



## Should You Use BNPL When You Shop? A Guide By Grab

### Description

*Buy Now, Pay Later. Are BNPL services worth using, and what are the possible repercussions? Learn how to use it right in order to maximize your cashflow, and what to avoid so that you don't end up busting your budget or running into late fees.*

Traditionally, you could either pay for a purchase in full or via monthly instalments.

Payments via instalments are not new – the banks and credit cards companies have been offering this for decades, earning as they charge you late fees and hefty interest rates (~25% p.a. on average) for missing payments.

### How does BNPL work?

In contrast, BNPL players operate in that space in between where they offer short-term payment plans that allow consumers to make a purchase and split the cost by paying for it in several instalments over time.

If you've already been disciplined in repaying the instalment plans offered by your credit card issuer, then BNPL services might be an attractive alternative since there are lower fees involved. **However, for the less financially-disciplined, BNPL services may soon prove to be a double-edged sword.**

**So if you're not disciplined enough, then you should avoid all that trouble by simply paying upfront.**

*Historically, financial services that offer instalments are an easy way for people to get into financial trouble, as they end up spending more than what they can actually afford. My mom used to do this ALL THE TIME, and it frustrated me to no end seeing her buy stuff like \$4000 vacuum cleaners just because she could split it up across several months (or years) on her credit card instalment plan. If you asked me, it gave her a false sense of financial security because given her income, her rate of spending was just shocking. But I also wanted to point out that **ultimately, BNPL is a financial service at your disposal.** If you're savvy enough to know how to use it well, then you can use it to your benefit.*

### Pros and cons of BNPL

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## What most BNPL services don't tell you

Most BNPL providers will gladly tell you about the discounts or cashback you can get while using their services, or that it costs you nothing to use them. *(In case you are curious, it's possible for a BNPL service to be interest free because e-commerce merchants pay these providers a commission to tap on this service.)*

They emphasize 0% interest and no hidden fees. Or that by splitting the cost into several instalments, **you pay lesser upfront.**

Unfortunately, that's not the full story.

As some consumers have come to realize, BNPL services do have fees involved for the customer...**when** you fail to make your payments on time.

And if you charged that to your credit card for the next few months without first making sure that you'll have enough to afford the item in the first place...you might even find yourself having to deal with \$100 credit card late fees and ~25% p.a. interest rates on the amount overdue.

Which is why while there are many service providers to choose from, I personally will only choose and recommend those that have satisfactory safeguards in place to protect consumers from the problems highlighted earlier.

*And when I say "satisfactory safeguards", I mean that by SGBB's standards, not as a factual assessment of whether the measures implemented are good enough.*

This means that only BNPL providers who

- conduct **responsible marketing** communications that educate consumers on *both* the benefits and downsides of using their service
- **do not charge high fees** for missed payments *(or if they do, then communicating these fees upfront in a transparent manner is equally important)*
- impose a lower maximum amount – to **prevent consumers from overspending**

will fit my criteria.

At this moment, I find that PayLater by Grab ticks these boxes.

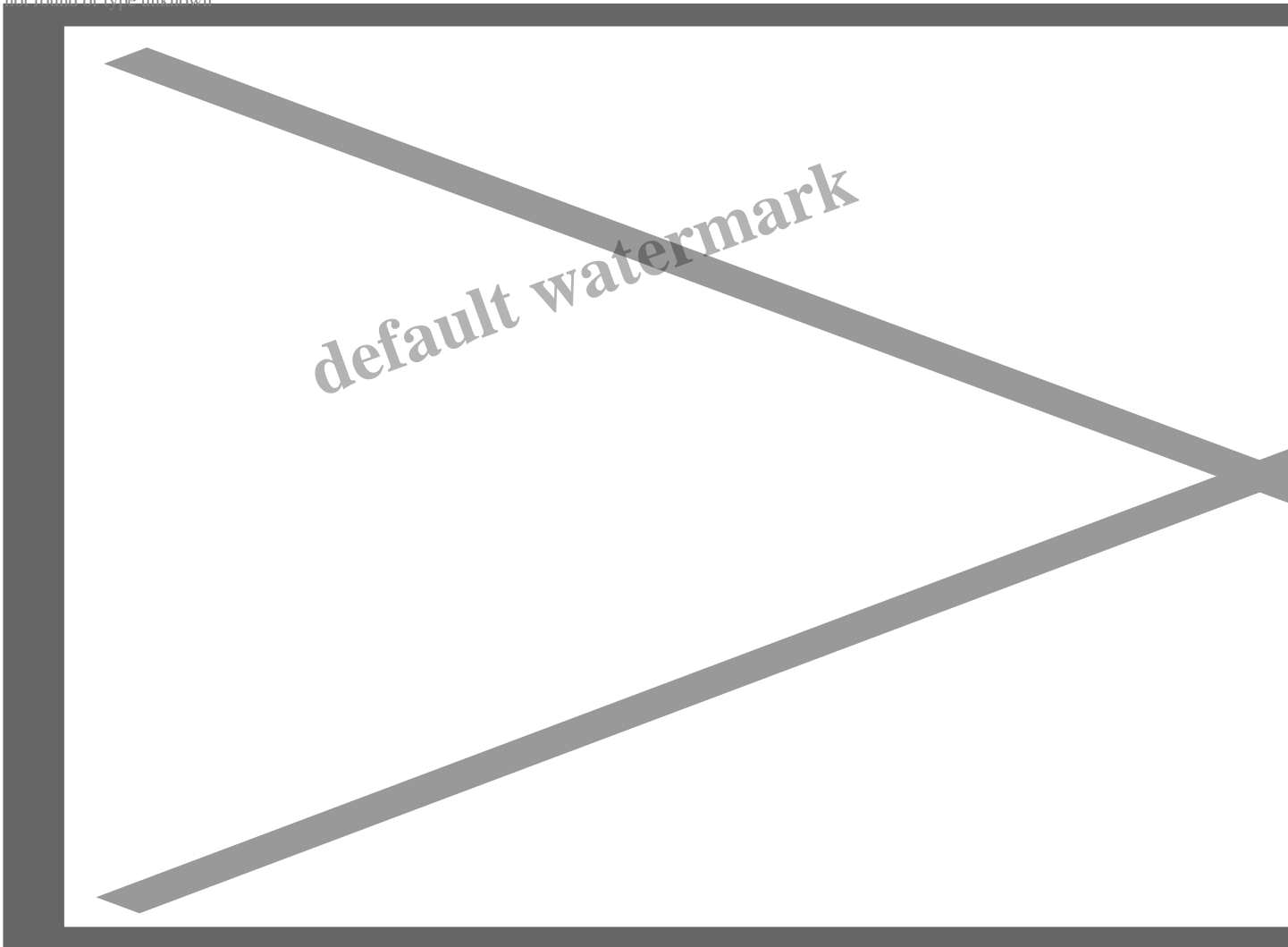
## What Grab wants you to know

Our non-negotiable take is that you should only use BNPL services if you

- **have money to pay for your entire purchase upfront** (*this can be money that you already have in your savings, or stable income that you are confident will come in within the next few months*)
- **use your debit card to function like a credit card** without any of its associated fees (*e.g. late payment fees or interest*)
- **looking for a way to spread out your purchase over a few months** using BNPL services **to maximise your credit card rewards** (*e.g. not bust your cashback reward cap*)

Don't use BNPL just because you're drawn by the attractive discounts or merchant offers. You'll need to make sure you exercise financial responsibility when you choose to buy now and pay later. Avoid financial ruin from late fees and missed payments by making sure you have set aside money (or even a reminder) to pay off your bills on time. With Grab, you can do this by automating payments from your GrabPay balance or linked (debit/credit) card.

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## How you can use BNPL to your advantage

I love using cashback credit cards, but some of them come with maximum caps (per category) so I've to be careful about how much I'm spending to ensure that I'm always getting the maximum cashback rate. Let's use the OCBC Frank card as an example, which gives 6% cashback for online spending and capped at \$25 per month. That means if I charge anything more than \$416 online to the card in that month, I won't be getting 6% cashback on every dollar beyond \$416 anymore.

So imagine I now need to buy a \$500 SecretLab chair for my aching bones, and a new \$648 Samsung replacement phone this month. Putting that all on my card is just silly, because I'll only get the maximum cashback of \$25 in total, which means my effective cashback rate has dropped to a mere 2.17%.

But with BNPL, I can change this...since I now get to control how much I spend each month on my card. Using Grab PayLater, I can now split that \$500 SecretLab chair into 4 instalments of \$125 each. Repeating the same hack for a Samsung Galaxy A52 phone online means I pay \$162 this month, leaving me with \$129 left to spend.

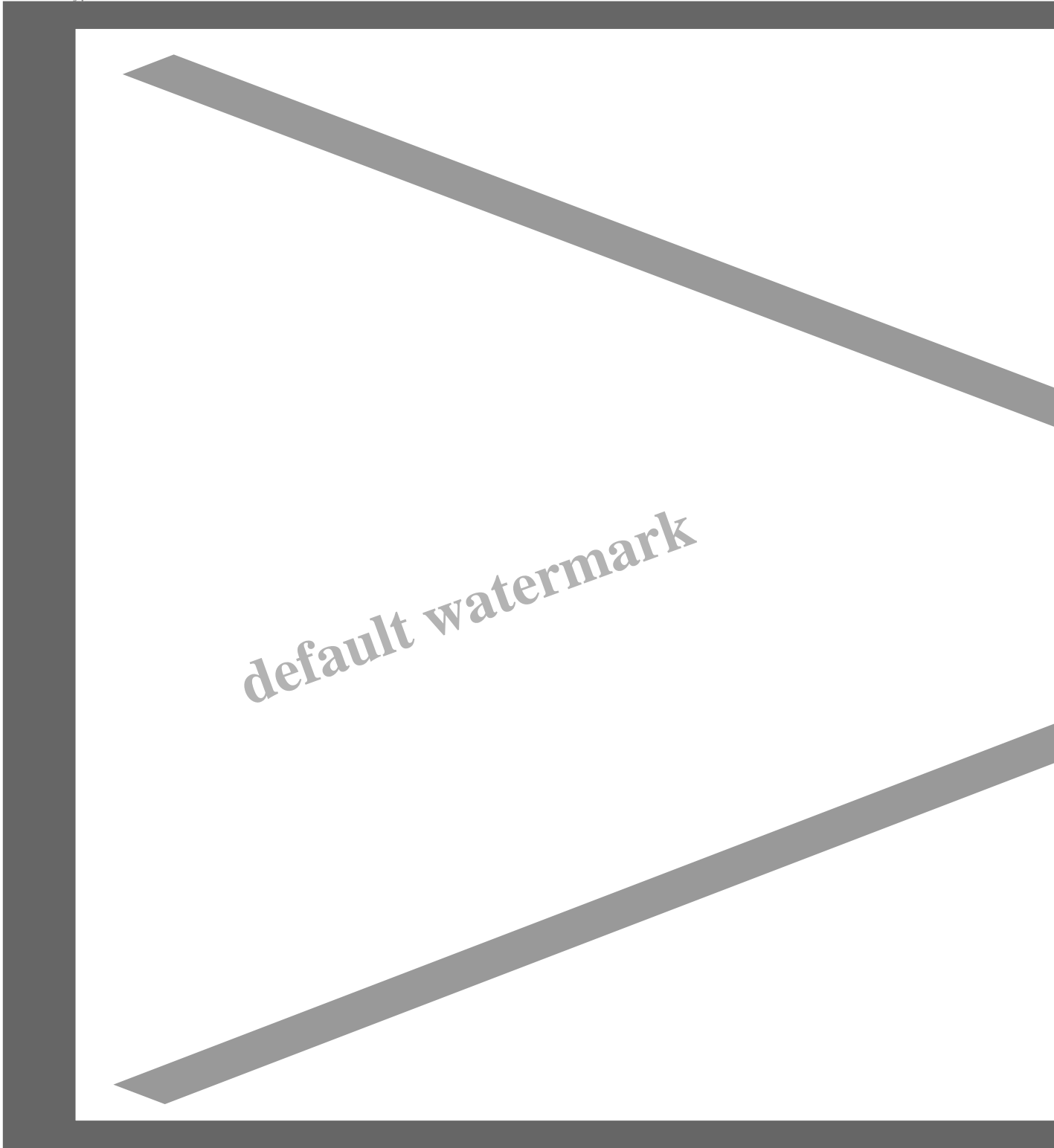
This way, I've effectively used BNPL to get 6% cashback for the next 4 months – that's a total of \$68.88 vs. the original \$25 (*almost 3 times more cashback*).

*On top of that, I could earn 5,000 GrabReward points when I make my first PayLater online transaction and benefit from their monthly points booster campaigns (like the Grab Power Up challenge).*

Since I already have enough cash in my bank account to pay for the SecretLab chair and Samsung phone upfront, spreading out the purchase using BNPL and have automating monthly payments via my linked card becomes a wiser move...since I won't be missing any payments or incurring late fees as a result. *That's* how you can make BNPL work for you.

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**TLDR: Use financial products (like BNPL) well**

Just like how using a credit card offers more benefits than paying via a debit card, products like BNPL also have a role to play in the financial ecosystem.

The key here is that consumers are educated on how to use them right, and what NOT to do.

If you find yourself having to download a new, separate mobile app just so you can BNPL (*and where the app constantly bombards you with merchant offers and promos to encourage you to spend*), then you may want to seriously think about whether having that app could entice you to spend more.

I prefer Grab's PayLater out of all the BNPL choices right now, simply because there's no need for me to download another app for it – the majority of users in Singapore already have the Grab app on our phones for ride-hailing, food delivery or GrabPay wallet as part of our everyday life.

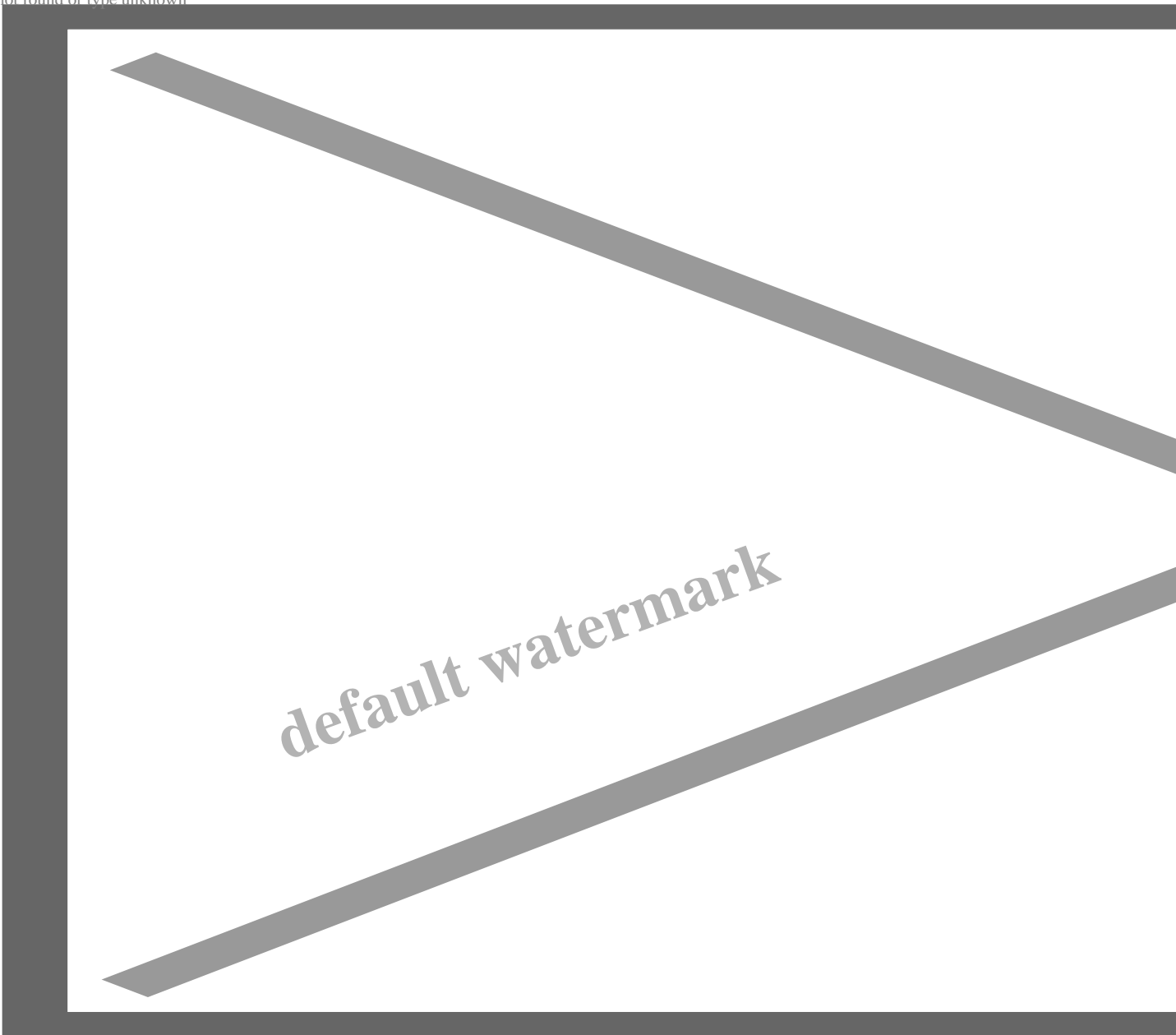
Furthermore, Grab's PayLater users are also required to set up automated payments so that you don't have to worry about forgetting to pay, just ensure you have enough in your account if you are linking your debit card.

For those who miss your monthly payment, your PayLater account will be deactivated to prevent further snowballing. Each time you reactivate it, a S\$10 admin fee will be charged. (*If you asked me, that's not too bad...*)

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What other tips do you have when it comes to using BNPL?

Share with me in the comments below.

*P.S. There seems to be some confusion over how using Grab PayLater can still entitle you to enjoy your credit card rewards. Basically, how it works is that the amount will first be deducted from your GrabPay wallet (some credit cards have stopped giving points for wallet top-ups, but some cards have yet to exclude it). So if you're one of those who don't generally top up or keep funds in your GrabPay wallet (like me), then the wallet won't have enough funds, so Grab will be charging your linked credit / debit card directly.*

*This post is written in collaboration with Grab Singapore. All opinions are that of my own.*

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### **Sponsored Message**

Grab launched PayLater as an alternative to traditional financial services to provide customers the flexibility to make interest-free payments over 4 instalments or at the end of the following month. We do not charge any interest, which means you will never pay more than the amount of your purchase as long as payments are made on time. In the event that you're late to pay, your PayLater account will be deactivated, and we charge a \$10 admin fee for each reactivation..

As a financial provider focused on providing accessible, convenient and transparent services for our customers, [Grab hopes that PayLater will help more consumers to manage their cashflow better and get more out of their monthly spend.](#) **Explore PayLater under the Payments tab in your Grab app today.**

### **Category**

1. Savings

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