or debt collection fees. Extensive checks on creditworthiness and age are sensible starting points to protect consumers from the risks of BNPL. However, strict checks at the time of purchase do not eliminate all risks. For instance, the financial situation of consumers may change unexpectedly after the time of purchase. Moreover, human tendencies such as limited attention and procrastination also contribute to the emergence of payment problems. Therefore, it is important that BNPL providers understand their customers' payment behaviour and carefully design the customer journey.

5.1 Adjustments in the arrears phase help in3 customers avoid debt collection fees

In this research collaboration with BNPL provider in3, we focused on adjustments to the process customers go through during the arrears phase. In this study, later transfer to the debt collection agency did not have the desired positive effect on the proportion of customers in arrears in the long term. Of all customers in arrears at the start of the study (day 64), about a quarter in all groups (22.3% to 26.6%) were still in arrears almost two months later. However, this adjustment did result in fewer customers being subjected to a debt collection process and the associated debt collection fees. For example, in the *later transfer with extra reminder including information on consequences* group, almost one-third fewer customers were transferred to the debt collection agency compared to the *control group*.

A later transfer to the debt collection agency therefore benefits customers. However, it is important that customers receive a payment reminder during the extended transfer period. Customers who received an extra reminder paid earlier and were therefore less likely to be transferred to the debt collection agency than customers who did not receive an extra reminder. The content of the reminder also influences the timing of payments. Customers who received a reminder including information on the consequences of late payment paid earlier and were less often transferred to the debt collection agency than customers who received an extra reminder without this information.

Following the findings of the study, in3 has adjusted the customer process in the arrears phase: customers are now transferred to the debt collection agency at a later stage and receive an additional reminder with information on the consequences of late payment.

5.2 Targeted support for customers with structural financial problems

This study focused on customers with limited or temporary financial difficulties and on customers who forget or postpone payments. For customers with structural financial problems, such adjustments are very unlikely to provide a sufficient solution. BNPL providers can support these customers through low-threshold, tailored solutions such as payment plans, payment holidays and full or partial debt forgiveness. After the implementation of the revised European Consumer Credit Directive (CCD2) – scheduled to apply from November 2026 – BNPL providers will be legally required to implement adequate policies and procedures for arrears management. This includes providing various solutions that take into account the consumer's personal circumstances.

5.3 BNPL providers can test adjustments to the customer journey

The AFM encourages BNPL providers to review and adapt their customer journey design to ensure it closely aligns with the needs of their customers. This encouragement also applies to other parties involved in arrears management, such as credit providers and debt collection agencies. It is important to carefully study the effect of adjustments, as they do not always have the expected or desired effect. For example, the assumption in the current study was that later transfer to the debt collection agency would lead to fewer customers in arrears. Conversely, there may be an expectation that earlier transfer to the debt collection agency results in improved payment behaviour. However, this study shows that the timing of the transfer to the debt collection agency did not influence the proportion of in3 customers who were in arrears in the long term. Thorough testing of adjustments is also important because the effect on behaviour can vary depending on the context and design of the adjustment. While a previous study showed no effect of payment reminder content on customer behaviour, the current study demonstrates that the content of the reminder does indeed influence payment behaviour.

BNPL providers, credit providers and debt collection agencies can adjust many different elements in all phases of the customer journey to positively influence customers' payment behaviour. Consider, for example, the channel, content, timing and frequency of communication, and the way these elements interact. When studying adjustments to the customer journey, it is also important to look beyond the effect on payment behaviour. For instance, in this study the adjustments to the customer journey did not lead to the desired decrease in customers falling into arrears in the long term. However, the adjustments did reduce the number of customers transferred to the debt collection agency. This saved these customers at least €40 in debt collection fees excluding VAT. In this experiment, this represents a saving of at least €20,800 benefiting in3's customers. Moreover, it is likely that some customers were spared considerable stress by not being transferred to the debt collection agency. At the same time, adjustments to the customer journey could result in customers with insufficient financial means paying at the expense of meeting other payment obligations. The AFM therefore encourages providers to consider the broader context in which customers make choices and to identify which positive and negative side effects may arise from adjustments.