» 2021 State of Credit Report

The new reality of credit:

How COVID and BNPL are altering the future of consumer spending

MARQETA

Introduction

It's been a wild 18-months in credit cards. Precipitous drops in credit spending, followed by record gains.[1]

Consumer savings **rising to record levels**.[2] Glamorous travel rewards no longer relevant for a user base largely stuck at home.

Meanwhile, use of Buy Now, Pay Later (BNPL) services have surged during lockdown. At Marqeta, we saw a 350 percent increase in net revenue from BNPL between Q2 2020 and Q2 2021. Affirm and Klarna, long billed as **credit card killers**,[3] have reached previously unforeseen levels of brand awareness and consumer adoption. Afterpay's global expansion was punctuated with a blockbuster acquisition by Square, **Sezzle is eyeing an IPO**,[4] and Zip is expanding rapidly across the world.

It's no secret that fast-growing upstarts feel well positioned in the Buy Now, Pay Later industry to take a large chunk of the credit card market. They have all the momentum, while credit card companies have the perceived headwinds. While some have wondered if this was the beginning of the end of the credit card, BNPL has been described as **an arms race**.[5]

Against this backdrop, Marqeta surveyed 3,500 people in July, using Propeller Research to reach people in the United States, United Kingdom and Australia. We wanted to see against the backdrop of all of this talk of change, how far the needle had really moved in the market. We've pulled this insight together into our 2021 State of Credit report, to show where people are experimenting with new tools, where they're staying with what's tried and true, and how the last 18 months has shifted their consumer reality.

Key stats

76%
of consumers surveyed still use credit cards

51%
of consumers surveyed have used a Buy Now, Pay Later Service

68%
of consumers surveyed use their credit cards at least weekly

59%
of BNPL users surveyed would be happy for BNPL to replace their credit card usage

The credit card is still dominant (for now)

Diners Club bought the first credit card to market in the 1950s. Klarna was founded in 2005. So it's no surprise that despite all of the talk of upheaval in how consumers want to access credit, and the rapid rate of post-pandemic change in payments, credit cards are still king.

There are approximately 2.8 billion credit cards in use globally.[6]

According to data from Shift Processing, with more than 1 billion of those in the U.S. alone. After a much-hyped dip in credit spending during COVID-19 lockdowns, the industry has roared back again.

In the U.S., credit account openings in March 2021 were up over 30%[7] on the year prior.

No report on the state of credit in 2021 would be complete without assessing the still ascendant state of the credit card, which remains top of wallet, drawing consumers in with a range of features and drawing in an ever younger user base.

1 | Credit cards rule the wallet

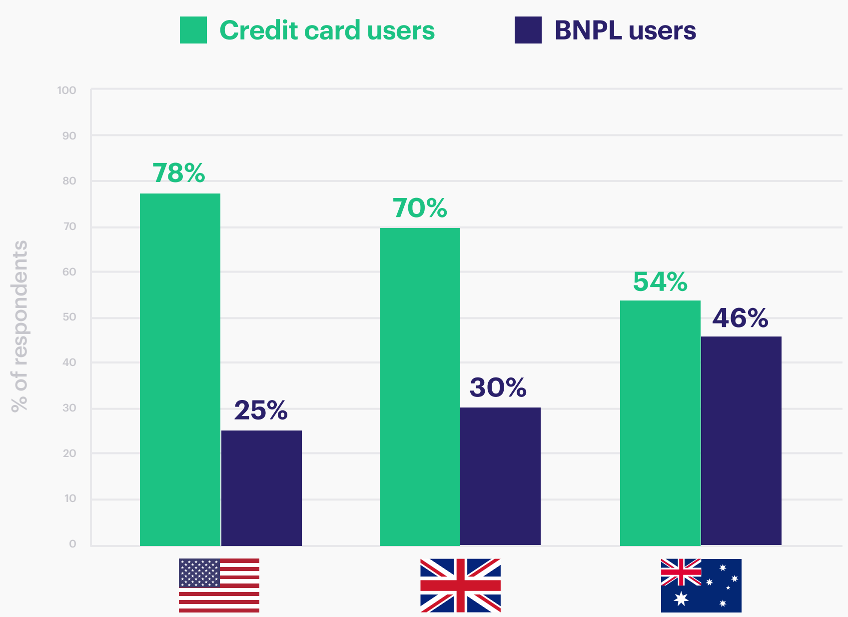
More than three-quarters (76%) of the 3,500 consumers surveyed across the United States, United Kingdom, and Australia still use credit cards, with little fluctuation across different markets. Seventy-eight percent of Americans surveyed use credit cards, a fraction ahead of the United Kingdom and Australia, where 74% of respondents in each country said they use credit.

For U.S. and U.K. consumers, there was some distance between the most popular choice of credit offering and the second. In the U.S, 78% of respondents said they use credit cards, while 25% said they actively use Buy Now, Pay Later (BNPL) services, a delta of more than 50%. In the U.K, more respondents said they accessed credit through overdraft facilities than BNPL (70% to 28%). It was only in Australia, home of Zip and Afterpay, two leading BNPL innovators, where BNPL had penetrated the market enough to threaten credit as it stands. Nearly half — 46% — of Australians use BNPL services.

It's not only market saturation credit cards enjoy: It is also the benefit of being top of wallet.

More than two-thirds of consumers surveyed (68%) said they use their credit card at least weekly, with more than one in four (27%) using it daily.

When choosing a card, survey respondents from Australia and the U.K. said that the interest rate was the most important factor (32% and 29% respectively), while U.S. consumers were most attracted to rewards when picking a card (26% saying it was most important).



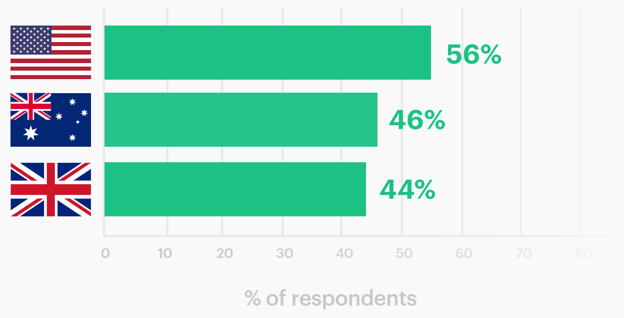
2 | Where consumers reach for credit, and why?

At the point of sale, Americans surveyed were more than

20%

more likely than people in Australia or the U.K. to report using credit more than debit.

Credit cards over debit cards



The major deterrent to credit being, almost self-evidently, that it carries a cost: 52% of all respondents said high interest rates put them off, while 46% said they didn't like incurring debt, and 33% were dissuaded by high cost of carrying a credit balance and annual account fees.

Across all 3 markets, the biggest benefits of credit cards were seen as a) credit allows a consumer to make a purchase without the funds necessary (44%) of respondents and b) it helps consumers not have to carry physical cash (39%). Americans were the most attracted to the prospect of credit card rewards and the idea of building their credit — a special set of attractions the rest of the world didn't see as appealing in such high numbers.

Unsurprisingly, given that America has one of the most entrenched and established credit reporting systems in the world, establishing a good credit score was top of mind for Americans in a way it wasn't for the rest of the world: 39% said it was a consideration when using credit, compared to 31% of the U.K. respondents and 23% of Australians surveyed.

Survey respondents listing credit card rewards as the main attraction for using credit cards

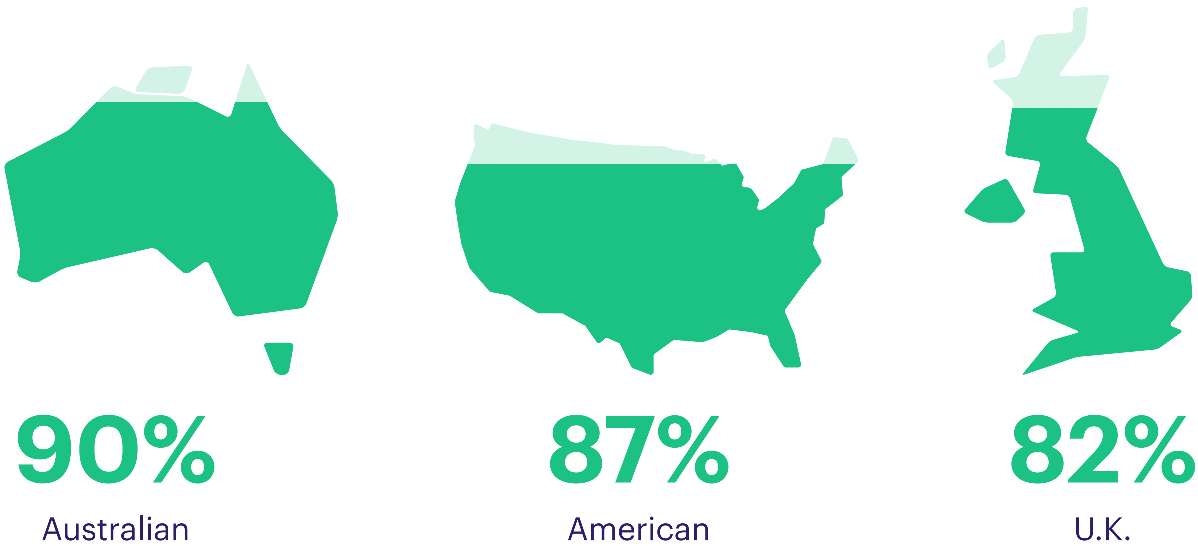
3 | Consumers are turning to credit cards at younger ages than before

Our survey found that younger consumers were getting introduced to credit earlier and earlier. Amongst all consumers surveyed, 57% said they got their first credit card by the age of 21. When you break out 18-25-year-olds, this number skyrockets: 90% of Australian 18-25-year-olds surveyed by Marqeta, as well as 87% of Americans, and 82% of U.K. respondents in this same demographic, said they had their first credit card by the age of 21. This number tended to fall with each successive age demographic. For instance, looking at U.S. consumers, only 51% of respondents aged 26-34 had a credit card by the time they were 21. Meanwhile, one in eight 50-65-year-olds surveyed in the U.S. said they were older than 30 when they got their first card.

Younger consumers also reported a very different spending profile than older groups. On the whole, they reported using their credit card more frequently. Zeroing in on Australia, 75% of those ages 18-25 said they used their credit card daily, while 75% of 50-65-year-olds said they used their credit cards weekly or less. They're also using their credit cards to shop online at exponentially higher rates: 60% of U.S. 18-25-year-olds said they made more than five purchases on their credit card online each week, compared with 19% of 50-65-year-olds.

Despite this frequent usage, younger consumers were less likely to express satisfaction with their credit card: 71% of U.K. and U.S. 18-25-year-olds surveyed said they were satisfied with their primary credit cards, which came in more than 20% lower than satisfaction rates among 50-65-year-olds in both countries.

18-25-year-olds surveyed by Marqeta who said they had their first credit card by the age of 21.



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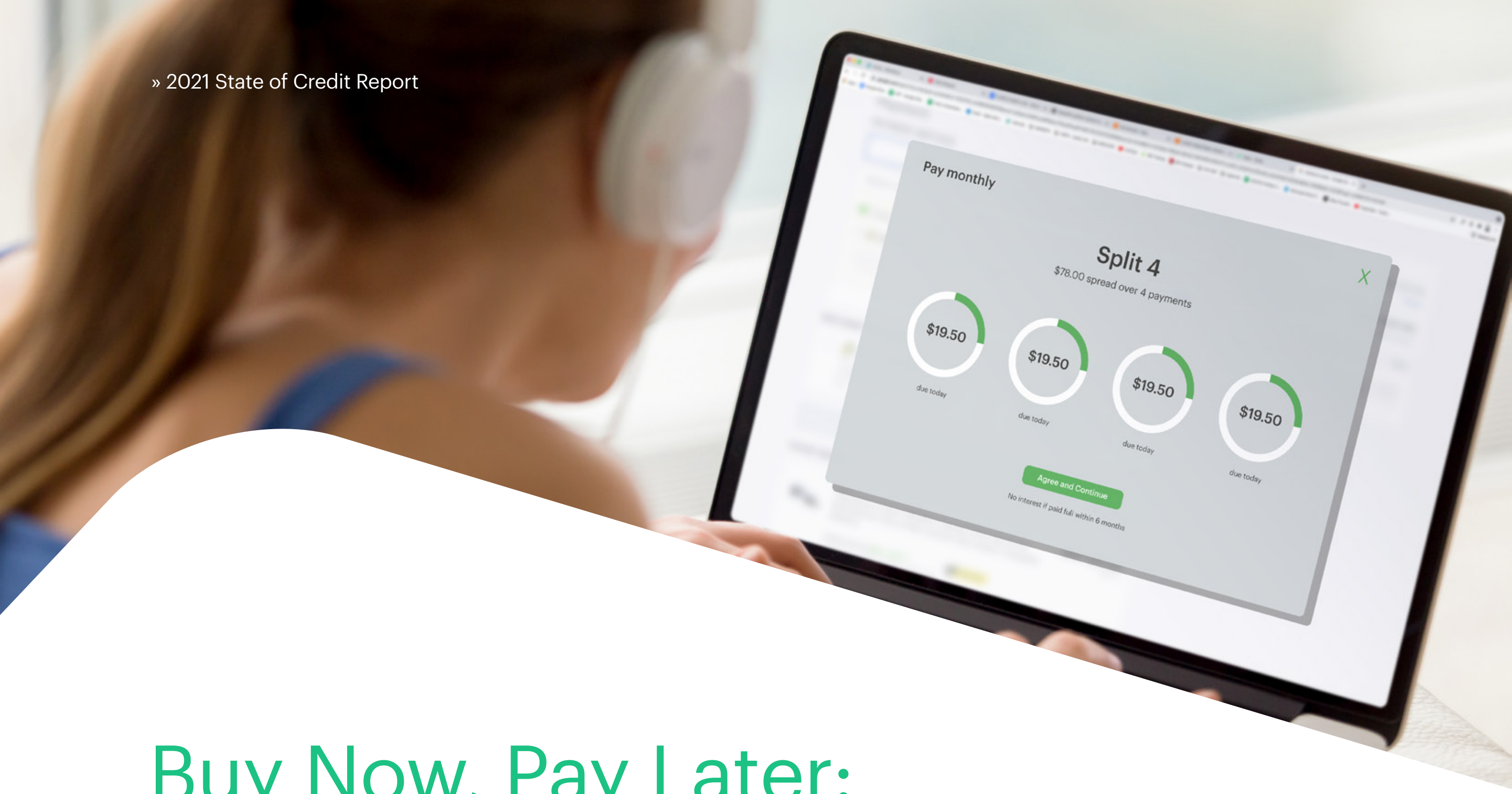
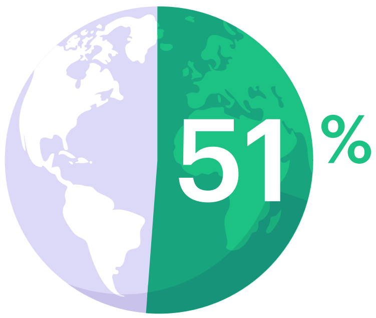


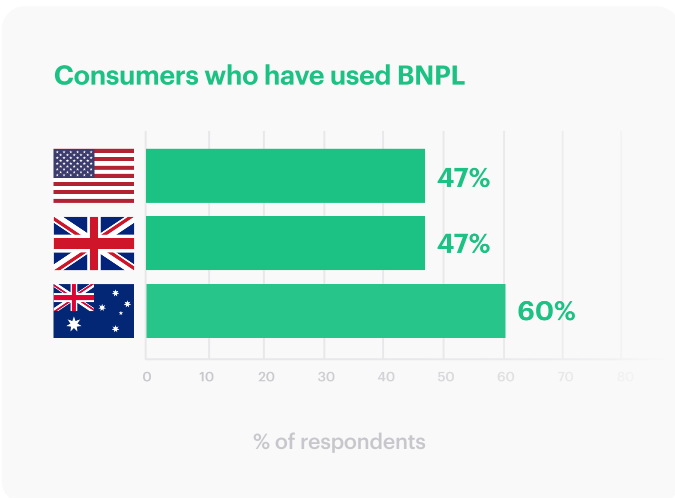
Buy Now, Pay Later: A new challenger enters the ring

Compared to the legacy financial institutions and the credit products they're looking to disrupt, Buy Now, Pay Later companies are in their comparative infancy. Looking at a few of the largest providers, Klarna was founded in 2005, Affirm in 2012, Zip in 2013, and Afterpay in 2014. They've all offered a tech-enhanced version of a traditional installment loan, allowing a consumer to get approved to borrow money toward a purchase, in seconds while in the checkout experience. Consumers can then repay the purchase price in installments (often four payments), most commonly with no interest.

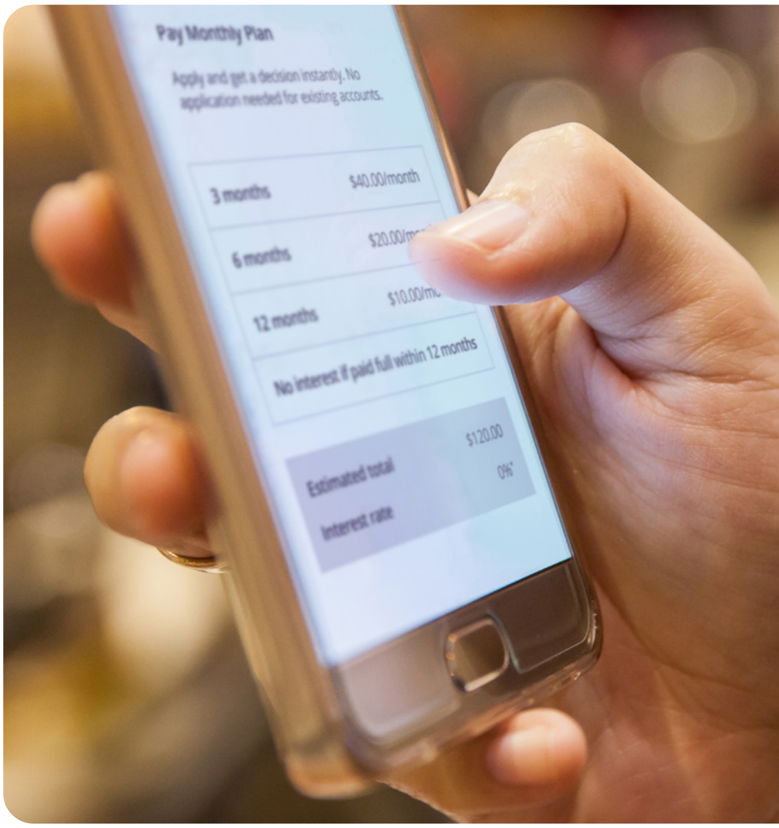
Between Square's blockbuster acquisition of Afterpay for $29 billion, or Affirm's recent blockbuster IPO, and Klarna's latest eye-popping valuation, Buy Now, Pay Later has become much more than a curiosity and its services can no longer be considered a novelty. (In Sweden, where Klarna was founded, it accounts for 23% of all e-commerce transactions.)[8]



A little more than half of consumers surveyed said they have used a BNPL service.

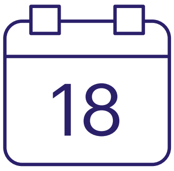


A significant portion of the population has now tried a BNPL service, and the customer experience is proving to be sticky and positive to consumers. BNPL services are building in new users at a rapid pace, with 33% of consumers surveyed who've used BNPL saying they started within the last 18 months, after the COVID-19 pandemic began. Once this growing customer base has used BNPL, they generally come back for more: 71% of BNPL users surveyed said they had increased their use in the last 12 months, and 78% said they wanted to use it more in the future. More than half (52%) of respondents listed the convenience of BNPL as a major benefit, and 52% also said the flexibility of paying for a purchase in installments was of major benefit. Crucially, with consumers also listing the cost of a credit card as a major detractor, 50% of respondents said that paying zero interest was a major appeal of BNPL. In its breakthrough wave, BNPL has become associated with many high-ticket purchases.



Key stats

33%



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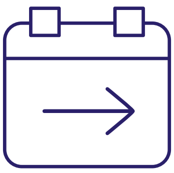


said they wanted to use BNPL solutions more in the future.

The highly-publicized increase in sales of Peloton bikes, which retail for anywhere between $1,800 and $3,000, accounted for 28% of Affirm's revenue[9] at the time of its IPO late last year. However, only three percent of consumers that we surveyed reported the average cost of their BNPL purchases being more than $1,000. Consumers, by and large, seemed to be using BNPL for small purchases on a more regular basis:

79% of consumers surveyed who use BNPL reported having three or less BNPL plans open at a given time, with 45% of people reporting their average BNPL purchase at less than $100.

Credit vs. BNPL: Consumers search for a new experience

As we've established, while Buy Now, Pay Later has emerged as a serious credit alternative, it has some distance to cross before it will truly displace credit cards. It would be easy to dismiss the rhetoric of BNPL as a credit card killer as overblown (even if it is a little early), except that when you compare credit and BNPL side-by-side, BNPL consistently gets higher grades on experience. And not only has BNPL improved upon the experience of the traditional credit card, it's also started to shift and change consumer perceptions of what the experience should be.

BNPL users could see this as a potential long term solution, a feeling especially prevalent among younger consumers: 59% of BNPL users surveyed said they would be happy using BNPL to replace their credit cards. (Older consumers however, were decidedly against, with survey respondents 51-65 years old voting overwhelmingly (63%) in favor of the credit card-first status quo.)

The majority of survey respondents that use BNPL (57%), said they find it easier to manage multiple BNPL plans than their credit card statements.

More than seven-out-of-ten BNPL users surveyed said they preferred it to credit, with 32% saying it was more affordable, 31% saying it was easier to manage, and 21% crediting a simpler checkout experience.

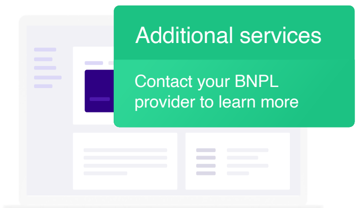
The more seamless experience BNPL providers offer in borrowing to pay for a purchase is the largest existential concern about these services.

More than half of consumers surveyed (52%) worried that BNPL makes it easier to go into debt than a credit card. Fifty-three percent of Americans surveyed reported having missed a BNPL payment, as well as 40% of U.K. and Australian respondents. The majority of people surveyed said they read and understand the terms of their BNPL plans, so it isn't confusion driving this, and suggests that consumers are becoming overleveraged.

For the product itself, it is hard to see credit card issuers as having a terribly deep moat. The majority of consumers surveyed (69% of U.S. respondents, 64% of Australian respondents, and 59% of U.K. respondents) agreed that credit cards remain a more attractive proposition because of their reward structure. Thirty percent of consumers surveyed that didn't use BNPL specifically said that the lack of rewards was holding them back (41% listed an aversion to credit in general, and 30% said they preferred to use their debit card).

With BNPL providers adding in full service digital banking functionality, it's hard to see these being product gaps for long.

Before it was acquired by Square (whose product Cash App is one of the most used neo-banking products in the world), Afterpay had already debuted a money management platform in partnership with Westpac. [Affirm has announced plans for a debit card][10] that will function like a bank account, but give users the option about whether to split purchases over $100 into installments, while Klarna [began rolling out a digital banking product in Germany][11] earlier this year. Most tellingly for all of these new add-ons, 52% of people surveyed said they would be open to accessing more financial services through a BNPL provider.



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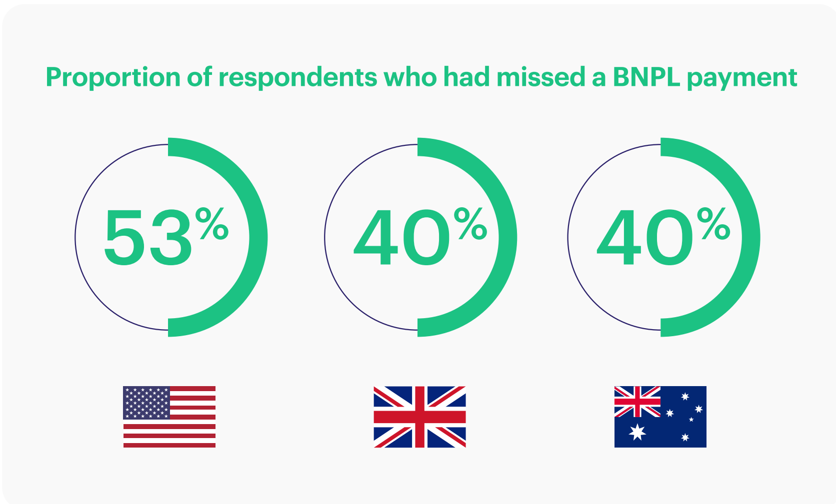
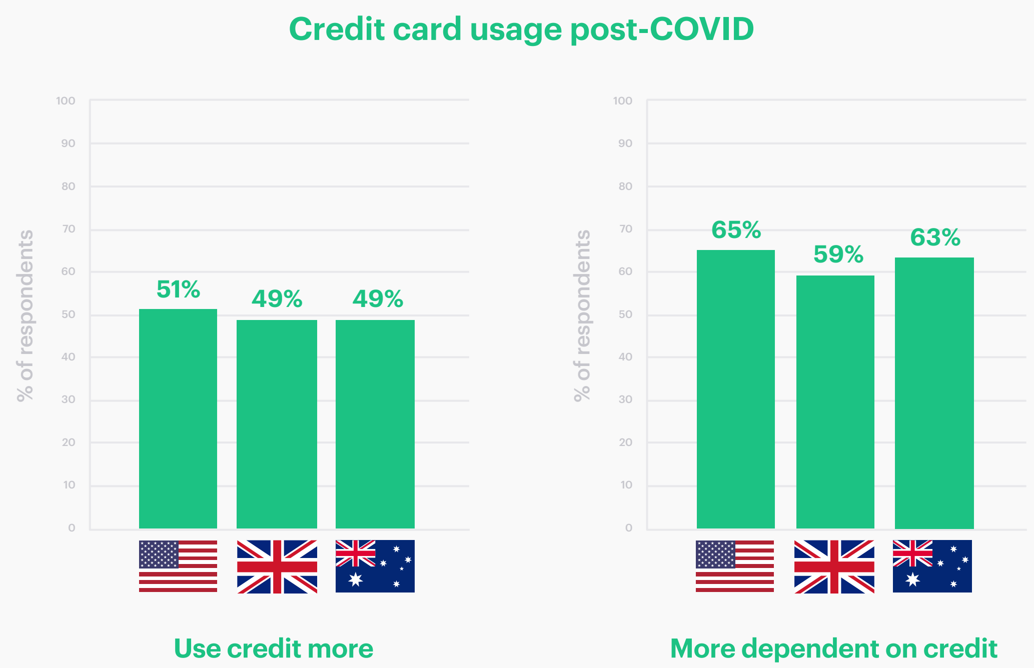


The elephant in the room: The credit conscious post-COVID consumer

According to data from the Federal Reserve Bank of New York,[12] in Q2 2020 as consumer confidence plummeted after the COVID-19 pandemic, Americans collectively paid down their credit debt by $76 billion, the largest ever contraction seen on record. Paradoxically, consumers reported becoming both more budget conscious in the face of record job losses and economic uncertainty, but many utilized credit cards[13] as a way to make ends meet.

Americans factored slightly higher here, but not by much: 51% said that they'd used their credit card more, compared to 49% of Australian and U.K. respondents. Americans, at 65%, were also more likely to respond that they'd relied on credit cards to help them make ends meet following the pandemic, but Australia (63%) and the U.K. (59%) weren't far behind.

Almost half of all consumers (49%) surveyed said that they had used their credit card more since the start of the COVID-19 pandemic.



Credit card usage post-COVID continued:

It appeared to be creating a less virtuous debt cycle — with 26% of consumers surveyed globally saying that they'd struggled more to make minimum credit card payments following the pandemic.

Americans were again slightly worse off, with 30% responding that they'd struggled to meet payments, more than 20% higher than Australian (25%) or U.K. consumers (23%). American consumers were significantly more likely to respond that they'd checked their credit in the past year, with 78% saying they'd run a check, compared with 63% of Australians, and 50% of U.K. respondents.

Younger consumers were caught in this Catch-22 the most — hit hardest by the pandemic, most in need of credit, but struggling the most to make repayments. This showed up most for millennials (the 26-34-year-old age bracket), who were the most vulnerable to the credit trap: 26-34-year-olds in Australia, the U.K., and the U.S. were approximately three times more likely than 50-65-year-olds to express that they'd struggled more to make minimum payments since the pandemic (and in the case of Australia and the U.S., twice as likely than even 18-25-year-olds), while turning to credit to make ends meet during the pandemic at higher than average numbers.

Consumers are more credit conscious than ever before: 72% of people surveyed said they were more conscious of their credit post-pandemic, with 60% saying they are more aware of budgeting and saving than they were before COVID-19.

In an increasingly competitive credit space, the next era of consumer acquisition will be fought against this backdrop, requiring that all involved tailor their services to a more savvy consumer seeking a financial services provider who will build an experience that will make their debt easy to manage and reflect their financial reality.

Conclusion

Marqeta's survey results show that the global credit market for the coming years is likely to be defined by a still-powerful credit card industry and an increasingly popular BNPL sector.

While BNPL is not a fad, credit cards are an institution that won't be toppled easily.

What BNPL and other innovative fintech services have accomplished is increasing consumer awareness that they don't have to settle for narrow, unchanging products that are inflexible to changing to meet consumer preferences. Consumers are beginning to question every part of the credit ecosystem.

"That's the way it's always been" isn't enough anymore. Consumers globally are questioning the credit card system, even if they're still largely on board. Notably, one in three consumers surveyed don't think their credit score is an accurate reflection of their creditworthiness. A large majority (73%) feel that there need to be more options than just credit cards to build up their credit history. More than two-thirds (69%) would be interested in a credit-like product that functions more like a debit card, but helps them build their credit.

BNPL managed to create a credit alternative that wasn't as dependent on the credit score system, with a tech-forward, interest-free experience. As consumer needs evolve, it's an ethos that major credit card issuers should take to heart.

Consumers want different things against a rapidly evolving fintech landscape:

72%
of people surveyed would want to **choose their own** credit card rewards

45%
of consumers surveyed said they'd want to **receive rewards daily**

84%
of people surveyed said they wanted to **be incentivized** for good behavior

64%
said they had their eye on **non-traditional rewards** for credit spending, such as cryptocurrency or fractional stock purchases.

Major issuers have started to take notice. The Apple Card, one of the most popular credit card launches in recent memory, will offer BNPL options. Barclays has recently partnered with Amount to get into the BNPL space. We're in a new era now, where evolution and adaptation to new consumer demands and needs will be a major basis of competition.

And it won't necessarily be legacy players or fintechs that win, but rather, the companies that nail the user experience. There's a lot at stake.

About Marqeta

Marqeta's modern card issuing platform empowers its customers to create customized and innovative payment cards. Marqeta's platform, powered by open APIs, gives its customers the ability to build more configurable and flexible payment experiences, accelerating product development and democratizing access to card issuing technology.

Its modern architecture provides instant access to highly scalable, cloud-based payment infrastructure that enables customers to launch and manage their own card programs,
issue cards, and authorize and settle transactions.

Marqeta built its simple, trusted, and scalable platform from the ground up to help companies design seamless payment experiences, streamline purchase flows, and bring products to market faster while minimizing fraud risk.

- **Card issuing**: Instant issuance of physical, virtual, and tokenized cards with direct provisioning to digital wallets
- **Card processing**: Real-time funding using our Just-in-Time (JIT) Funding feature with dynamic spend controls to reduce fraud
- **Card applications**: A suite of applications and tools that help you build, manage, and run your card program
- **Modern architecture**: Developer-friendly, modern open APIs, cloud infrastructure, and webhooks
  Marqeta is headquartered in Oakland, California and is enabled in 36 countries globally.

For more information, visit **www.marqeta.com**, **Twitter**, and **LinkedIn**.

You see a card. We see endless possibilities.

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