"Buy now, pay later" deals could usher in new credit crisis

By Ava Szajna-Hopgood - December 10, 2019

Retailers are opting-in to new ways for customers to pay, but at what cost?

// Former pensions minister Ros Altmann calls for tougher rules around "buy now, pay later" schemes

// Atlmann warns shoppers' spending can spiral by making payments difficult to keep track of

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The rise in "buy now, pay later" financing could cause another credit crisis, according to campaigners calling for tougher controls on shoppers' debt.

Former pensions minister and debt campaigner Ros Altmann told *The Guardian* that cooling-off periods and more stringent affordability checks should be introduced before people take on new debts.

"The rise of buy now, pay later retailing is of great concern, as more people are being enticed into high-cost debt that they may struggle to repay," Altmann told *The Guardian*.

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While "buy now, pay later" credit options have been available for consumers for a number of years, fintech firms such as Klarna have seen huge growth in the last 24 months.

More than 60,000 retailers signed up to Klarna alone in 2019, joining the likes of Asos, JD Sports, Topshop and Boohoo in offering customers 30 days to pay for an item after purchasing it, or setting up plans with retailers to pay back the debt across six to 36 months of payment.

Since May 2019, Klarna also offers its deferred payment scheme in-store, meaning customers can opt to pay via Klarna even when visiting bricks and mortar locations.

The fintech firm claims six million people in Britain use its credit scheme, and that it adds 55,000 new customers a week.

That growth comes despite Hastee's annual Workplace Wellbeing Study claiming "buy now pay later" schemes are causing over a third of UK millennials to experience financial stress after being encouraged to spend money they don't have.

According to Hastee's research, across all age groups who have used the increasingly popular scheme, 27 per cent said they had experienced financial stress after doing so.

Altmann argues that by offering customers initial interest free periods before being charged high interest rates, people are finding it difficult to keep up with the debts they owe, and that more stringent affordability checks should be introduced before people took on new debts.

"Financial resilience across the population is weakening, debt levels are rising and if too many customers are unable to repay their debts in future, we could see a repeat of the financial crisis," Altmann said.

"I would like to see regulators insisting on cooling-off periods and affordability checks before customers are allowed to take on debts.

“The risk of another economic crisis caused [by] irresponsible lending is rising, and regulators should take this seriously.”