



**WHITE PAPER**

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## Installments: Giving consumers greater flexibility and control

New consumer research points to key reasons why consumers are gravitating toward innovative installment financing options



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# Introduction

# ↑ 970%

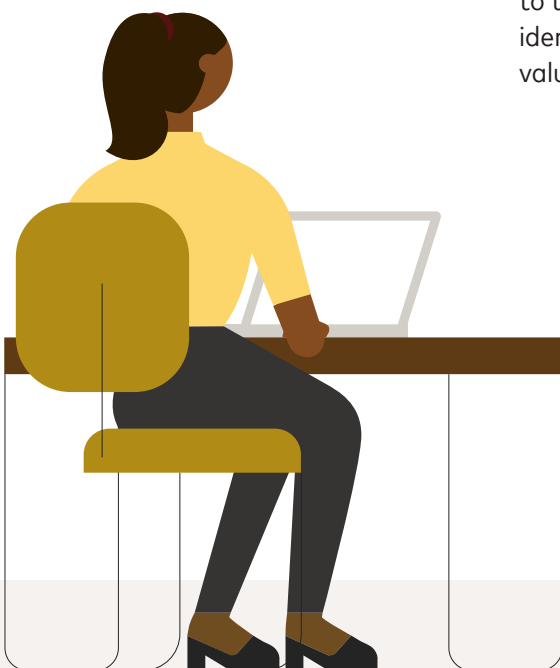
The number of Installments loans ballooned by 970% in just 3 years, from 16.8 million 2019 to 180 million in 2021<sup>2</sup>

Even before the COVID-19 pandemic, consumers were drawn to the opportunity to defer payment for purchases— enjoying more options for how and when to pay. They are also drawn to installment financing, often referred to as buy now, pay later for the quick credit approvals, the ability to make purchases that might not otherwise fit in their current budget and feeling they have more control over their financial health.

For these and other reasons, the number of these loans to U.S. consumers ballooned by 970% in only three years, from 16.8 million in 2019 to 180 million in 2021. And installment loans are expected to keep growing: the number of transactions in North America is estimated to increase 374% by 2027, when 116 million consumers make use of \$195.3 billion in flexible credit loans.

As consumer payments continue to evolve and new services enter the market, such as installment loans, open banking and embedded finance, financial providers who add installment loans to their offerings can attract new clients and deepen relationships with current ones.

To help our customers and partners take advantage of this potential new revenue channel, Mastercard surveyed 1,200 U.S. consumers. The insights we've uncovered may be surprising. Consumers who take advantage of installment loans are not doing so because they have no other credit options. These users are actually active users of credit, and their credit scores and incomes appear similar to consumers who don't use the category. We hope our research will help providers better understand the opportunities open to them if they serve this large audience. This paper will also help providers identify adopters of installment financing and design programs with robust value propositions and features that best meet the needs of consumers.

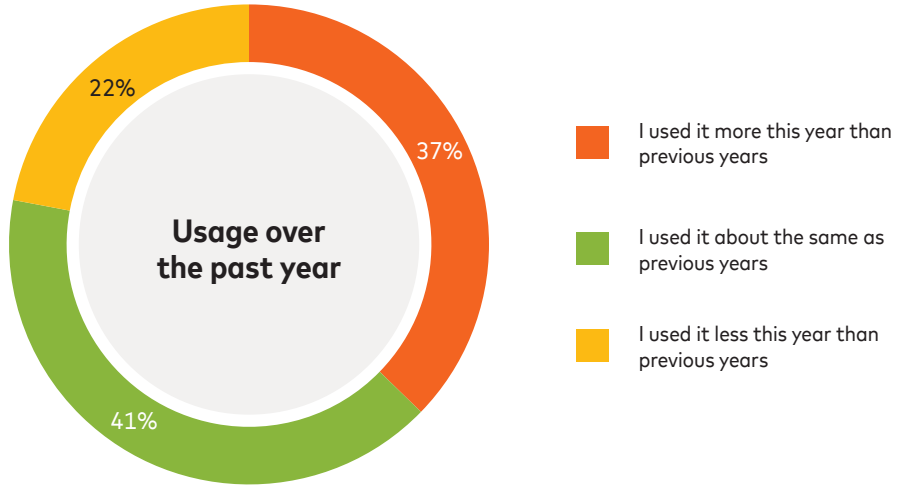


# Installment financing is continuing on a growth path

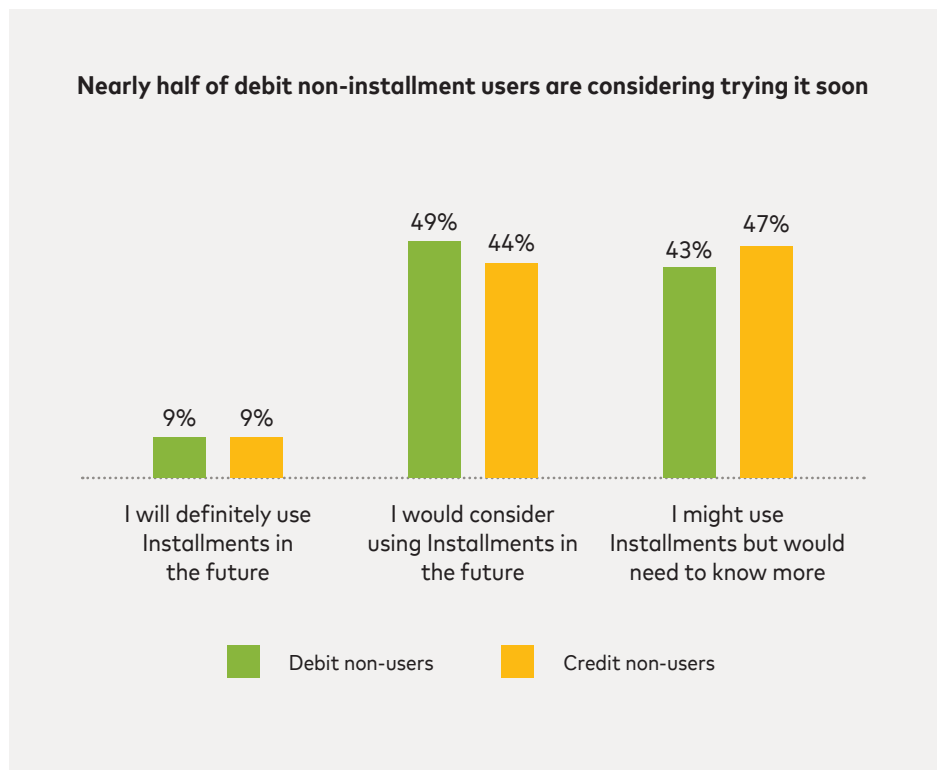


**78%**  
are using it the same or more compared to previous years

More than three-fourths of Installments users we surveyed are using this product more, or as much, as they have in prior years – a strong indicator of the value they see in installment financing.



When we asked U.S. consumers how likely they are to make future purchases with installments, nearly nine out of ten current users told us they are likely to use them in the future. We also surveyed an equal number of consumers who don't currently use installments, but prefer to pay by Debit or Credit. Nearly half of debit users would consider using it in the future, and credit users are nearly as likely.



# Installment adopters trend younger, urban, digitally active

The profile of installment users is often misunderstood. We found they aren't very different from those likely to use deferred payments in the future – household income and assets are about the same – but those currently or intending to use installments are characterized by a few traits:

- ➔ **Younger** – People using Installments over-index trend younger, 18 to 40
- ➔ **Race/ethnicity** – Black consumers (14% of Installments users) are twice the proportion of Black non-users (7%)
- ➔ **Have children** – Users and those likely to use installments are more likely to have 2 children, whereas non-users more often have no children
- ➔ **Urban** – A higher percentage of users/intenders live in urban areas
- ➔ **Payment options** – Users/intenders own a greater variety of payment options, beyond just credit or debit accounts
- ➔ **Digital wallets** – Users/intenders are active users of digital wallets compared to non-users
- ➔ **Banking apps** – Users/intenders are more active users of banking apps

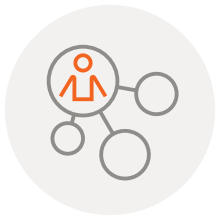
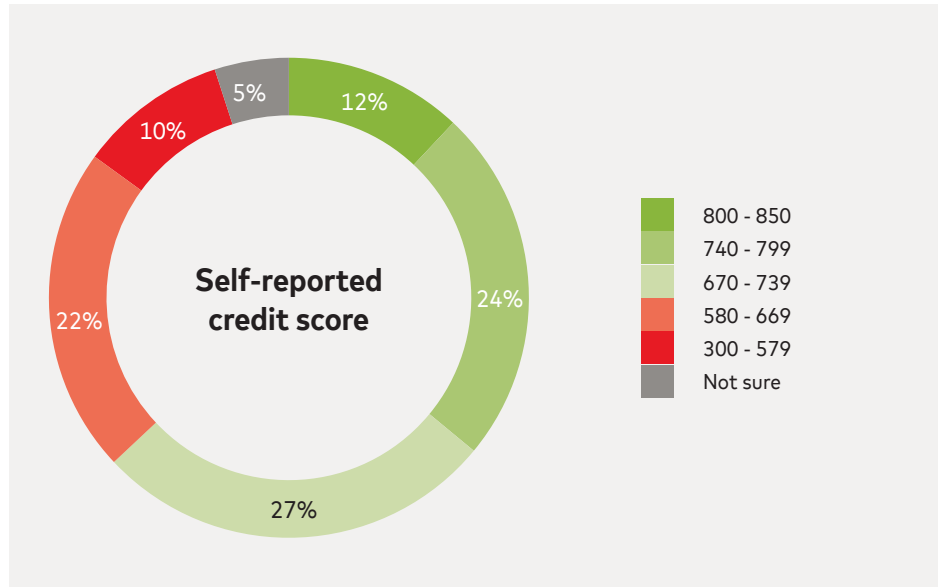
## Installments users are distinguished by a few traits

Users and Intenders		Installments users	Non-users
Age	Age 18-40	58% ▲	51%
Race/ethnicity	Black	14% ▲	7%
Gender	Male	37%	34%
Kids in household	2+ kids in household	35% ▲	21%
Urbanicity	Urban	33% ▲	24%
Income/assets	\$75K+ HHI	43%	45%
	\$100K+ Assets	32%	34%
Payment options	Average # of payment types outside of multi-use credit/debit	3.3 ▲	1.3
Transactions	% of transaction made using debit	35%	43% ▲
	% of transaction made using multi-use credit	26%	44% ▲
Lending products	Average number of loan products held	1.9 ▲	1.3
Revolving	Never carry a balance	27%	46% ▲
Credit ratio	Utilize less than 30% of credit ratio	31%	49% ▲
Credit score	Credit score of 740+	35%	50% ▲
Digital wallets	Use a digital wallet	52% ▲	34%
Banking apps	Use banking app daily	45% ▲	32%
Online shopping	% of purchases made online vs. in-store	49%	46%

▲ Represents a percentage that is significantly greater than the audience of the corresponding color



Most Installment users appear to have good credit scores.



Installments users are more inclined to use other financing products.

Users of installment financing take advantage of more credit options than non-users:

	Installments users	Non-users
Overdraft protection/account	47% ▲	32%
Mortgage loan	33%	37%
Car loan	40% ▲	29%
Student loan	25% ▲	19%
Personal loan	33% ▲	11%
Other unstructured loan	8% ▲	3%
None of the above	14%	26% ▲

▲ Represents a percentage that is significantly greater than the audience of the corresponding color

Even though installment users and intenders are more inclined to use various forms of financing, their creditworthiness indicates that it is on par with non-users. Nearly two-thirds (63%) of installment users have credit scores over 670, and while their credit utilization is greater than non-users, they seem to be managing their cash flow in various ways.

# What consumers look for in an installment product

To better understand the product construct and features consumers want in an installment loan product, we offered two concepts for them to consider:

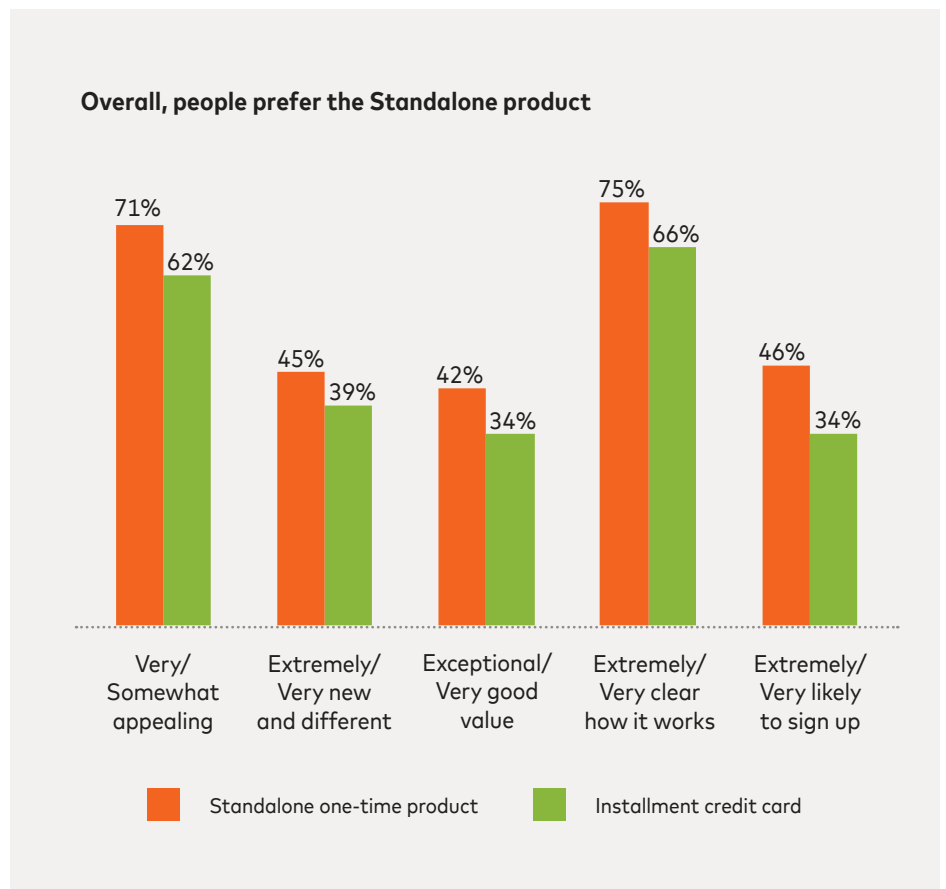
## Standalone, one-time use installment product

Before shopping, a consumer requests a specific amount for a one-time purchase from a trusted bank or preferred lender. **No new credit card account is needed**, and no credit checks. No fee to use the service. Consumer has zero interest option if installment purchase is paid in four or five installments every two weeks.

## Multi-use, installment credit card

A consumer **applies for a new credit card** that allows them to place every purchase over \$100 on an installment plan. The number of loans is limited to the maximum limit. Credit check required. Each plan comes with a small fee. Consumer has zero interest option if installment purchase is paid in four or five installments every two weeks.

Consumers we surveyed responded positively to both concepts, but the standalone, one-time installment product earned more favorable reviews:





Consumers embrace the Standalone product for many reasons related to control and flexibility.

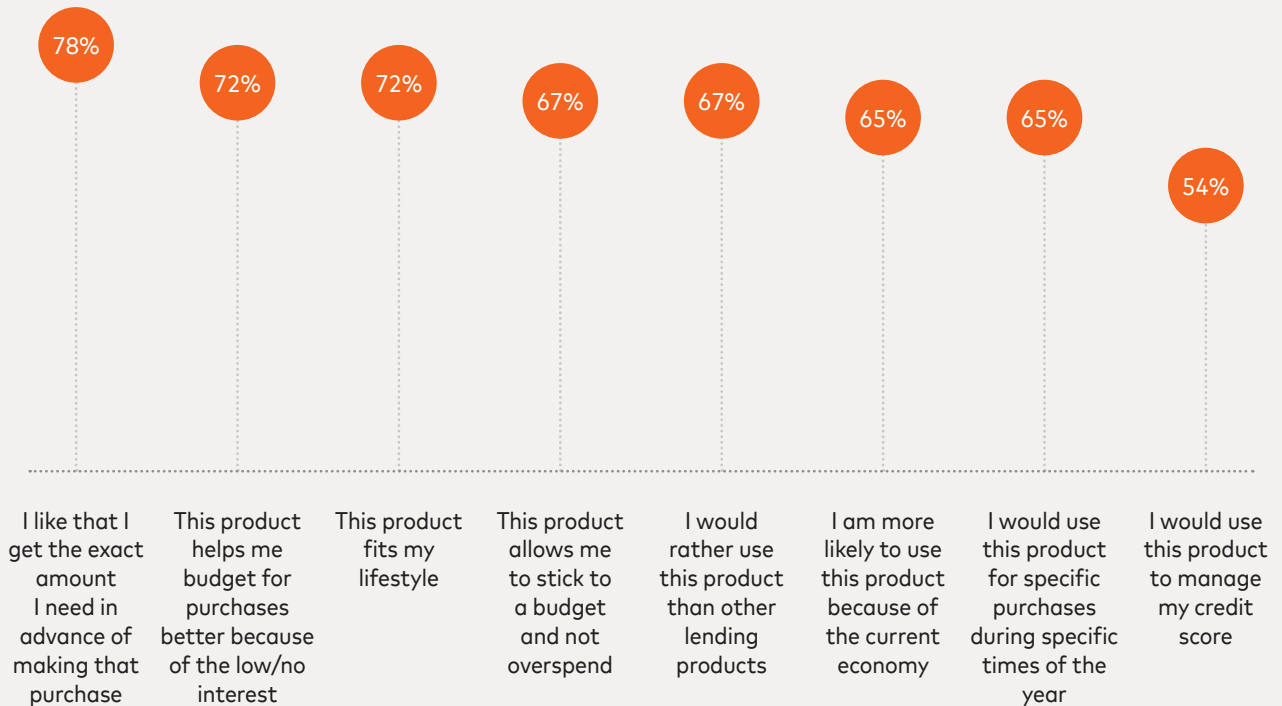
These consumers preferred the standalone concept across the board. They see it as being a significantly better budgeting tool, fitting better with their lifestyle and two-thirds say they would prefer to use it over other lending products.

Consumers also liked that the standalone product didn't require a credit check, and they felt that the standalone installment offering could come from the bank they already use. Nearly two-thirds (65%) of existing Installments users would be extremely/very likely to use the standalone product, and about one-fourth of non-users would.

Top reasons for consumers wanting the Standalone product.

- Doesn't require a credit check
- Ability to afford bigger ticket items
- Continue relationship with existing bank

Consumers likely to sign up for the Standalone product



# Consumers view installments as a useful tool for a wide variety of merchant categories

While consumers are drawn to installment loans because they help them make larger purchases, they see them as a good fit for a wide variety of categories:

Electronics and home décor lead the categories consumers would use for an installment loan.

## Merchant categories most likely to be used with a Standalone installment product

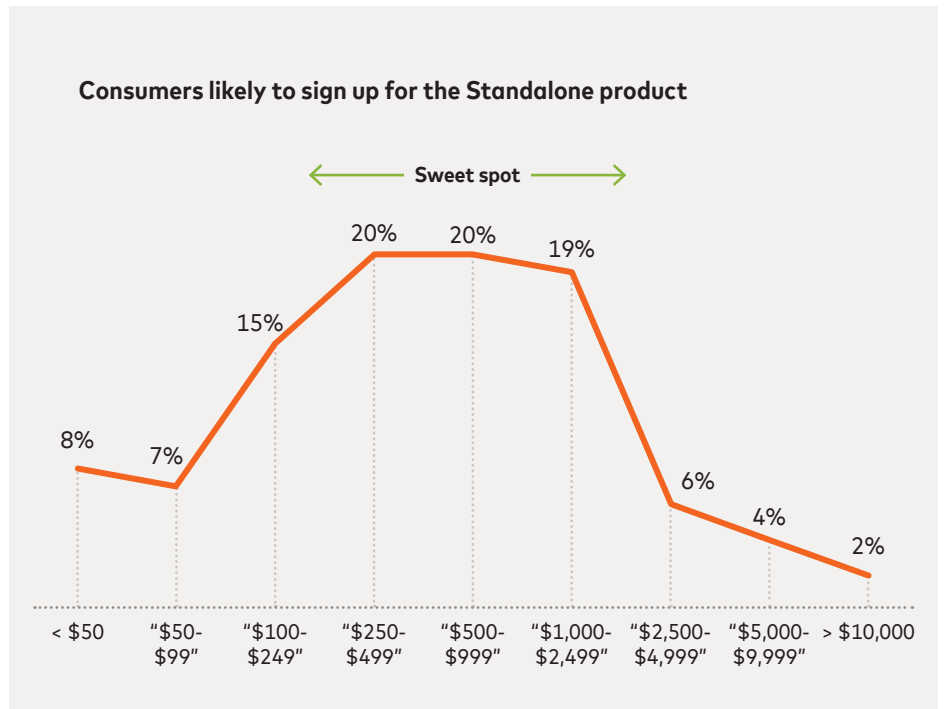




Consumers see a Standalone installment loan as a good choice for purchases of \$100 to \$2,500.

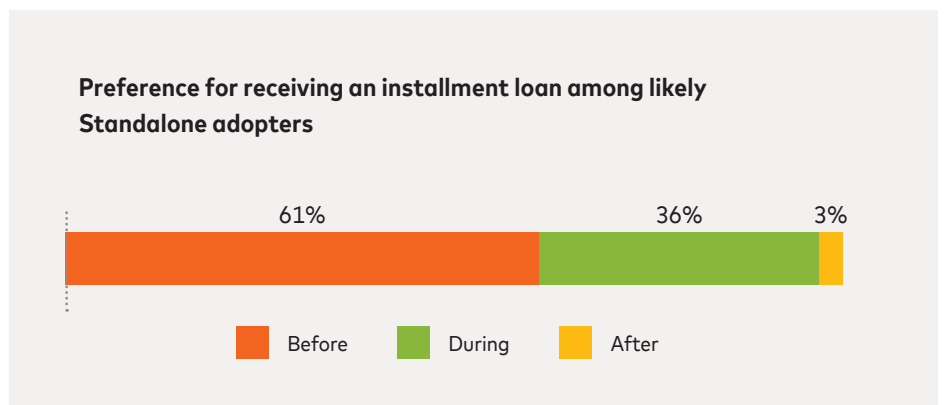
### When the price is right

Enthusiasts for the Standalone product said they are more likely to use an installment loan for purchases in the price range of \$100 to \$2,500. That was also true for all consumers surveyed, whether they are already Installments users or non-users who prefer debit accounts.



Most consumers prefer to receive installment funds before making a purchase.

We also learned most consumers prefer to receive an installment loan before making a purchase. A little over one-third would be willing to receive the funds during the purchase process, but very few wanted to seek funding after making a purchase.

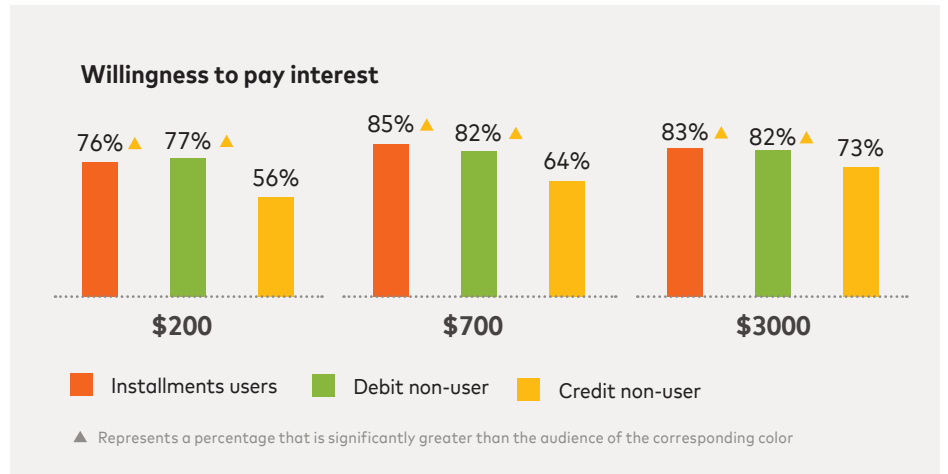




The majority of consumers are willing to pay interest.

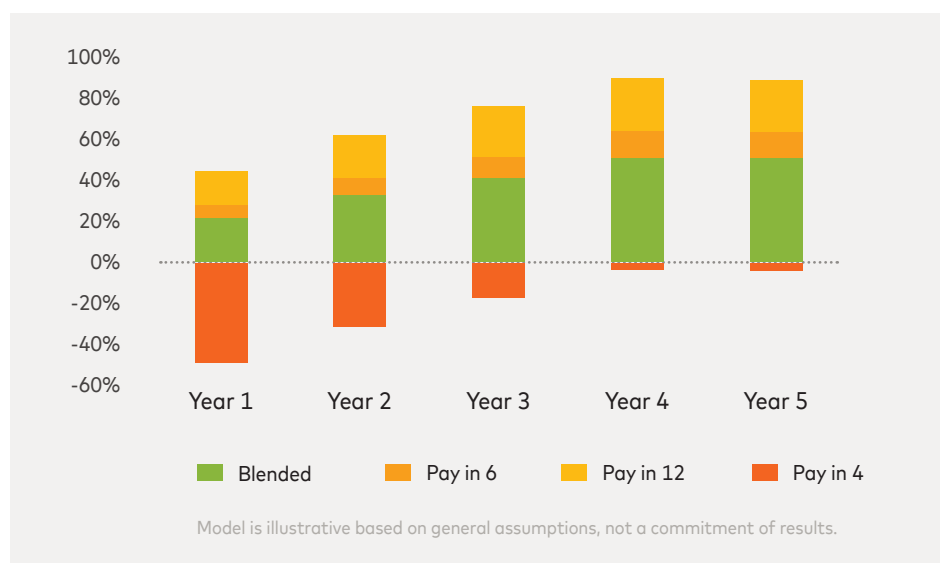
# Installment buyers are willing to pay interest

One of the features of installment loans most attractive to consumers is the option to finance a purchase with zero interest – often available when the buyer agrees to “Pay in 4”. However, our survey as summarized in the chart below, found that most consumers are willing to pay interest for this offering. We asked consumers their willingness to pay interest on three different price points. Primary debit card users were most willing to pay interest, although the majority of credit users are also open to paying interest for an installment purchase. And the higher the price point of the item consumers are buying, the more accepting they are of interest.



## Blended portfolio with varying product offerings could offer faster and higher returns right

Given the insight that consumers are willing to pay interest for the benefit of a higher ticket purchase, a lender could offer a blended portfolio with product of varying APRs. The below chart illustrates how that model provides faster returns and greater net income year over year. The portfolio will likely benefit from a zero-interest offer such as the Pay in 4 product to drive consumer adoption through increased awareness and accessibility.



# Potential hurdles to growth

The early growth of Installments products was stimulated in part by a speedy application process that dispensed with a hard credit check at the time of application — making the loans more easily accessible. Worried that such ready access to credit may forsake the financial industry's existing regulations, the Consumer Financial Protection Bureau (CFPB) has been reviewing how these products are offered, especially around the "Pay in 4," zero interest construct.

Growth of retail BNPL volumes is likely affected by current and future macroeconomic condition. Although inflation rates are falling, it remains comparatively high, resulting in increased prices across many retail categories which could force consumers to reduce spending and avoid taking on more debt.

At the same time, if interest rates maintain higher levels to counter inflation, borrowing costs on other forms of debt may increase, making installment loans with relatively lower interest and lower fees even more attractive for consumers. Nearly two-thirds (65%) of all consumers drawn to the standalone product say they are more likely to use it because of the current economy.

While zero or low interest is a compelling value proposition, consumers are attracted to installments for many reasons. Financial institutions can configure their offerings with features best suited to the needs and preferences of different consumer segments.



# Installments in action

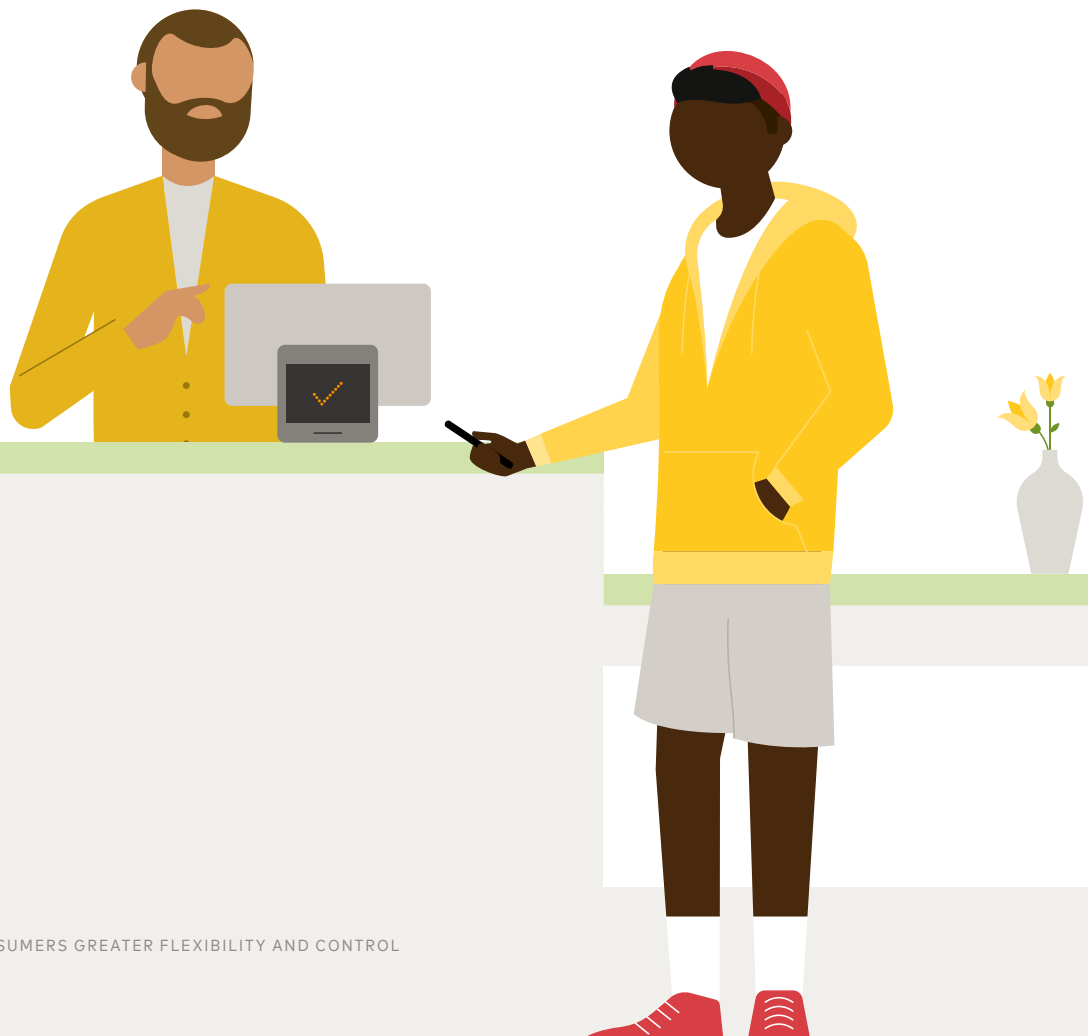
Live installment programs are demonstrating the impact that deferred payment options can have for consumers and businesses. Mastercard has been working with partners such as Apple and SoFi to pioneer installment options in the market to provide more payment choice and flexibility.

## Apple Pay Later

Mastercard recently worked with Apple to leverage the Mastercard Installments Program to offer consumers greater flexibility in their payment options. Apple introduced Apple Pay Later, which enables consumers to split their online and in-app purchases into four payments, spread over six weeks with no interest and no fees. Users can easily track, manage and repay their Apple Pay Later loans in one convenient location in Apple Wallet. Consumers also have the option of applying for a loan during checkout.

## SoFi

SoFi's Pay in 4 product offers consumers an ability to split purchase into 4 interest free payments both in-store and online. It is designed to help its existing members with payment flexibility, manage their budgets for larger purchases and foster healthier spending habits. SoFi members will now have another way to pay for larger travel or select purchases from local small businesses to major retailers, anywhere Mastercard is accepted.



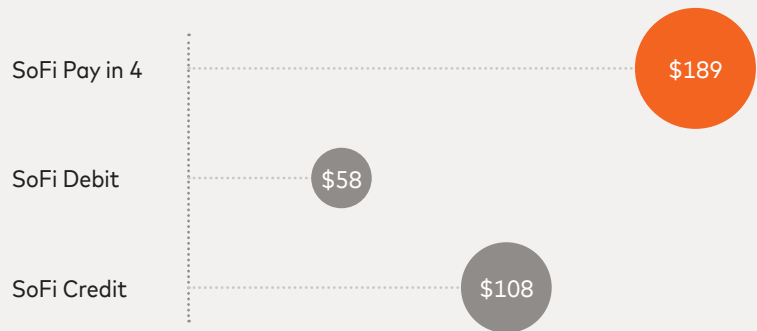


3x

Average transaction is three times greater than debit

### SoFi case study

#### Average transaction size



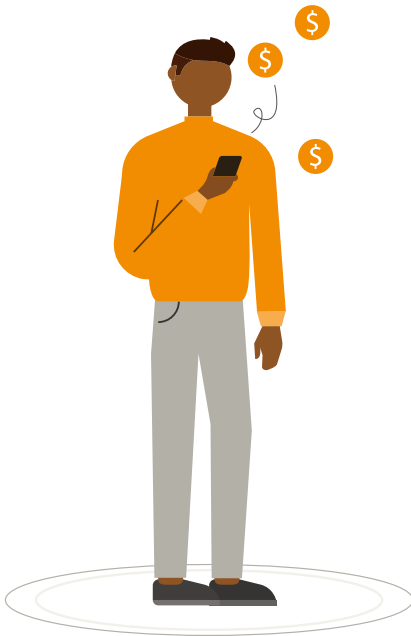
#### Spend by merchant category



The average transaction size for SoFi's Pay in 4 averages at \$189, 3.3x the transaction size of SoFi Debit and 1.8x the transaction size of SoFi Credit. E-commerce remains the most preferred channel for installments payments, reaching 90 percent of transactions compared to 10 percent in-store. Consumers are most actively using Pay in 4 across categories including apparel and entertainment (books/music/video). 38% of Pay in 4 users have used the product multiple times, demonstrating high satisfaction with the product.

When given the opportunity, consumers clearly value the choice and flexibility that installments offer.

# Conclusion



U.S. consumers are eagerly adopting payment tools that give them more choice, control and flexibility. Proof that installment financing can meet these needs is clearly seen in the enormous 970% growth from 2019 to 2021, and its estimated rise another 374% by 2027.

Installment purchases attract consumers of all ages, incomes and credit scores, but current users and adopters are more likely to be younger, live in urban areas, have children and be very active users of digital wallets and banking apps. And in contrast to a common misperception, likely adopters of installments are as creditworthy as other consumers, and they view installments as a responsible way to manage their spending. Their creditworthiness — 63% of Installments users have credit scores over 670 — supports their assessment.

As our survey reveals, installment financing offers several compelling benefits. Those likely to use this payment method showed a strong preference for the Standalone, single-use product, which they favor because:

- They could use it in certain cases to supplement a credit card
- It's simple to use
- It doesn't require a hard credit check to apply
- They could obtain the loan from the bank they already use
- They feel it gives them greater control over their budget and spending

While the prospect of zero or low interest has attracted consumers to installment loans, the vast majority are willing to pay interest for this offering. Among debit users, for example, only 18% say they would not be willing to pay interest. Those who are already Installments users and those who primarily pay with their debit card were most willing to pay interest.

Just as consumers view installments as an innovative new tool to make additional, often larger, purchases, financial providers should offer deferred payments for the opportunity to capture transactions that consumers would not otherwise make. Installment based payments are an innovative offering that help providers deliver more payment choice and control, attracting new clients and deepening relationships with current ones.

# Research methodology

Mastercard conducted an online survey of 1,200 U.S. consumers October 27–November 7, 2022, with the following characteristics:

- Age 18–54 (maximum of 50 age 45+)
- Mix of gender and geography
- Banked
- Non-rejectors of Installments

Of the total respondents, 600 have used Installments in the last 12 months; 300 have not used Installments and use debit for majority of purchases; 300 have not used Installments and use credit for majority of purchases. All participants viewed and rated one of two concepts in detail – a standalone, one-time use installment product or a multi-use, installment credit card – before being exposed to the alternative concept.

The category tested was defined as:

A loan or line of credit that finances a specific purchase and allows you to pay it off over time by breaking down payments into monthly or bi-weekly installments with or without interest.

1. Consumer Financial Protection Bureau, Buy Now, Pay Later: Market trends and consumer impacts, September 2022.
2. Juniper Research, Buy Now, Pay Later: Data & Forecasting 2022–2027, August 2022.
3. Mastercard, online survey of 1,200 U.S. consumers: 600 Installments users, 300 primary debit users, 300 primary credit users, October 27–November 7, 2022.



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