FEDERAL RESERVE BANK PHILADELPHIA
Consumer Finance Institute

SPECIAL REPORT

4-in-6 Payment Products — Buy Now, Pay Later: Insights from New Survey Data

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Since 2019, buy now, pay later (BNPL) lending products have experienced rapid growth in transaction volume and garnered significant attention from consumers, researchers, and regulators.[2] In particular, BNPL products that use an interest-free, 4-payments-in-6-weeks (*4-in-6*) structure have been examined closely because of concerns that their unique characteristics could pose risk to vulnerable consumers as well as to lenders across credit markets.

In 2023, for example, the Consumer Financial Protection Bureau (CFPB) released a report identifying inconsistent consumer protections, data harvesting, and overborrowing as potential risks associated with *4-in-6* products.[3] While growth of the segment has slowed in the past 18 months, it is still gaining popularity, based on early reports on 2024 holiday spending.[4]

This report explores trends in *4-in-6* payment product usage over the past year, including user demographics and financial health measures, and expands on previous research conducted by the

[1] The views expressed in this report are solely those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Nothing in the text should be construed as an endorsement of any organization or its products or services. Any errors or omissions are the responsibility of the authors. No statements here should be treated as legal advice. This report is available on the Federal Reserve Bank of Philadelphia's website [link].

[2] See Consumer Financial Protection Bureau, "CFPB Study Details the Rapid Growth of 'Buy Now, Pay Later' Lending," September 2022, https://www.consumerfinance.gov/about-us/newsroom/cfpb-study-details-the-rapid-growth-of-buy-now-pay-later-lending/.

[3] See Consumer Financial Protection Bureau, "Consumer Use of Buy Now, Pay Later: Insights from the CFPB Making Ends Meet Survey," March 2023, https://www.consumerfinance.gov/data-research/research-reports/consumer-use-of-buy-now-pay-later-insights-from-the-cfpb-making-ends-meet-survey.

[4] See Adobe, "Unboxing the 2023 Holiday Shopping Results," January 4, 2024, https://business.adobe.com/resources/sdk/unboxing-the-2023-holiday-shopping-results.html.

Consumer Finance Institute (CFI).[5] It draws on data from a series of quarterly consumer surveys conducted by CFI between January 2023 and January 2024. Each survey collected approximately 5,000 responses from a nationally representative sample through a web-based survey instrument; results are weighted to the American Community Survey demographic distributions for U.S. adults.

Unlike previous CFI surveys about this topic, this series asked participants specifically about their use of *4-in-6* products, rather than buy now, pay later (BNPL). This definitional change was employed to avoid confusion among participants, since BNPL has been used to describe a wide range of products and can introduce definition creep.[6]

Regardless of the change in definition, we find similar results regarding the characteristics of *4-in-6* product users: They are typically younger (<36 years old) and non-White. Moreover, they appear to have more challenging financial lives, characterized by more disruptions and the use of more financial coping strategies.

While quarterly data were collected as part of this survey series, we concentrate here on data collected in the first and most recent surveys in January 2023 and January 2024, respectively. The survey asks about payment product usage over the previous three months; therefore, these survey dates cover usage during Q4 in 2022 and 2023, respectively, providing insight into holiday season behaviors over a one-year period. Because of data limitations, there are some instances where we make comparisons between Q4 2022 and Q3 2023.

Unless otherwise noted, all the reported difference in means between *4-in-6* users and nonusers are significantly different from zero (i.e., $p < 0.10$).

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[5] See Akana (2022) and Zeballos Doubinko and Akana (2023) for more insights into BNPL use over the years.

[6] As discussed in Akana (2022), there is evidence that respondents included traditional point-of-sale installment loans in reporting their use of BNPL in the past because of confusion in the market about the definition of *buy now, pay later*. By using the term *4-in-6*, we believe the results described here will be more consistent with actual innovation that is BNPL.

Change in *4-in-6* Use Between the 2022 and 2023 Holiday Seasons

According to the survey data, there was a small, but statistically significant increase in *4-in-6* users between Q4 in 2022 and Q4 2023. In Q4 2022, 17.7 percent (N=817) of all survey respondents had used a *4-in-6* product at least once during that period; however, the share increased to 19.9 percent (N=1,001) of respondents by Q4 2023 (**Figure 1**). Additionally, while data for the most recent quarter are not available, the share of high-frequency users (5+ payments with *4-in-6*) increased from 30.7 percent in Q4 2022 to 33.7 percent in Q3 2023 (**Figure 2**). This increase, however, was not statistically significant.

For the most part, *4-in-6* users appeared to make their scheduled payments on time. In fact, between Q4 2022 and Q4 2023, the number of users who made all scheduled payments on time increased from 71.7 percent to 78.0 percent, respectively (**Figure 3**). At the same time, the number of users who did not make any payments decreased from 10.2 percent to 4.5 percent, respectively. This may be an indication that the incremental *4-in-6* users who we see in Q4 2023 are less risky than those who used the product in the previous year. Whether this arose from changes in companies' underwriting methods or changes in the pool of customers attracted to the product is not completely clear in our data.

When we look at the demographics of *4-in-6* users between the holiday seasons, the overall characteristics are similar; however, we see some small changes in the population. Users in Q4 2023 appear to be slightly older (48.5 percent are younger than 36 years old, compared with 51.3 percent in Q4 2022), slightly more affluent (30.1 percent earn more than $70,000, compared with 27.3 percent in Q4 2022), and less likely to be non-White (37.8 percent are non-White, compared with 40.0 percent in Q4 2022) (**Figure 4**). While statistically significant, those changes in the income and race/ethnicity of *4-in-6* users are small. Thus, the general demographic characteristics of the user population are practically the same as in our earlier research.

As seen in previous CFI studies on the BNPL market, consumers continued to report *convenience* and *personal preference* as the primary motivators for their use of *4-in-6* products; it was one of the few reasons for using BNPL where we see statistically significant changes over time.[7] In the past year, the share of users who claimed that they "just [preferred] to use [*4-in-6*]" rose from 26.7 percent in Q4 2022

[7] As discussed in Akana (2022), *convenience* was the most frequently selected reason for BNPL use, followed by the *size of the purchase* and *ability to better manage finances*. The least chosen options were *inability to get approved for credit* and *lack of credit*.

to 35.4 percent in Q3 2023, which is the most recent quarter that this question was asked in our survey series (**Figure 5**). The least chosen options in both iterations of the survey continued to be "I don't have a credit card" and "It does not require a credit check." This is consistent with our previous observations that only a minority of consumers who use these products are doing so as a means of accessing credit that is otherwise unavailable to them. Here we see a small — but statistically significant — decrease in references to credit constraints as a reason for using BNPL. If anything, the importance of such constraints among BNPL users appears to have declined slightly.

Demographics of *4-in-6* Users versus Nonusers

As previously noted, when we compare the demographic characteristics of users and nonusers in either time period, we almost always find statistically significant differences between them. On the other hand, with a few exceptions noted previously and in the next section, we do not observe many changes in characteristics *within* these groups that are statistically significant. For this reason, this section will focus only on the most recent data collected in January 2024, asking about behaviors and characteristics in Q4 2023. All these data are consistent with our previously reported survey results.

According to the survey data, *4-in-6* payment products were more likely to be used by younger individuals. In Q4 2023, approximately 48.5 percent of all users were ages 18–35, while only 27.3 percent of nonusers were in the same group. Users also had higher incomes, with one-third of all users earning more than $70,000 in the past year, compared with 22.5 percent of nonusers. Additionally, 37.8 percent of all users were Black or Hispanic, compared with 26.2 percent of nonusers (**Figure 6**).

Financial Health

Similar to the demographic results, observations related to the financial health of *4-in-6* users did not change significantly over the course of the survey series. As a result, this section will focus only on data collected in January 2024 and pertains to behaviors respondents reported that they engaged in during the prior 12 months.

Based on the survey results, it appears that *4-in-6* users have more challenging financial lives compared with nonusers. For example, 60.1 percent of all users experienced a financial disruption of some sort, compared with 48.5 percent of nonusers (**Figure 7**). As for specific types of disruptions, users reported a higher incidence of each type of disruption except for large expenses.[8] For example, 13.3 percent of users reported losing access to government benefits compared with 5.8 percent of nonusers. Similarly, an income disruption was reported by 11.8 percent and 7.7 percent, respectively. Users of *4-in-6* products were also more likely to experience a relocation or other increases in housing costs.

When asked about the means they have used to pay their bills, 79.2 percent of users reported using at least one financial coping strategy to help meet their monthly expenses in 2023, compared with 66.2 percent of nonusers (**Figure 8**). In particular, BNPL users were substantially more likely to resort to working more, borrowing more, or reducing savings or debt payments to meet expenses. For example, 38.5 percent of users stated that they borrowed more money, compared with 27.3 percent of nonusers.[9] It is somewhat surprising to find that BNPL users reported lower rates of cutting discretionary spending than nonusers at 37.4 percent and 45.0 percent, respectively. While it is possible that BNPL users are more financially constrained and have less discretionary spending to cut compared with nonusers, we do not have the data to verify this conjecture.

BNPL users also consistently report a lower ability to make their monthly bill payments and more frequent concerns about making ends meet compared with nonusers. In the January 2024 survey, 26.9 percent of users indicated that they could not pay some or any of their monthly bills that month, compared with 22.6 percent of nonusers (**Figure 9**). Looking to the future, 45.9 percent of users said they are concerned about making ends meet over the next six months versus 30.5 percent of nonusers (the relationship was similar for the seven-to-12-month time period).

On the other hand, when we asked respondents about handling a $400 emergency expense, we observed that users reported a more nuanced result. Only 34.6 percent of BNPL users stated they would use a *cash equivalent* (defined as using cash from their checking or savings account or using a credit card and then paying it in full at the next statement), compared with 54.1 percent of nonusers (**Figure 10**). Nevertheless, users were not more likely to report that they could not pay that expense; in fact, only 13.4 percent of users reported that they could not pay a $400 emergency expense, compared with 15.4 percent of nonusers.

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[8] Our questions distinguished between health-care and nonhealth-care expenses, but respondents did not report different patterns for the two categories.

[9] In our second report on BNPL (Zeballos Doubinko and Akana, 2023) that analyzed the credit bureau data of anonymized respondents from a different survey, we found the most important distinguishing characteristic of BNPL users, relative to nonusers, was an evident demand for more credit.

Thus, users are not necessarily less capable of paying for an emergency expense, but they are more likely to require multiple coping strategies, including taking on additional debt, to cover such an expense.

Conclusion

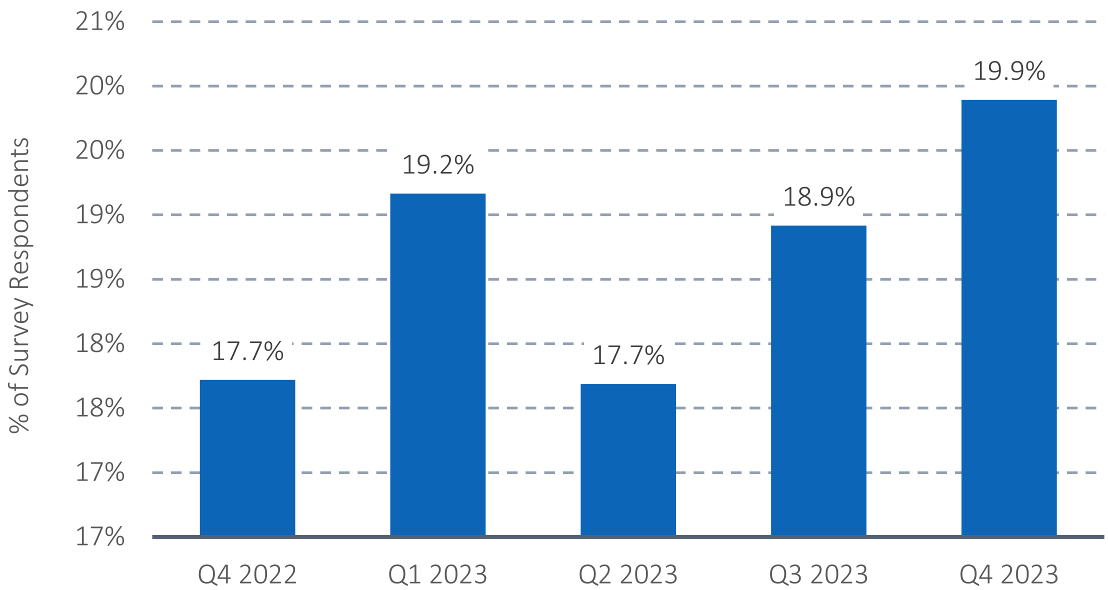
This report presents an analysis of trends in *4-in-6* usage, demographics, and consumers' financial health from CFI surveys collected in January 2023 and January 2024 that cover respondents' use of *4-in-6* payment products during the last two holiday seasons. When comparing the characteristics of *4-in-6* product users between the 2022 and 2023 holiday seasons, we see an increase in the percentage of respondents using the products and the proportion of adopters using BNPL more intensively.

We found the demographic characteristics of the BNPL users did not change significantly. We found that *4-in-6* products continued to be more heavily used by 18-to-35-year-olds, individuals earning more than $70,000, and Black or Hispanic respondents. We also found that, in the most recent period, BNPL users were more likely to make their *4-in-6* payments on time and slightly less likely to report credit constraints as a reason for using BNPL. Rather, a simple preference for using the product appears to be increasingly important.

Still, we found that BNPL users were more likely than nonusers to experience financial disruptions and relied on more financial coping strategies to meet their monthly expenses. Users were also significantly more concerned about making ends meet in the future than nonusers.

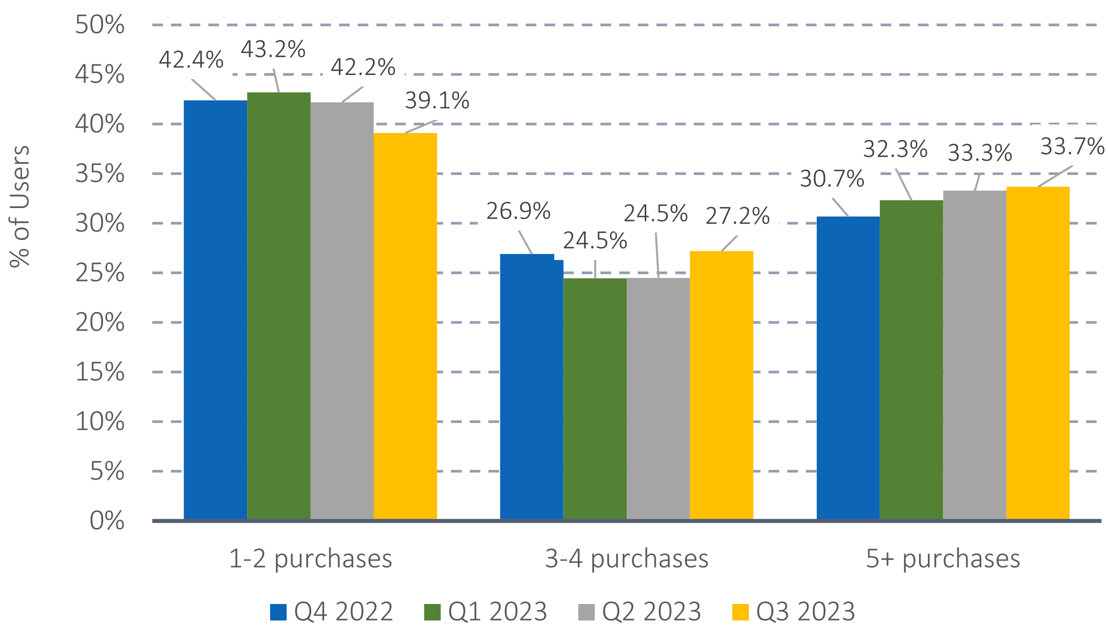
Appendix

Figure 1 — Percentage of Users (1+ Payments Made with *4-in-6*) (Q4 2022–Q4 2023)



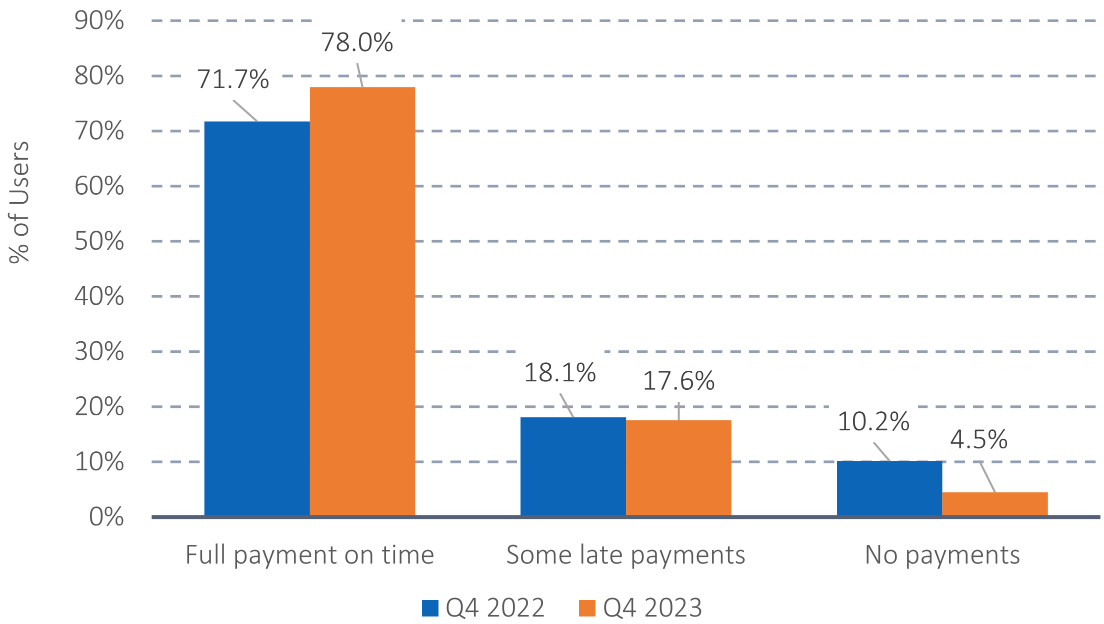
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 2 — Total Purchases Made with *4-in-6* (Q4 2022–Q3 2023)



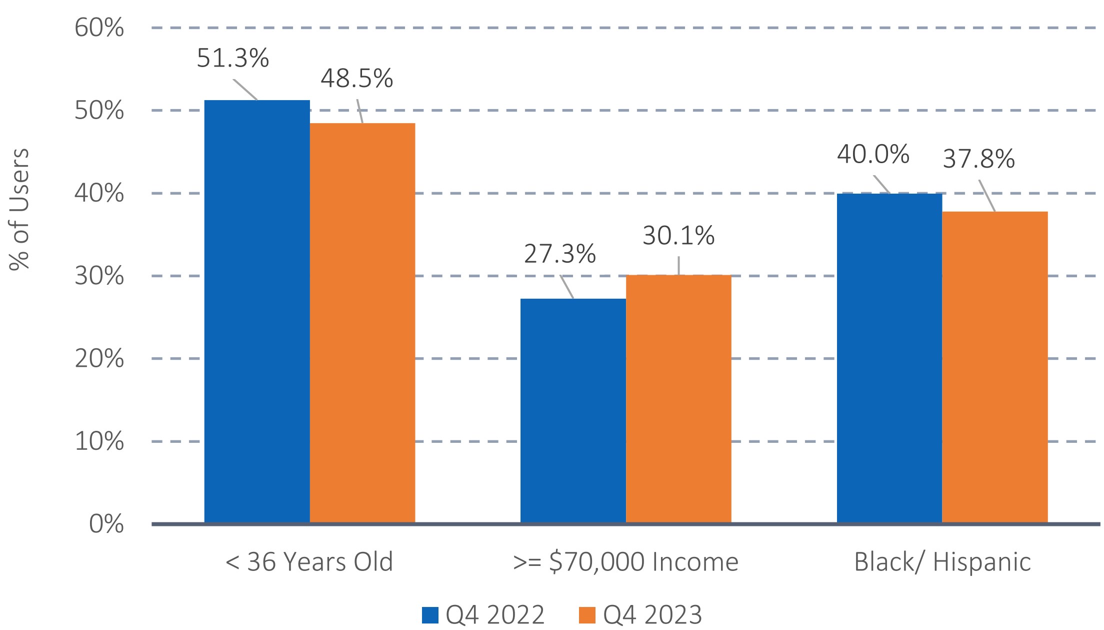
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 3 — Full Payment Status (Q4 2022 versus Q4 2023)



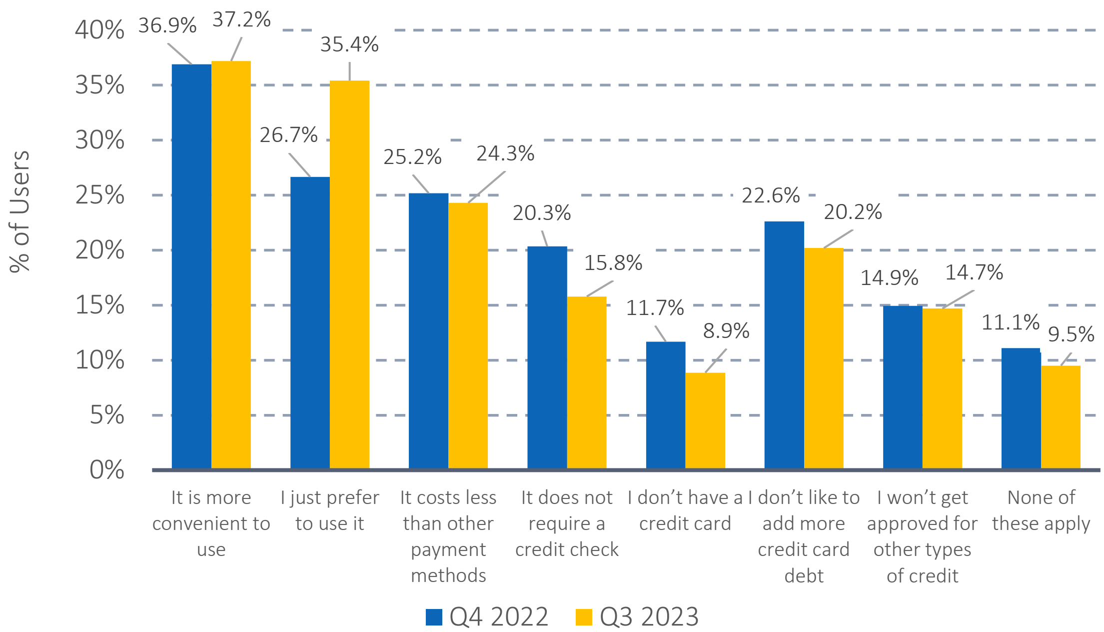
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 4 — Demographic Characteristics of Users (Q4 2022 versus Q4 2023)



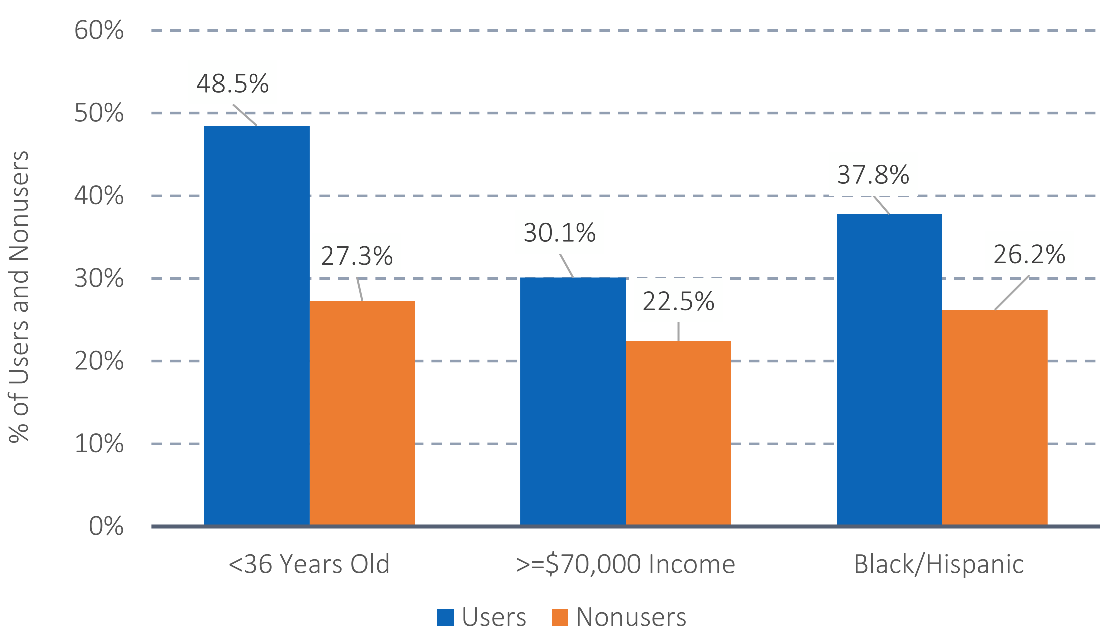
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 5 — Reasons for *4-in-6* Product Use (Q4 2022 versus Q3 2023)



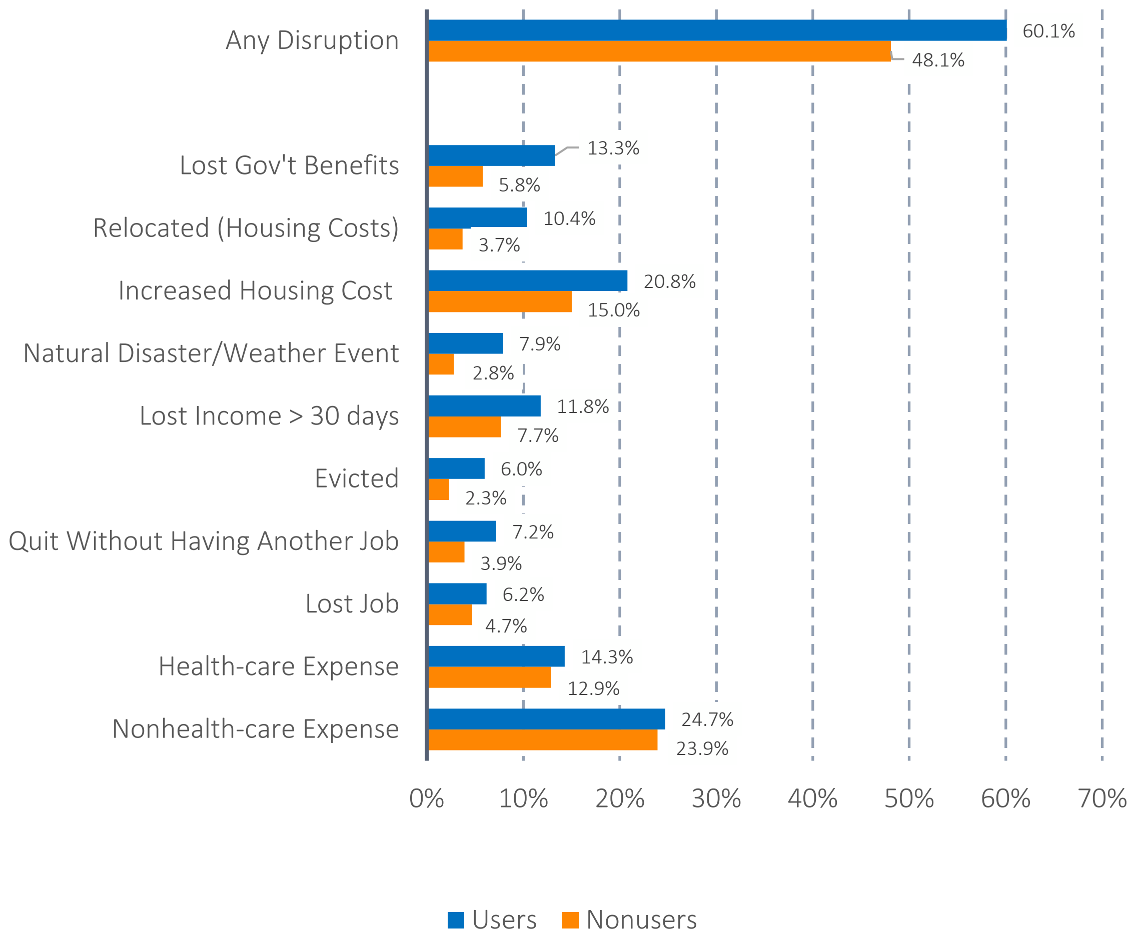
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 6 — Demographic Characteristics of Users and Nonusers (Q4 2023)



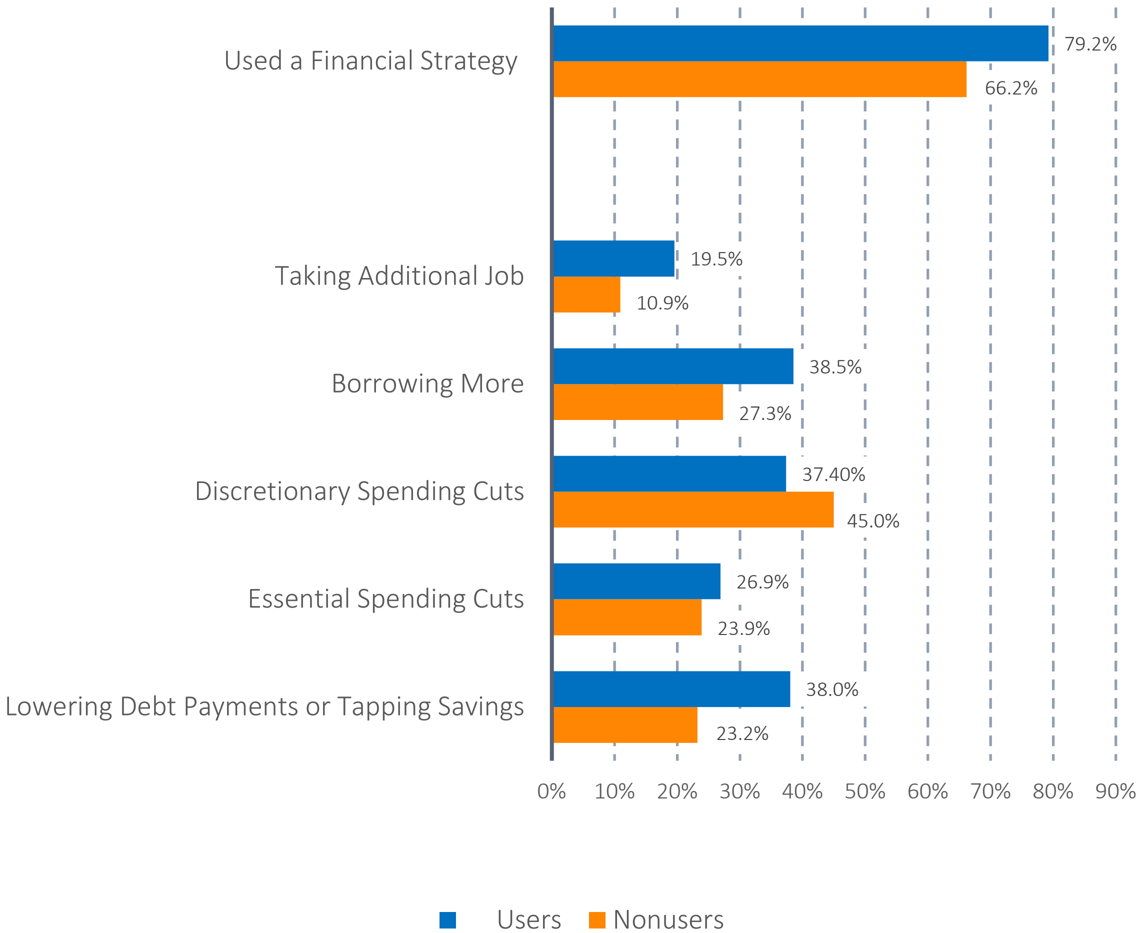
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 7 — Types of Disruptions Experienced (12 Months Prior to January 2024)



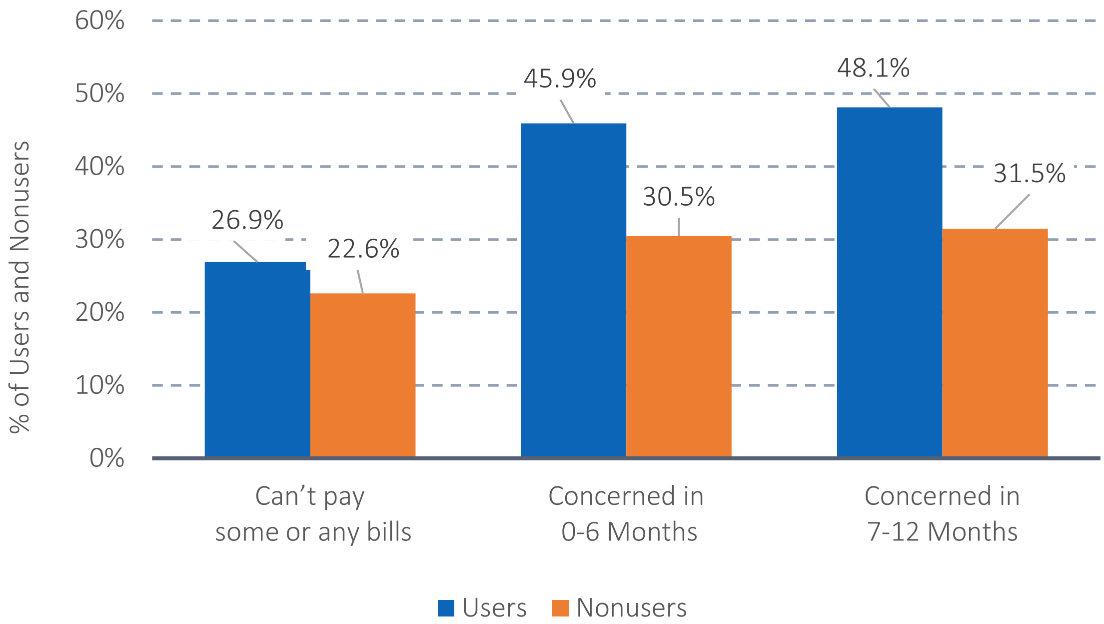
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 8 — Types of Financial Coping Strategies Used (12 Months Prior to January 2024)



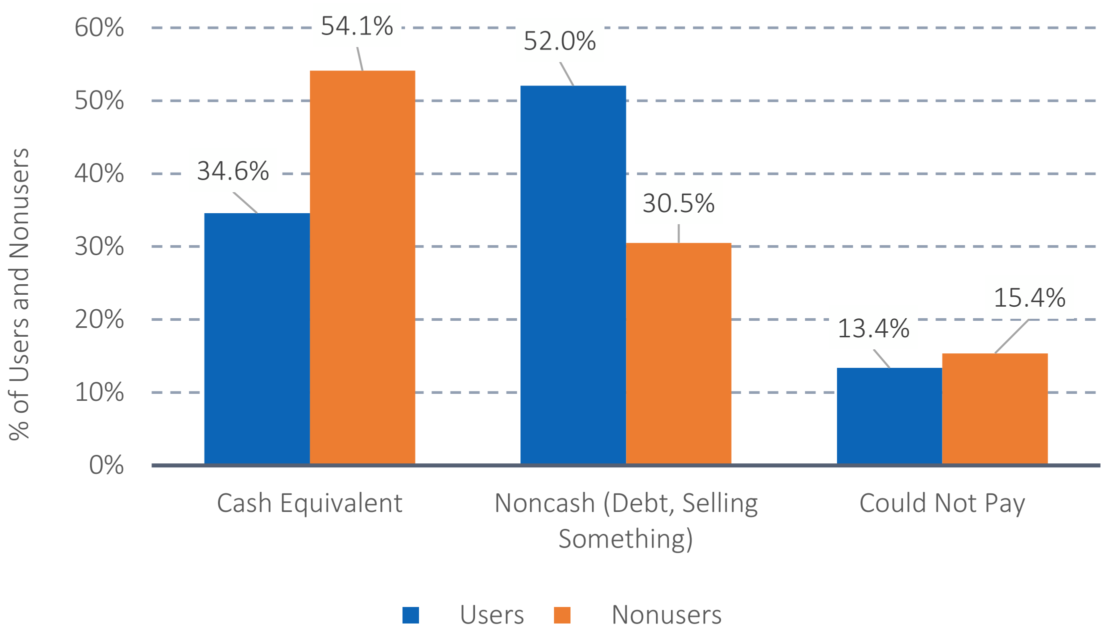
Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 9 — Paying Bills and Making Ends Meet (as of January 2024)



Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data

Figure 10 — Method of Handling a $400 Expense (as of January 2024)



Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data