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Headline: Why I'm not a fan of 'buy now, pay later' services

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As stressful as it can be, the psychological pain of paying for purchases in full and not later is a crucial deterrent to overspending, a finance blogger says.



At the risk of sounding like a tech-challenged grandmother, I confess that the rapid rise of "buy now, pay later" (BNPL) services in Singapore has been rather alarming to watch.

Data from several providers in Singapore offering this payment mode showed that consumers frequently used it for non-essential purchases such as makeup, fast fashion or the latest electronic gadget.

Most of these consumers were Gen Zers, who made up 77 per cent of users taking up deferred payments.

I've only used this payment scheme on a handful of occasions where I wanted to unlock a discount or cashback offer. These were mostly for purchases under S\$300 and I immediately paid back each sum in full by the second repayment date.

Each time, I could feel myself being implicitly coaxed to get more comfortable with a risky idea: That of spending more than I could reasonably afford.

Sometimes this coaxing is a little more on-the-nose. On my first visit to Atome's official website, one of its more prominent slogans caught my eye: "Some things in life shouldn't have to wait."

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Unfortunately, most personal finance experts would probably disagree with that statement.

Atome was among a few buy-now-pay-later providers to earn the official Trustmark accreditation last year from the Singapore Fintech Association and the BNPL Working Group. This signalled that they were committed to responsible lending and consumer protection.

LESS DETRIMENTAL THAN CREDIT CARD DEBT

There are many benefits to using BNPL services.

As a consumer, you may now split payments into smaller, seemingly manageable sums, often without incurring interest.

This opens up access to products and services previously deemed unaffordable or out of reach to a much bigger pool of buyers.

There are no late fees as long as you pay back on time and there are no early repayment fees or penalties. No compounding interest racks up on your existing debt owed.

What's more, to be accredited, BNPL players in Singapore have to commit to not initiating bankruptcy proceedings against their customers.

BNPL providers also often dangle cashback or discount offers, eager for us to put our payments through them.

On the whole, it's arguably much less detrimental than credit card debt.

On the surface, the convenience of having to only pay for a fraction of what you bought upfront is alluring. The world seems to become our oyster.

Yet, this convenience is precisely the problem.

BUY NOW, PAIN LATER

The biggest issue I have with the BNPL scheme is also its greatest selling point: Its ability to significantly reduce the psychological pain of paying without alleviating or addressing its burden.

Spending within one's means is not as intuitive as it may sound.

Every day, we are bombarded by messages from advertisers and merchants encouraging and entreating us to spend, spend, spend: "Hand your money over! Either to us or through us!"

As stressful as it can be, this psychological pain used to be a crucial deterrent to overspending.

We tend to think twice about buying something when we have to pay for it in full – "S\$120 for a meal at a restaurant? Goodness!"

However, when that S\$120 is presented to us as S\$40 a month for the next three months, our minds are much likelier to justify it as something we can afford.

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Eventually, that justification starts stretching and spreading to cover a bigger range of products and services – gaming chairs, yoga packages and luxury makeup.

Things that seem unattainable or frivolous when looking at our bank accounts suddenly seem well within reach when looking at a BNPL instalment plan.

Once or twice is not the problem. The problem is that if you repeatedly rely on debt resources such as BNPL services to spend beyond your means, you are also repeatedly dulling the psychological pain of paying.

However, this pain may come back to haunt us in other more damaging ways.

WHAT IS “AFFORDABLE”?

When consumers use BNPL schemes indiscriminately to pick up whatever they cannot afford and pile on tab after tab, this sets a potentially dangerous precedent for mass reliance on debt.

Keep in mind that this payment mode is largely used by (and marketed to) younger consumers such as students and fresh graduates starting out in their careers.

With low, unstable or no incomes, these groups may find themselves blocked from credit cards by various requirements, including minimum income thresholds.

These same barriers are the ones that protect them from ending up in financial distress through the use of credit cards.

By contrast, BNPL schemes are available to all without first taking into account borrowers' ability to repay their “loans”, whether that is now or later.

Instant gratification is yours, regardless of your current or future ability to afford it.

Dr Aurobindo Ghosh, assistant professor of finance at Singapore Management University, said that this is particularly risky for young people in the early stages of adulthood, who may develop a habit of accumulating debt.

This habit may potentially extend to credit card debt as they grow older and gain greater access to unsecured credit, he added.

GUARDING AGAINST EXCESSIVE SPENDING

When it comes to managing your personal finances, the first rule of thumb is to learn not to spend more than you make.

Most experts would advise that if you cannot afford to pay in full for an item right away, the more prudent action would be to defer your purchase to a later time when you have enough cash flow or find a more affordable alternative.

Despite the risks, I do see genuine benefits to the BNPL scheme.

It provides convenient short-term credit without the stringent requirements of traditional lending avenues. It can be a valuable tool for managing one's cash flow – when used responsibly.

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Yet, I am unable to shake the worry that for many people, especially younger consumers, the risks outweigh the benefits.

Once we develop false illusions of affordability and lose the psychological barriers that protect us from excessive spending, we cannot fix these problems overnight.

If you are not diligently tracking your BNPL purchases and monthly repayments, you may not even be aware of this.

For myself, I will continue to avoid using deferred payments and spend only on what I can pay in full within that month itself.

I may still use this form of payment once in a while, but I am going to maintain my guard against making it a habit.

Unbridled consumerism can't fool me – the world is not my oyster.

Dawn Cher, also known as SG Budget Babe, has been running a popular blog on personal finance for the last 10 years.