

Case Study: Buy Now Pay Later

Introduction

The "Buy Now, Pay Later" (BNPL) payment model has become one of the fastest-growing trends in the fintech industry, revolutionising how consumers finance purchases and how businesses attract and retain customers. This study explores the growth trajectory of BNPL services, the impact on consumer behaviour, the risks associated with the model, and the differences between Indian and global markets.

- **BNPL:** BNPL is a short-term financing option that allows consumers to make purchases and pay for them in instalments, often interest-free, over a period ranging from a few weeks to several months. Unlike traditional credit cards, BNPL services are integrated directly into the checkout process of e-commerce sites and in physical stores, making it a convenient and attractive option for many shoppers.
- **How Does BNPL Function?** BNPL companies partner with merchants to offer instalment payment plans at the point of sale. When a customer opts for BNPL, the BNPL provider pays the merchant upfront and then collects the instalments from the customer over the agreed period. The business model relies on transaction fees paid by merchants and late fees or interest charges imposed on consumers who miss payment deadlines.

2. Growth Trajectory and Market Penetration

- **Recent Growth Trends** The BNPL sector has experienced exponential growth over the last five years, particularly fueled by the COVID-19 pandemic, which accelerated the shift toward online shopping. According to industry reports, the global BNPL market was valued at approximately \$125 billion in 2022, and it's projected to grow at a compound annual growth rate (CAGR) of 22% from 2023 to 2030.
- **Factors Contributing to Growth** Several factors have contributed to the rise of BNPL:
 - **Technological Advancements:** The integration of BNPL solutions with e-commerce platforms has simplified the payment process.
 - **Shift in Consumer Preferences:** Younger generations, especially millennials and Gen Z, prefer alternatives to traditional credit cards, which come with higher interest rates.
 - **Increased Merchant Adoption:** Businesses have embraced BNPL as a way to reduce cart abandonment and boost sales conversion rates.
- **Market Penetration** BNPL has penetrated various sectors, including retail, travel, healthcare, and education. Online fashion retailers and electronics stores, in particular, have seen high adoption rates, as customers frequently use BNPL to finance high-ticket items.

3. Influence on Consumer Shopping Behavior

- **Consumer Behavior Analysis** BNPL appeals to consumers due to its simplicity, flexibility, and lack of interest charges for on-time payments. It offers a way to manage cash flow and make purchases without using credit cards. A survey by McKinsey found that more than 60% of BNPL users are under the age of 35, indicating strong uptake among younger consumers who are wary of traditional credit options.
- **Key Drivers of Adoption**
 - **Ease of Access:** BNPL offers quick approval processes compared to credit cards, often requiring minimal credit checks.
 - **Flexibility in Payment:** The ability to spread payments over time without accruing interest attracts consumers, especially those with irregular income.
 - **Economic Pressures:** In challenging economic times, BNPL serves as a tool to manage finances and avoid dipping into savings.
- **Categories with High Adoption Rates** The product categories that see the most frequent use of BNPL services include:
 - **Fashion and Apparel:** Online retailers in this space offer BNPL to encourage impulse buys.
 - **Electronics and Gadgets:** High-ticket items such as smartphones, laptops, and gaming consoles are popular purchases using BNPL.
 - **Travel:** BNPL allows customers to book trips and pay in instalments, making it easier to manage travel expenses.

4. Impact on Businesses and the E-Commerce Ecosystem

- **Benefits to Merchants**
 - **Higher Sales Conversion Rates:** BNPL encourages customers to complete purchases they might otherwise abandon, leading to increased conversion rates.
 - **Increased Average Order Value:** The ability to pay in instalments incentivizes customers to spend more than they would with a single upfront payment.
 - **Customer Acquisition and Retention:** Offering BNPL can attract new customers and foster loyalty among existing ones.
- **Challenges for Businesses**
 - **Transaction Fees:** Merchants pay fees to BNPL providers, which may be higher than traditional payment processors.
 - **Returns and Refund Handling:** BNPL purchases can complicate the returns process, as refunds may involve reversing instalment payments.
- **Changes in the E-Commerce Landscape** BNPL has reshaped the e-commerce industry by integrating flexible payment options at the checkout stage. This shift has led to competitive dynamics among payment providers, driving innovation in fintech services.

5. BNPL in India vs. the Global Market

- **Comparison of Adoption Rates** In India, BNPL services have gained traction in urban areas with high digital literacy. While the growth rate is robust, it lags behind more mature markets like Australia, the U.S., and the U.K., where BNPL is more widespread.
- **Key Players in India** Leading Indian BNPL providers include ZestMoney, LazyPay, and Simpl, which focus on providing digital credit solutions to younger, digitally-savvy consumers. In contrast, global giants like Afterpay, Klarna, and Affirm have a broader international reach.
- **Regulatory Differences** India's regulatory environment for BNPL is evolving, with the Reserve Bank of India (RBI) introducing guidelines to ensure consumer protection and financial stability. Globally, regulatory approaches vary, with some countries imposing stricter guidelines to curb the risks associated with unsecured credit.

6. Advantages and Disadvantages for Consumers and Companies

- **Advantages for Consumers**
 - **Interest-Free Periods:** Many BNPL providers offer zero-interest financing if payments are made on time.
 - **Accessibility:** BNPL is accessible to people who might not qualify for traditional credit cards due to stringent credit checks.
- **Disadvantages for Consumers**
 - **Potential Debt Accumulation:** Easy access to BNPL can lead to impulsive spending and high debt accumulation.
 - **Fees for Late Payments:** Late fees and interest rates can accumulate quickly if payments are not made on time.
- **Advantages for Companies**
 - **Increased Sales:** Companies can attract more customers and boost sales volume.
 - **Competitive Differentiation:** Offering BNPL sets businesses apart in competitive markets.
- **Disadvantages for Companies**
 - **Cost of Transaction Fees:** The fees charged by BNPL providers can impact the profit margin.
 - **Fraud Risks:** Managing fraud and chargebacks can be more challenging with BNPL payments.

7. Challenges and Risks in the BNPL Sector

- **Credit Risk Management** The unsecured nature of BNPL credit poses risks for providers if consumers default on payments. Effective risk management strategies, such as AI-driven credit assessment, are essential to mitigate these risks.
- **Regulatory Compliance** As BNPL continues to grow, regulatory scrutiny is increasing to ensure that consumers are protected from financial harm. Governments are considering tighter regulations to prevent predatory lending practices.

- **Consumer Protection Concerns** There is a growing need for transparent communication regarding fees, repayment terms, and credit limits to protect consumers from debt traps.

8. Real-Life Case Studies

- **Afterpay:** The Australian-based company has been one of the pioneers in the BNPL space, leading its growth in Australia and expanding globally. Afterpay's model of offering interest-free instalments with minimal credit checks attracted a large user base quickly.
- **Affirm in the U.S.:** Affirm's strategy of partnering with major retailers like Amazon and Peloton boosted its visibility and adoption. Its transparency in showing interest rates upfront is a unique selling point.
- **ZestMoney in India:** As one of India's largest BNPL providers, ZestMoney focuses on making credit accessible to people without credit scores. It partners with e-commerce giants like Flipkart and Amazon India.

Key Findings of BNPL

- BNPL apps may not sufficiently disclose fees and interest rates or notify users of changes to terms.
- Most BNPL apps clearly disclose fraud policies, and often provide useful consumer education content on fraud, but do not commit to real-time fraud monitoring and notification.
- BNPL apps provide basic security measures but do not commit in their disclosures to proactively monitoring accounts for security vulnerabilities, and make vague commitments to using industry-standard security practices.
- BNPL apps make adequate legal disclosures regarding data collection practices, but they do not go further to ensure that users understand their rights, and they collect more data than is needed to use the services.
- BNPL apps have varying policies and practices regarding their sharing and usage of consumer data. Although most companies do not sell consumer data, most share data with third parties, in many cases for the purpose of targeted advertising and marketing.
- In many cases BNPL apps do not offer users easily accessible control of privacy settings, and in most cases they do not provide users with the ability to easily access or delete data.
- BNPL apps essentially require users to use arbitration, and not the court system, to resolve potential legal disputes, and prohibit them from joining with other users to bring legal claims.

Higher interest rate – Credit Cards or BNPL Providers

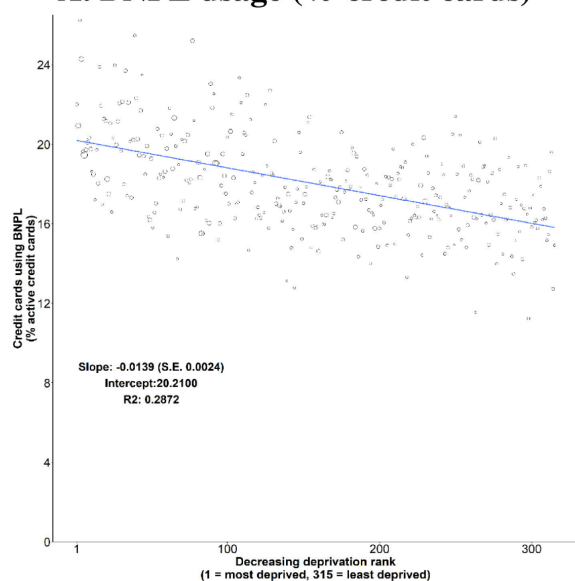
It's a well-known fact that credit cards are the most expensive form of credit. Interest rates on missed payments can go up to 48 percent, whereas BNPL companies charge around 0 to 24 percent interest rate depending on the merchant, tenure and the borrower.

BNPL Vs Credit cards:

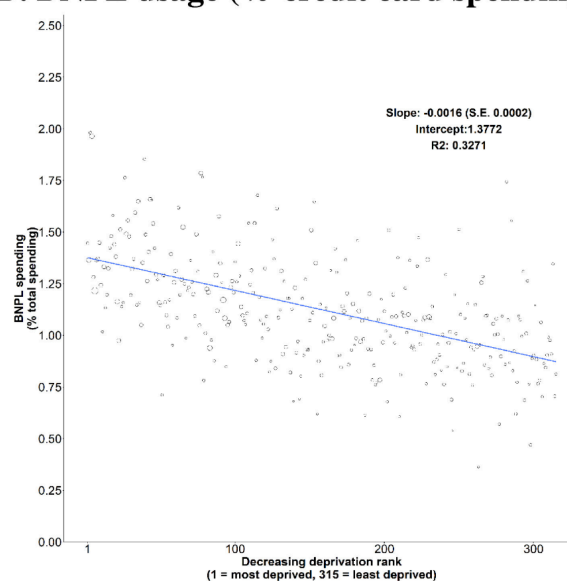
The main feature of Buy Now Pay Later is it is a one-click credit facility service available on checkout on merchant apps and websites. With BNPL, one can avail of this short-term credit option to make instant purchases and pay for them at a later date. Transparent and low-cost pricing: BNPL usually follows a transparent and low-cost pricing model because a lot of the offers are subsidised by brands so that the customer gets the best value of the offering. Completely digital and instant sign up process: Anyone sitting in any part of the country can sign up and avail of the service. Credit cards on the other hand require weeks and a lot of paperwork. With digital KYC, one can get instantly approved and start transacting. More accessible: When compared, credit cards are for high CIBIL customers, people in metros and salaried folks. Only 30 million people in India use credit cards.

I. BNPL usage on credit cards active in December 2021

A. BNPL usage (% credit cards)

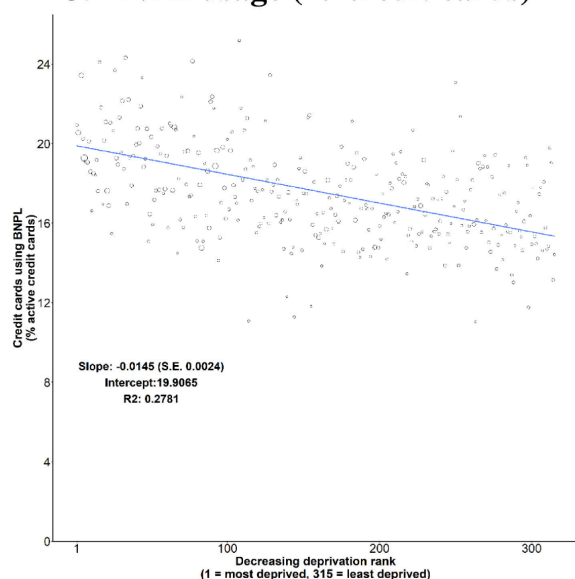


B. BNPL usage (% credit card spending)

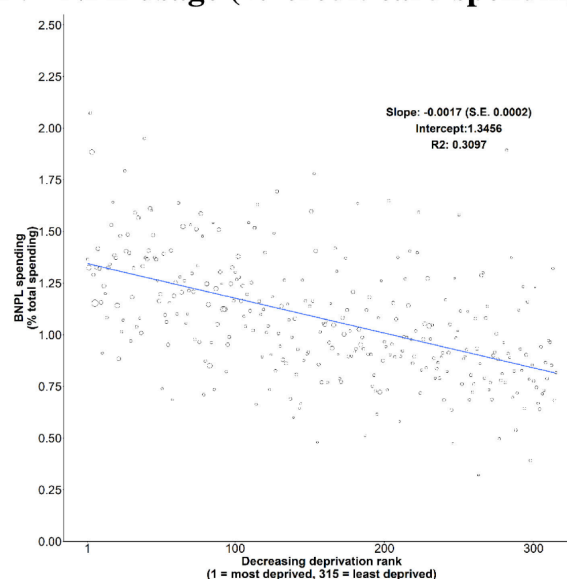


II. BNPL usage on credit cards active in both January and December 2021

C. BNPL usage (% credit cards)



D. BNPL usage (% credit card spending)



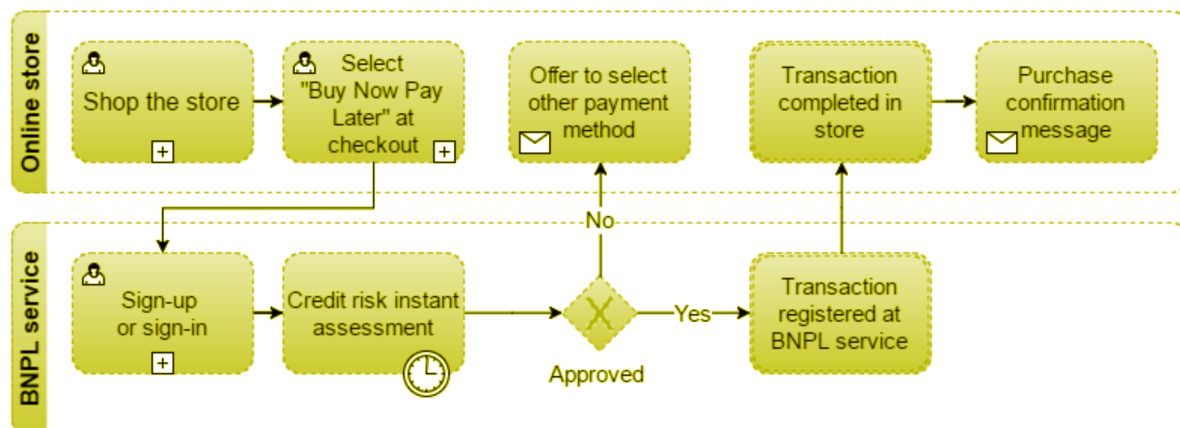
The Red Flag of BNPL

Even with all the benefits and attractive features, industry experts say customers should be careful while availing of the buy now pay later service.

Though it differs from one lender to another, late fees or penalties as one-time fees are charged, which are usually not compounded, a stark difference from credit cards. It is important to note that BNPL is essentially still a loan and therefore BNPL providers can report one's repayment behaviour to the credit bureaus.

Experts say, just like any other loan, it will still fall upon the customer to make repayments promptly to maintain a healthy credit score since most BNPL providers report repayments to credit bureaus.

Buy Now Pay Later (BNPL) solutions high level diagram



References

- Industry Reports (e.g., McKinsey, Statista, PwC)
- Articles from Financial Times, Forbes, The Economic Times
- Academic Papers on Fintech and Consumer Behavior
- Public Statements and Reports from BNPL Companies (e.g., Afterpay, Klarna, Affirm)
- Surveys from organisations like the Reserve Bank of India or global financial services firms.

Further References and Reports on BNPL

1. Industry Reports

- **McKinsey & Company:** Reports on digital payments and the future of the BNPL market.
- **Statista:** Data and statistics on the global BNPL market, adoption rates, and growth projections.

- **Deloitte:** Analysis of the BNPL business model, regulatory environment, and market trends.
- **PwC (PricewaterhouseCoopers):** Insights into fintech trends, including BNPL, its impact on traditional banking, and emerging risks.

2. Academic Journals

- **Journal of Financial Services Marketing:** Articles on fintech adoption and consumer behaviour in digital payments.
- **Journal of Consumer Research:** Studies on consumer decision-making and how BNPL influences shopping habits.
- **Journal of Business Research:** Papers focusing on the economic implications of BNPL, credit risks, and financial behaviours.
- **Journal of Retailing and Consumer Services:** Research on the impact of BNPL on retail sales, customer satisfaction, and payment preferences.

3. News Articles and Media Coverage

- **Financial Times:** Coverage of major BNPL companies like Klarna, Afterpay, and Affirm, including business strategies, challenges, and market expansions.
- **The Wall Street Journal:** Articles on regulatory issues surrounding BNPL and its influence on consumer credit.
- **The Economic Times (India):** Specific coverage of BNPL trends in India, including key players and market dynamics.
- **Forbes:** Analysis of the pros and cons of BNPL for consumers and businesses, and its role in the evolving fintech landscape.

4. BNPL Company Reports and Case Studies

- **Afterpay Investor Reports:** Detailed financials and growth strategies for one of the leading BNPL companies.
- **Klarna's Annual Reports:** Insights into market penetration, company strategies, and technological innovations.
- **Affirm's SEC Filings and Investor Presentations:** Data on revenue growth, customer base, and partnerships.
- **ZestMoney and Simpl (Indian BNPL Providers):** Case studies and company reports highlighting the unique challenges and opportunities in the Indian market.

5. Government and Regulatory Sources

- **Reserve Bank of India (RBI):** Reports and guidelines on digital payments and consumer credit in India.
- **Financial Conduct Authority (FCA) - UK:** Regulatory framework and guidelines concerning BNPL providers and consumer protection.
- **Consumer Financial Protection Bureau (CFPB) - USA:** Insights into consumer risks and regulatory recommendations for BNPL services.
- **Australian Securities and Investments Commission (ASIC):** BNPL regulations and consumer impact studies in the Australian market.

6. Surveys and Market Research Firms

- **Accenture:** Analysis on the growth of digital payments and consumer attitudes towards BNPL.
- **Capgemini:** Reports on global payments trends and how BNPL fits into the broader fintech ecosystem.
- **KPMG:** Market research on BNPL adoption, including consumer segments most likely to use BNPL services.
- **Worldpay's Global Payments Report:** Overview of payment methods worldwide, with a focus on BNPL adoption rates and future trends.

7. Books on Fintech and Digital Payments

- **"Bank 4.0: Banking Everywhere, Never at a Bank" by Brett King:** Discusses how digital payments, including BNPL, are changing the financial services industry.
- **"Digital Banking Tips: Practical Ideas for Disruptors!" by Tolga Tavlas:** Offers insights into the evolution of digital banking and fintech, with a section on BNPL trends.
- **"Fintech Innovation: From Robo-Advisors to Goal Based Investing and Gamification" by Paolo Sironi:** Examines different aspects of fintech, including BNPL, and its influence on financial behaviour.

8. Podcasts and Webinars

- **"Fintech Insider Podcast":** Episodes that cover BNPL trends, regulatory updates, and interviews with industry experts.
- **"Breaking Banks":** A podcast on banking and fintech evolution, often discussing digital payments, including BNPL.
- **Webinars by Finextra and PYMNTS:** Online events focusing on BNPL's role in the changing payments landscape and its impact on retail.

9. Whitepapers and Research by BNPL Providers

- **Klarna Insights:** Reports on consumer shopping habits and payment preferences based on data from millions of transactions.
- **Afterpay Whitepapers:** Research on the economic benefits of BNPL for consumers and merchants.
- **Affirm Research Reports:** Insights into consumer credit trends and how BNPL is reshaping the financial landscape.

Reference Links

- <https://advocacy.consumerreports.org/research/buy-now-pay-later-a-case-study-for-a-digital-finance-standard/>
- <https://www.financialexpress.com/money/buy-now-pay-later-heres-all-you-need-to-know-about-bnpl-schemes-2301393/>
- <https://www.researchgate.net/publication/372448324>
- <https://grm.institute/blog/research-study-on-buy-now-pay-later-bnpl/>

Conclusion

- **Key Findings:** The BNPL model offers significant benefits for consumers and businesses, driving higher sales and providing accessible credit. However, it also poses risks, such as the potential for consumer debt accumulation and regulatory challenges.
- **Future Outlook:** The BNPL sector is likely to continue growing, driven by technological advancements and shifting consumer behaviours. However, increased regulatory scrutiny may shape its future development, especially in emerging markets like India.

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