

**The New Credit Model: Why Financially Worry-Free Consumers Still Want Alternatives To Traditional Credit**, a PYMNTS and Sezzle collaboration, uses data from a survey of 7,024 American consumers who are statistically representative of the U.S. adult population. PYMNTS surveyed consumers regarding their most recent shopping habits, retail preferences and payment choices between April 16 and May 10.

# The New Credit Model:

**Why Financially Worry-Free Consumers Still Want Alternatives To Traditional Credit**

■ DECEMBER 2021



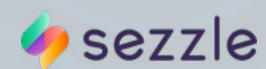
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The New Credit Model: Why Financially Worry-Free Consumers Still Want Alternatives To Traditional Credit was produced in collaboration with Sezzle, and PYMNTS is grateful for the company's support and insight. [PYMNTS.com](https://pymnts.com) retains full editorial control over the following findings, methodology and data analysis.

## TABLE OF CONTENTS

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Introduction .....	04
The worry-free consumer.....	06
The affordability gambit .....	08
The BNPL connection .....	12
The next step .....	14
BNPL buy-in .....	18
Conclusion .....	20
Methodology.....	21

# Introduction

Consumers' use of online marketplaces continues to surge, whether they are shopping for everyday necessities or big-ticket items. More retailers are making the buy now, pay later (BNPL) option available at checkout, as they are finding that the increasingly popular payment method allows them to sell to customers they otherwise may not be able to reach.<sup>1</sup>

BNPL allows consumers to pay for larger purchases in installments with low or sometimes no interest, making it an attractive payment alternative to high-interest credit cards issued largely based on credit. The United States has experienced a return to budgeting and value

this year, and consumers are more aware of their ability to tailor payment and shopping options to meet their individual needs. Merchants that offer BNPL options can broaden their appeal not only to those less financially secure, but also to financially worry-free consumers who find BNPL options an effective alternative to both afford and pay for items while living within their means.<sup>2</sup>

Financially worry-free consumers — those with good credit or access to credit — are interested in alternatives to traditional credit card payments. They may not face the challenges that many consumers who live paycheck to paycheck and struggle to pay bills do in securing credit, but they

are concerned about managing their budgets. PYMNTS' research finds that, among worry-free consumers who have not had a credit card in the last 12 months, 40% say they do not use credit cards because the cards encourage them to spend money. Of worry-free consumers without a credit card, 35% choose not to use credit cards because interest rates are too high and another 25% say fees are too high for them to apply for one.

In *The New Credit Model: Why Financially Worry-Free Consumers Still Want Alternatives To Traditional Credit*, PYMNTS examines what is driving the growing interest in flexible payment options among financially worry-free consumers. It will also provide actionable insights into how

retailers can engage consumers in this group who may be looking for alternatives to traditional credit cards and new ways to budget and manage their spending.

**This is what we learned.**



<sup>1</sup> Buy Now, Pay Later: The Financial Self-Care Revolution Report. PYMNTS.com. 2021. <https://www.pymnts.com/study/buy-now-pay-later-financial-self-care-revolution-digital-payments-merchants/>. Accessed December 2021.

<sup>2</sup> Ibid.

# The worry-free consumer

**P**YMNTS’ research identified three consumer personas to better understand consumer attitudes, preferences and behaviors around BNPL payment options: the “worry-free” consumer, the “second-chance” consumer and the “shut-out” consumer.

The worry-free persona most likely does not live paycheck to paycheck, is relatively financially stable, has a credit score ranging from good to excellent — the mean FICO score for this group was 768 — and has no barriers to approval for a traditional credit card or loan. The worry-free consumer’s average age is 52, and the majority earn more than \$50,000 per year, though 40 percent earn more than \$100,000 annually. This consumer may or may not choose to use credit cards to make purchases.




The second-chance persona includes 23% of U.S. retail customers who need second chances to fully participate in the retail marketplace as consumers and who have blemishes on their credit profiles. Of this group, 59% are “very” or “extremely” interested in improving their credit scores, which average 662.

The shut-out persona includes consumers who have been excluded from conventional credit access. This group’s average credit score is 571, and these consumers cannot gain access to traditional credit cards due to either significantly damaged credit or a lack of credit history.

TABLE 1:

**Why consumers choose to avoid credit cards**

Consumers’ reasons to not have credit cards, by persona

				
	TOTAL	Worry-free	Second chance	Shut out
Encourage overspending	37.8%	40.5%	42.3%	22.1%
High interest rates	33.8%	35.3%	36.8%	29.1%
High annual fees	26.0%	25.0%	28.2%	25.5%
Low credit score or personal ID/bank problems	14.6%	0.0%	0.0%	89.2%
Do not trust credit card issuers	15.1%	15.6%	17.5%	11.0%
Other	13.6%	16.8%	12.0%	2.4%

Source: PYMNTS | Sezzle The New Credit Model

# The affordability gambit:

Financially secure consumers are motivated by price and awareness of BNPL options

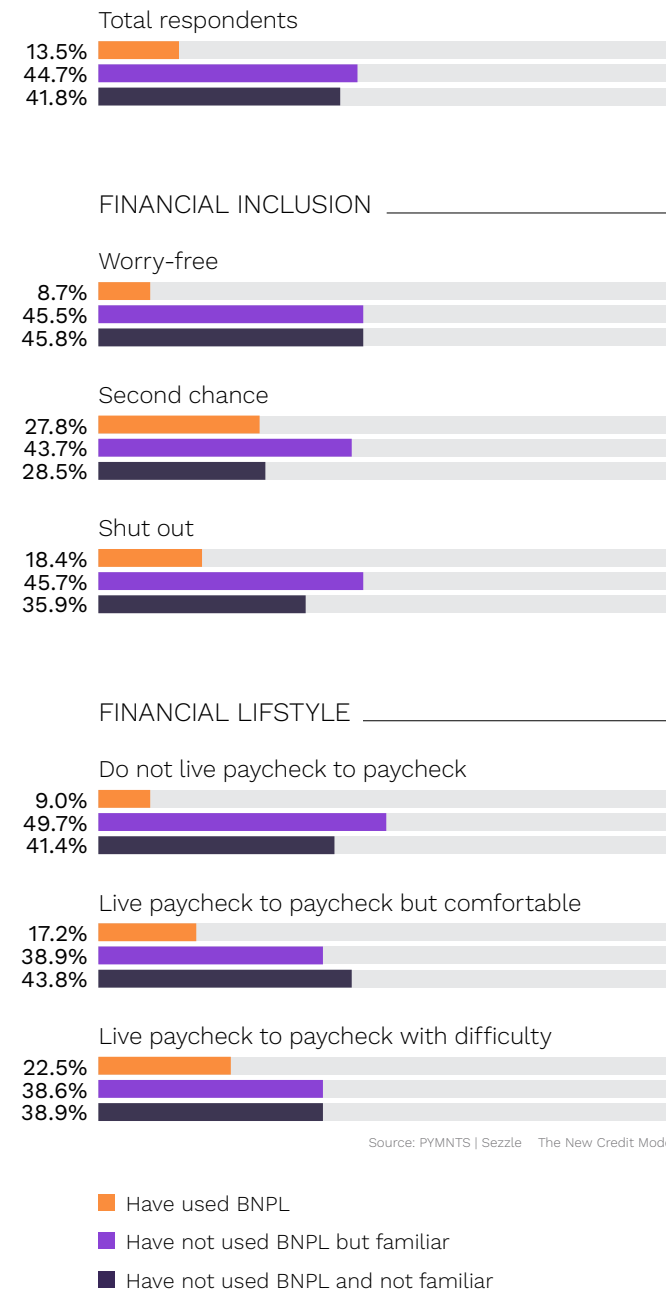
Many consumers plan to make more purchases now than they did in 2020, but they plan to stay within their means. A U.S. government survey finds that consumers report increased spending on furniture (14%), appliances (13%) and electronics (16%).<sup>3</sup> The ability to pay for a product over time is a big selling point for BNPL, cited by 56% of respondents who used BNPL, including 56% of worry-free respondents who used BNPL for their online purchases. PYMNTS' research finds that 66% of consumers are living free of financial concerns and 54% of them are familiar with BNPL options. Nine percent of these financially worry-free consumers already have used BNPL.

<sup>3</sup> Author unknown. SCE Household Spending Survey. Federal Reserve Bank of New York. 2021. <https://www.newyorkfed.org/microeconomics/sce/householdspending/>. Accessed December 2021.

FIGURE 1:

### Mapping BNPL awareness

Share of consumers exhibiting BNPL awareness during the last 12 months, by financial lifestyle and level of financial inclusion



Even if not motivated to use BNPL because of barriers to traditional credit, these shoppers are interested in the payment option when a potential purchase reaches a cost threshold. Consumers who are familiar with BNPL programs are most likely to be interested in using them to pay for higher priced, one-time retail purchases (47%) and for medical expenses (29%). Among financially worry-free consumers, 43% are interested in using BNPL to pay for expensive, one-time retail purchases and 24% want to use it to pay for medical expenses.

43%

of worry-free consumers who have used BNPL or are familiar with it want to use it to pay for expensive, one-time retail purchases.

# 14%

of worry-free consumers say they would use BNPL to pay for groceries.




Consumers who are aware of BNPL are also interested in using it to pay for necessities such as groceries and utilities. Our research finds that 21% of all consumers who are aware of BNPL would use it to pay for groceries and 18% would use it to pay for monthly utility bills. Of worry-free consumers, 14% would use BNPL to pay for groceries and 11% would use it to pay monthly utility bills.



TABLE 2:

**Using BNPL to pay expenses**

Share of consumers interested in using BNPL to pay for select expenses, by persona

				
	TOTAL	Worry-free	Second chance	Shut out
Expensive, one-time retail purchases	47.1%	43.3%	55.3%	52.9%
Medical bill	29.2%	24.0%	38.5%	37.4%
Groceries	20.8%	13.9%	32.9%	35.0%
Monthly utility bills	17.6%	11.5%	25.5%	39.0%
Insurance bills	14.2%	9.6%	22.2%	23.9%
Rent or mortgage payments	12.0%	6.7%	19.4%	24.7%
Other	24.2%	32.5%	10.1%	7.6%

Source: PYMNTS | Sezzle | The New Credit Model

# The BNPL connection:

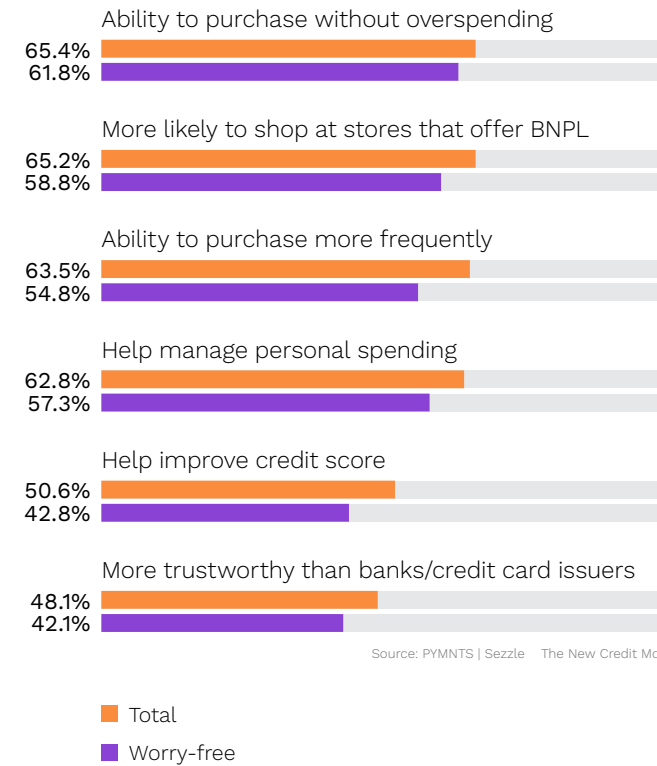
## Why worry-free consumers choose BNPL

**F**inancially secure consumers who use BNPL see it as a tool for improving their buying power. According to PYMNTS' research, 59% of worry-free consumers who use or would like to use BNPL say seeing it as a payment option makes them more likely to shop with those retailers. In addition, 55% of worry-free consumers who use or would use BNPL say this is because it allows them to make purchases more frequently than they would be able to otherwise.

FIGURE 2:

### Consumers' attraction to BNPL

Reasons why financially worry-free consumers choose BNPL options



62%

of worry-free consumers familiar with BNPL believe it can help them buy things they want without overspending.

Worry-free consumers also value BNPL as a way to manage their finances and live within their budgets. Our research finds that 62% of financially secure consumers who have used or would like to use BNPL believe these programs can improve their ability to buy things they want without overspending. In addition, 57% of financially secure consumers believe that BNPL programs can help them manage their personal spending.

# The next step:

## BNPL as a path to better credit scores

**M**ore than half of consumers who have used or would use BNPL are attracted to the payment method because they see it as a way to increase their credit scores. Higher credit scores help consumers boost their buying power. This is not just of interest to second-chance consumers, either: Among worry-free consumers who have used or would use BNPL, 43% agree that BNPL programs help improve their credit scores.




PYMNTS’ research finds that 78% of second-chance consumers are “somewhat,” “very” or “extremely” interested in raising their credit scores. Despite their high levels of financial health, 52% of worry-free consumers report that they are “somewhat,” “very” or “extremely” interested in raising their credit scores.

Consumers cite a number of reasons for their interest in improving their credit scores — even those who are in relatively good financial standing. Obtaining lower interest rates is the most important reason to improve credit scores for 40% of worry-free consumers and for 28% of second-chance consumers. Another top reason cited by both worry-free consumers (26%) and second-chance consumers (31%) is the ability to receive help in the event of an emergency.

TABLE 3:

### Most important reasons for interest in improving credit scores

Share of consumers who cite select factors as their most important reason for being interested in improving their credit scores, by persona

				
	TOTAL	Worry-free	Second chance	Shut out
Lower interest rate	34.0%	40.3%	28.3%	15.6%
Emergency support	28.5%	26.2%	30.6%	28.1%
Better credit products	11.4%	10.8%	12.3%	15.9%
Borrowing for big purchases	10.9%	8.9%	13.0%	16.9%
Able to rent without deposit	5.6%	3.9%	6.0%	11.6%
Better business support	4.5%	3.7%	5.4%	6.9%
Other	5.2%	6.2%	4.4%	5.0%

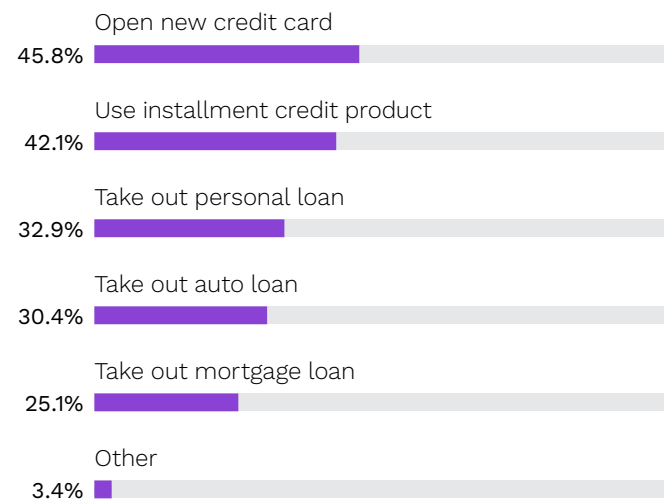
Source: PYMNTS | Sezzle | The New Credit Model



**FIGURE 3:**

**Ways to boost credit scores**

Share of consumers who believe taking on new debt in select ways will improve their credit scores



Source: PYMNTS | Sezzle | The New Credit Model

**42%**  
of consumers who think taking on new debt will improve their credit scores believe that an installment plan product will help.

Our data also finds that 46% of respondents who think taking on new debt will improve their credit scores believe that opening a new credit card will improve their credit scores. In addition, 42% believe that an installment plan credit product linked to their debit cards that is used to make a purchase and pay it off in three to four scheduled monthly payments will improve their credit scores. Such an installment plan is seen as a more viable credit-repair option than taking out a bank, auto or home loan.

# BNPL's popularity keeps growing.

**57% of financially secure consumers who have used or would use BNPL reported that BNPL programs help them manage personal spending.**

**14% of respondents who had heard of BNPL would be interested in using it to pay for insurance, and 12% would use BNPL programs to make rent or mortgage payments.**

**Second-chance consumers (54%) are more likely to find BNPL programs more trustworthy than banks/credit card issuers compared to consumers who are financially secure (42%).**

**22% of respondents who live paycheck to paycheck and have difficulty paying their bills have used a BNPL program.**

# BNPL buy-in:

## How merchants can attract worry-free consumers

**B**NPL is an accessible payment option that can help retailers engage consumers and grow sales. Approximately 29 million American adults (14% of online shoppers) have paid for online purchases with BNPL options at least once during the last 12 months, yet merchants have a substantial untapped audience in new BNPL users. There are 7.6 million consumers who have not used BNPL but are interested in using it in the future.

BNPL provides a rapid pathway to retail shopping for larger purchases and helps improve credit scores, and many consumers also see BNPL as a way to stretch their budgets while managing their expenses. This perception makes merchants that offer BNPL payment options appealing to worry-free consumers, 12 million of whom have used BNPL and an additional 3 million of whom have not but are interested in doing so.

PYMNTS' research finds that BNPL's ability to spread payments over time and its ease of use are the reasons most cited for choosing the method regardless of the consumer's level of financial inclusion. More than half (55%) of consumers cited each of these reasons for choosing BNPL for online purchases. By offering BNPL, merchants can attract new customers with a frictionless and secure payment option while helping them avoid debt.



# Conclusion



**W**orry-free consumers are an attractive demographic for merchants, having more buying power than most, and they are looking for alternative ways to pay. This is not only because credit cards come with high fees and interest rates, but also because they want to better manage their spending and live within their means. BNPL programs are seen as an option that can help them achieve these goals while also improving their credit scores. Savvy retailers can engage these consumers by providing them with BNPL payment options at checkout.

## METHODOLOGY

**T**he New Credit Model: Why Financially Worry-Free Consumers Still Want Alternatives To Traditional Credit, a PYMNTS and Sezzle collaboration, is based on insights from a survey of 7,024 consumers representative of the general adult U.S. population. The survey collected 30,016 responses during two waves of data collection between April 16 and April 26 and between April 28 and May 10. Of these responses, 64% were disqualified, leaving 7,024 complete responses. The survey took 12 minutes, 36 seconds to complete and presented questions regarding respondents' incomes, credit scores and shopping behaviors online and in retail stores in addition to demographic questions such as age and education level.



The  
New Credit  
Model

# ABOUT

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