

Buy Now, Pay Later: A New Form of Financial Lifeline for Consumers?

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Introduction

Buy Now, Pay Later (BNPL) has emerged as an innovative payment method in Malaysia. It is a type of short-term financing that enables consumers to purchase goods and services immediately, deferring payment through scheduled instalments that are often interest-free. BNPL has become an increasingly popular payment option worldwide, driven by growing demand for more accessible and seamless credit and a surge in online shopping. Globally, the BNPL market size stood at USD6.2 billion in 2022 and is estimated to reach USD39.4 billion by 2030 at a CAGR of 26.0% over the 2023-2030 forecast period¹.

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This view was prepared by Shereen Hazirah Hishamudin from the Khazanah Research Institute (KRI). The author is grateful for the valuable comments from Theebalakshmi Kunasekaran.

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Attribution – Please cite the work as follows: Shereen Hazirah Hishamudin. 2024. Buy Now, Pay Later: A New Form of Financial Lifeline for Consumers? Kuala Lumpur: Khazanah Research Institute. License: Creative Commons Attribution CC BY 3.0.

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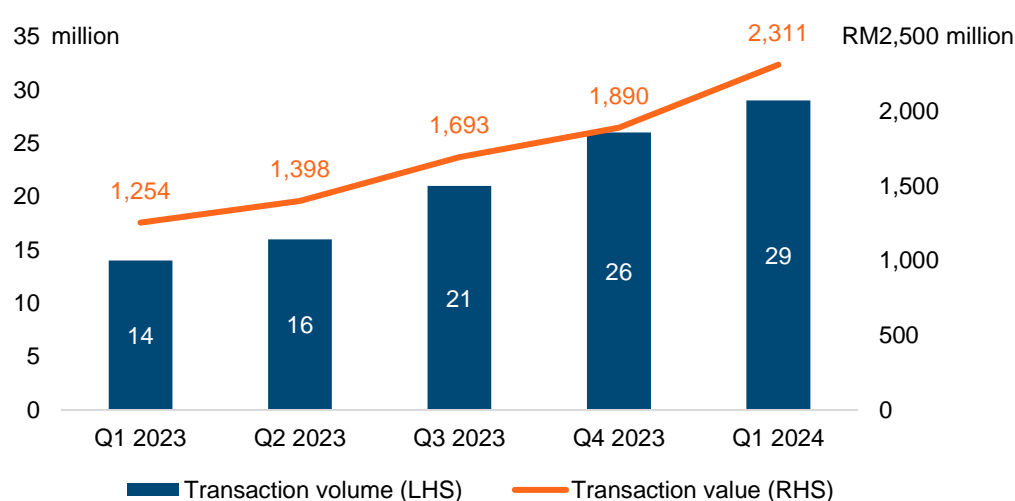
¹ Research and Markets (2023)

Recent trends indicate a growing BNPL market in Malaysia

Rising BNPL usage

According to recently reported figures by the Consumer Credit Oversight Board (CCOB) Task Force, BNPL usage gained significant traction in Malaysia amid steady double-digit growth with 77.3 million transactions worth RM6.2 billion recorded in 2023². In the first quarter of 2024, the rising trend continued with 29 million transactions worth RM2.3 billion recorded based on data collected from 10 non-bank BNPL providers³ in Malaysia (Figure 1). The rising trend is attributed to increased demand and familiarity with the usage of BNPL. Over the past 12 months, the CCOB Task Force cited 3.7 million BNPL accountholders⁴ with at least one transaction with a majority of them aged between 21 and 45 years old⁵.

Figure 1: BNPL Transaction Growth, Q1 2023 – Q1 2024



Source: CCOB Task Force (2024)

² CCOB Task Force (2024)

³ Three BNPL providers dominating the industry include Shopee, Grab, and Atome.

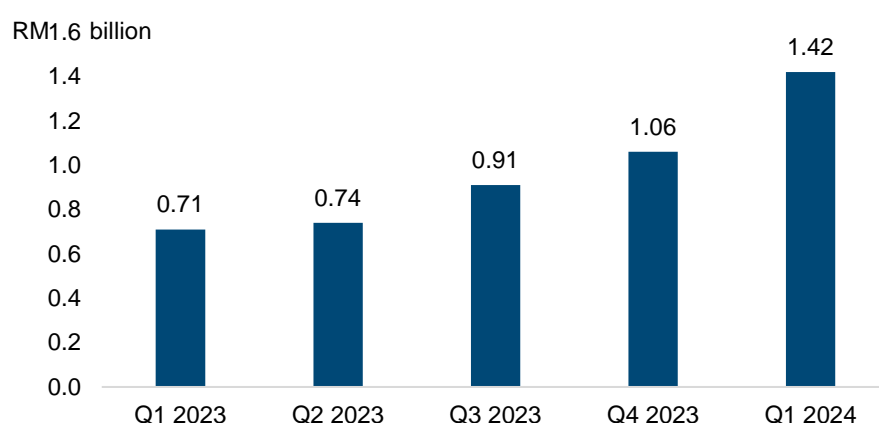
⁴ A credit consumer may own more than one BNPL account.

⁵ Ibid

Expansion in BNPL credit exposure

BNPL credit exposure or total outstanding balance rapidly increased by 34% from RM1.06 billion as of the end of 2023 to RM1.42 billion as of the end of Q1 2024 (Figure 2). While the outstanding balance of BNPL remains relatively smaller in comparison to credit cards, accounting for only 0.07% of total household debt as of the end of 2023⁶, the rate of growth of BNPL usage in Malaysia, particularly against the backdrop of stagnating wages, rising costs of living, and the aggressive push by BNPL providers and merchants alike, can potentially result in a rapid rise in the composition of BNPL debt as a percentage of total debt undertaken by individuals and households.

Figure 2: BNPL Total Outstanding Balance, Q1 2023 – Q1 2024



Source: CCOB Task Force (2024)

Increase in credit limit utilisation for users with low credit limits

In terms of credit limit utilisation, most BNPL users utilise less than 40% of their credit limit. However, users with a credit limit of below RM500 observed a rise in their credit limit utilisation from just below 85% in Q1 2023 to slightly above 95% in Q1 2024⁷, a level that is close to being fully utilised. This potentially indicates an over-reliance on BNPL amongst those within the lower-income category, particularly on lower-value items that may include basic needs such as groceries and food. Of particular note, the total amount spent via BNPL transactions ranged between RM40 to RM500 over the Q1 2023 to Q3 2023 period within diverse merchant sectors such as Professional & Commercial Services, Retail, Amusement & Entertainment, Accommodation, Food & Restaurants, and Transportation & Automotive⁸.

Accumulating debt as a means to address basic needs is not sustainable

Against the backdrop of wage stagnation and rising costs of living, many have resulted to purchasing basic needs on credit. BNPL, in particular, appears as an attractive form of financial lifeline that provides flexible payment options to its users, enabling the immediate purchase of

⁶ Ibid

⁷ CCOB Task Force (2024)

⁸ KRI (2024)

basic needs required by individuals and households. According to a recent study by the Federal Reserve Bank of New York⁹, financially vulnerable households in the United States were more prone to rely on short-term instalment loans like BNPL at a higher frequency to afford smaller, unexpected expenses.

While some argue that BNPL helps consumers manage their cash flow more effectively, the overutilisation of BNPL among lower-income individuals can have several negative consequences. Firstly, BNPL encourages consumers to spend money they do not have, leading to a cycle of debt. Lower-income individuals who already face financial constraints are particularly vulnerable to accumulating multiple BNPL debts, which can quickly become unmanageable. The ease of access to BNPL services, combined with minimal credit checks in comparison to credit cards, means that these consumers may not fully grasp the long-term financial implications of their purchases.

Secondly, overreliance on BNPL can impair an individual's ability to build a healthy credit history. Traditional credit products, like credit cards and personal loans, often come with rigorous credit checks and reporting mechanisms that help build credit scores. In contrast, many BNPL services do not report to credit bureaus, which means that regular BNPL users miss out on opportunities to improve their credit ratings. This lack of credit building can hinder their ability to access other forms of credit in the future, such as mortgages or car loans, perpetuating a cycle of financial exclusion.

Furthermore, the psychological impact of debt accumulation cannot be underestimated. Constantly managing multiple repayment schedules and worrying about meeting these obligations can cause significant stress and anxiety. For lower-income individuals, who may already be dealing with financial and job insecurity, the additional burden of BNPL repayments can exacerbate mental health issues and reduce overall well-being.

Lastly, overutilisation of BNPL services can lead to financial instability and insolvency. If consumers fail to meet their BNPL repayment obligations, they may face late fees and penalties, which can quickly add up and increase the overall cost of their purchases. In severe cases, defaulting on BNPL payments can lead to legal action, further damaging the individual's financial standing. This financial strain not only affects the individuals but can also have broader economic implications, as widespread debt can reduce consumer spending and impact economic growth.

Final thoughts

BNPL has undeniably emerged as an important form of financial lifeline for many Malaysians, particularly those facing economic challenges and limited access to traditional credit. As the market continues to grow and evolve, it is essential to address the associated challenges and risks through thoughtful regulation and consumer education. In KRI's recent report titled "The Financialization of our Lives: Values and Trade-offs", several policy options were proposed to navigate the evolving BNPL landscape, which include amongst others, integrating BNPL into household debt metrics, strengthening regulatory oversight, and enhancing consumer education

⁹ Aidala, Mangrum, and van der Klaauw (2024)

and awareness¹⁰. It is important to note that the Malaysian BNPL market needs to be examined in more depth, utilising microdata from BNPL providers and banking institutions to better understand consumer preferences and spending behaviour as well as their debt dynamics over time.

¹⁰ KRI (2024)

References

- Aidala, Mangrum, and van der Klaauw. 2024. "How and Why Do Consumers Use "Buy Now, Pay Later"?", Federal Reserve Bank of New York.
- CCOB. 2024. "Buy Now, Pay Later (BNPL) Industry in Malaysia" Consumer Credit Oversight Board Task Force. <https://ccob.my/industries/>.
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