



**Testimony of Penny Lee  
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**Before the  
House of Representatives Committee on Financial Services  
Task Force on Financial Technology hearing on**

**“Buy Now, Pay More Later? Investigating Risks and Benefits of BNPL and Other  
Emerging Fintech Cash Flow Products”  
November 2, 2021**

Thank you Chair Lynch, Ranking Member Davidson, and members of the Task Force for the opportunity to testify before you today on innovation in financial services that is empowering consumers with greater choice, access, and opportunity.

I am the Chief Executive Officer of the Financial Technology Association (FTA), a nonprofit trade organization that educates consumers, regulators, policymakers, and industry stakeholders on the value of technology-centered financial services and advocates for the modernization of financial regulation to support inclusion and innovation. The FTA is focused on informing tomorrow’s regulations, policy frameworks, and public understanding to safeguard consumers and advance the development of trusted, digital financial markets and services.<sup>1</sup>

Technology-driven innovation is transforming the way we offer, access, and benefit from financial services and markets in the United States. By using internet and mobile platforms, machine learning, automation, and other modern technologies to deliver financial products and services, financial technology (or “fintech”) companies are improving efficiency and transparency, broadening equity, access and inclusion, reducing costs, and increasing choice and opportunities for consumers and businesses.

These advances are coming at a critical time for the American economy. Millions remain underbanked or underserved and lack access to fair credit, income and wealth inequality continues

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<sup>1</sup> FIN. TECH. ASS’N, [www.ftassociation.org](http://www.ftassociation.org) (last visited Oct. 12, 2021). The FTA’s members include Afterpay, Betterment, BlueVine, Brex, Carta, Figure, Klarna, Marqeta, MX, Nium, Plaid, Ribbit Capital, Sezzle, Stripe, Truwork, Wise, Zest AI, and Zip.

to grow, and small businesses seek to rebuild from the devastation caused by the COVID-19 pandemic.

Fortunately, fintech solutions offer a welcome new paradigm for equitable financial services and are reshaping the financial landscape in powerful ways. I will focus my remarks today on a particular area of fintech innovation: and that is the broadly termed “buy-now, pay-later” (BNPL) space. FTA is pleased to count many of the global leaders in BNPL as founding members of the organization.

### **Buy Now, Pay Later: Advancing Consumer-Centric Innovation**

With respect to BNPL, a new generation of fintech innovators are offering consumers new payment options that can reduce debt and alleviate budget stress. Americans on average pay approximately \$1,000 per year in interest on revolving credit card debt, and credit card interest rates are amongst the highest as compared to other major consumer finance product categories.<sup>2</sup>

Fintech innovators in the broadly defined BNPL space offer consumers a number of tailored and flexible payment options, including direct payments, pay after delivery, and installment plans that typically involve equal payments over a six to eight week post-purchase period. BNPL firms typically charge consumers zero or low fees for installment payment plans and perform no or only a soft credit pull on consumers. Additionally, BNPL firms generally charge much lower late fees than those charged by credit cards or banks in the case of delinquency or default. There is ample research noting that the biggest banking issue for vulnerable households is unexpected or substantial credit card fees.<sup>3</sup>

BNPL solutions are being offered to solve pain points associated with traditional payment options, including high cost revolving debt, harmful credit checks, and over-indebtedness. BNPL products are preferred by consumers relative to traditional credit options for a number of reasons, including that:

- They are typically lower cost, charging little or no interest or fees, unlike credit cards, which make the majority of their revenue from interest charges and have been found to cost vulnerable consumers up to 225% of product purchase value in interest expenses.<sup>4</sup>

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<sup>2</sup> The Motley Fool, *Americans Pay Almost \$1,000 Per Year in Credit Card Interest* (Dec. 11, 2020), available at <https://www.fool.com/credit-cards/2020/12/11/americans-pay-almost-1000-per-year-in-credit-card/>.

<sup>3</sup> See e.g., Financial Health Network, *The FinHealth Spend Report 2021* (2021), available at [https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2021/04/19180204/FinHealth\\_Spend\\_Report\\_2021.pdf](https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2021/04/19180204/FinHealth_Spend_Report_2021.pdf).

<sup>4</sup> Nerdwallet, *How Do Credit Card Companies Make Money?* (May 17, 2021), available at <https://www.nerdwallet.com/article/credit-cards/credit-card-companies-money>; see also Accenture/Afterpay, *The Economic Impact of Buy Now, Pay Later in the US* (Sept. 2021), available at <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/10/Economic-Impact-of-BNPL-in-the-US-vF.pdf> (noting that consumers save up to \$459 million in credit card fees by making purchases with Afterpay BNPL solutions).

- They are typically more transparent, helping consumers better understand – and hence control – their finances.
- They typically help users budget, and as a result, help manage cash flow and avoid risky debt products.
- They are typically more flexible and offer more relief when consumers find themselves unable to pay; and
- They typically result in less debt and repayment takes place over shorter terms.

BNPL products are structured to have payment terms that require consumers to pay for a purchase in a matter of weeks or a few months. This contrasts with revolving credit and high-interest products that may take years to pay down, blur the cost impact of a purchase, and oftentimes keep consumers in a vicious cycle of debt due to continuous interest charges or rollovers.

Notably, BNPL solutions also support merchants by enhancing the customer experience, facilitating economic activity, and driving customer satisfaction. A recent survey of 1,051 US merchants found that offering BNPL payment solutions to customers resulted in a better customer experience, increased sales, and increased sales conversion rates.<sup>5</sup> The benefits of BNPL are apparent regardless of merchant size, with large and small merchants seeing considerable improvement across business metrics. Another recent survey found that merchants using a particular BNPL solution enjoyed 13% more new customers.<sup>6</sup>

Merchants also increasingly have started offering multiple BNPL services along with traditional credit and debit payments options. Merchants cite customer demand, increasing total business sales, and expanding customer choice as the key reasons for offering multiple payment solutions, including BNPL, as part of the regular offering.

Given higher conversion rates and resulting increased sales from consumers' preference for BNPL, merchants offering BNPL payment solutions typically pay a fee to the BNPL provider, none of which is passed along to the consumer.

Given the above, it is not surprising that a broad range of consumers prefer BNPL payment solutions as a responsible, low risk, and low-cost option for making consumer purchases. A 2020 survey of BNPL users found that more than 75% of consumers using a BNPL payment solution had funds available to cover the full purchase price of the target item at the time of the transaction.<sup>7</sup>

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<sup>5</sup> Zip, *Is 2021 the Year of BNPL? 6 Facts You Need to Know About This Payment Method* (June 10, 2021), available at <https://zip.co/us/merchant-hub/retail-insights/retail-insights-top-bnpl-trends-2021>

<sup>6</sup> See Accenture/Afterpay, *The Economic Impact of Buy Now, Pay Later in the US* (Sept. 2021), available at <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/10/Economic-Impact-of-BNPL-in-the-US-vF.pdf>.

<sup>7</sup> Cardify, *COVID-19 and the surge of “buy now, pay later”* (July 29, 2020), available at <https://www.cardify.ai/reports/buy-now-pay-later..>

In fact, the majority of users had 5x the total purchase amount in their account at the time of using the BNPL payment option.

The same survey found that BNPL users are predominantly female and younger, with millennials and Gen Z customers making up the vast majority of users. The user base also includes lower-income consumers, which may correlate with a higher incidence of lacking access to traditional forms for credit or banking services.

### **BNPL Products are Subject to Robust Regulation**

BNPL products are subject to key consumer protection regulations and FTA members are committed to informing regulatory frameworks that safeguard consumers. Regardless of the BNPL offering, all BNPL products are subject to key consumer protection laws and regulations, including around anti-money laundering, fair lending, credit reporting, debt collection, privacy, fair treatment of customers, and electronic fund transfers. They also are subject to similar state consumer protection laws.

Some BNPL products may not qualify as a loan when they are structured as “credit sales” or “retail installment sales,” where the legal seller of the goods and/or services agrees to accept the sales price in installment payments over time. In these instances, though, there are state based frameworks that govern such offerings. Other BNPL providers do offer loans either directly through state licensure or through regulated bank partnerships.

### **Informing Future Policy**

It is an exciting time for consumers and merchants, and the BNPL providers who are working to serve those two stakeholder groups with innovative, consumer-centric payment solutions. While there is clear evidence of the benefits BNPL provides, FTA recognizes it is still early in the development of this space. We also believe it is important to remain vigilant against unscrupulous actors or products that drive poor consumer outcomes.

To this end, we are supportive of partnering with policymakers to increase understanding of how consumers use BNPL solutions and the impact on their financial well-being. Future policy should be predicated on proper analysis of real-world outcomes, including with respect to credit reporting, financial health, and consumer choice and preferences.

FTA members are engaged in active discussions with credit reporting agencies to be sure scoring models properly account for BNPL products and are also actively pursuing real-world research to

better understand economic impact and outcomes.<sup>8</sup> Our members look forward to continuing this work, including in partnership with policymakers and regulators.

FTA members also believe in the importance of providing consumers with clear descriptions of BNPL products so that they can make informed decisions. FTA's BNPL member companies are leaders in ensuring that product offerings, rates, fees, and terms are disclosed in clear, concise, transparent, and accurate language. FTA members are committed to continuing to advance industry standards that safeguard consumers, including transparent and consistent disclosures. To this end, we welcome engagement with the government to ensure consumer interests are properly served.

While today's discussion revolves around Buy Now, Pay Later and similar consumer liquidity products, the FTA also strongly encourages appropriate consumer protection in other areas of consumer finance, including proposals to enhance overdraft fee protection. Legislation that establishes fair and transparent practices related to the marketing and provision of overdraft practices and meaningful disclosure of overdraft fees would be a welcome development for millions of consumers. Similarly, given the huge influence that credit bureaus exercise over Americans' financial health and well-being, FTA believes Congress should examine efforts to modernize credit bureaus and their business models in order to make their scoring practices more transparent and inclusive, and data collection efforts more secure and accountable.

## **Conclusion**

FTA appreciates the opportunity to engage with the committee today and views this as just the start of an ongoing dialogue. Fintech innovation, including BNPL solutions, is driving competition and choice for consumers that results in lower costs and better financial outcomes. Yet, we believe strongly that balanced and thoughtful regulation is key to long term success for all involved stakeholders, including providers, consumers, and merchants utilizing new payment solutions. We look forward to helping to inform this important process.

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<sup>8</sup> See Accenture/Afterpay, *The Economic Impact of Buy Now, Pay Later in the US* (Sept. 2021), available at <https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/10/Economic-Impact-of-BNPL-in-the-US-vF.pdf>.

Accenture/Afterpay, *Millennials and Gen Z in the US: Next Gen Index* (Aug. 2021), available at [https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/08/Afterpay\\_NextGen\\_US.pdf](https://afterpay-corporate.yourcreative.com.au/wp-content/uploads/2021/08/Afterpay_NextGen_US.pdf)