

The Rise of Buy Now, Pay Later (BNPL)

1. What is BNPL Model?

Buy now, pay later (BNPL) is an alternative payment method that allows customers to purchase products and services without having to commit to the full payment amount up front. In doing so, customers have the ability to immediately finance purchases and pay them back in fixed instalments over time. For example, a customer making a £100 purchase could pay for the item in four interest-free instalments of £25.

Buy now, pay later services – such as Simpl, Afterpay, ZestMoney, Bharatpay, Lazypay – are used by a wide variety of businesses, especially e-commerce retailers, to increase conversion, increase average order value, and reach new customers. On buy now, pay later eligible sessions, businesses on Stripe have seen up to 14% increase in revenue. These payment methods offer customers the ability to immediately finance purchases and pay them back in fixed instalments over time.



2. How has this payment method grown recently?

Buy now pay later (BNPL) services are gradually gaining traction in the Indian payments market and the transaction value of these services is estimated grow at a compound annual growth rate (CAGR) of 32.5% between 2022 to 2026 to reach INR1.1 trillion (\$15 billion) in 2026, driven by increased demand for short term credit coupled with growing consumer preference for online shopping, says GlobalData.

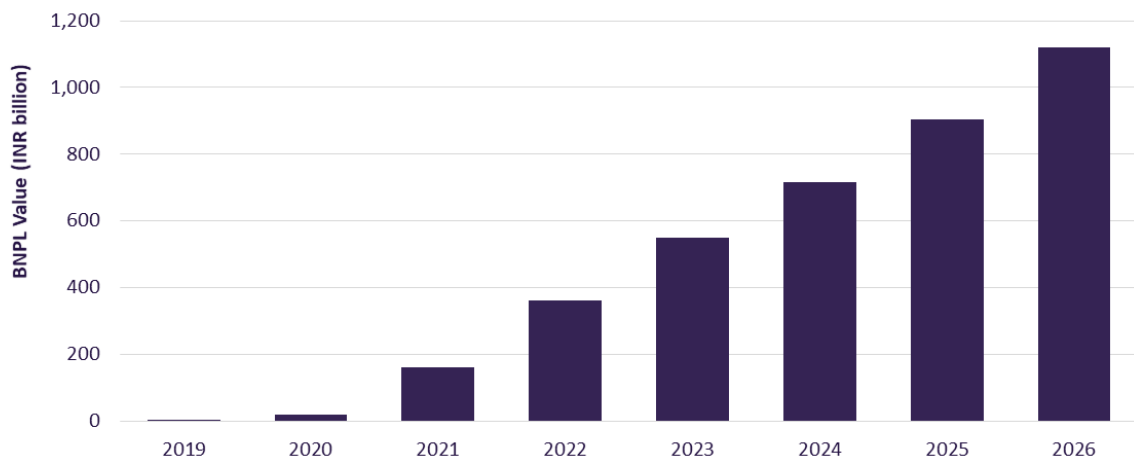
GlobalData's E-Commerce Analytics reveals that the BNPL market* in India is estimated to grow by **125.8% to reach INR363.0 billion (\$4.9 billion) in 2022**, as an increasing number of merchants, banks, and payments providers provide customers with an option to pay for their purchases at a future date.

Shivani Gupta, Senior Banking and Payments Analyst at GlobalData, comments: **"BNPL, which is already very popular in Australia and many European markets, is gradually gaining traction in India, especially among millennials. It provides consumers with the flexibility to pay for purchases at later dates with no-interest, making it a lucrative payment tool, particularly for those who do not own credit cards. Further, with pandemic**

adversely affecting consumers' disposable income, the demand for short-term consumer financing solutions has increased in the past couple of years."



India: BNPL Value (INR billion), 2019-26



Source: GlobalData Banking and Payments Intelligence Center

GlobalData.

The major BNPL brands in India include Amazon Pay Later, ZestMoney and Flipkart Pay Later. Launched in April 2020, Amazon Pay Later already has over 3.7 million registered users, driven by a faster customer sign-up process, and its wider use cases for goods purchases and utility payments.

BharatPe is the latest to join the bandwagon with its 'postpe' service in October 2021. Apart from payment services providers and retailers, even online food delivery providers such as Zomato and Swiggy are planning to launch a BNPL solution.

3. How BNPL has influenced to people shop (Consumer Behavior Analysis)?

Behavioral Change	Impact of BNPL
Increased Spending	Encourages consumers to make larger, higher-value purchases
Decreased Cart Abandonment	Reduces hesitation at checkout, boosting e-commerce sales
Shift in Financial Responsibility	Creates comfort with short-term borrowing as opposed to long-term debt
Impulse Buying and Instant Gratification	Facilitates quick purchasing decisions, leading to higher impulse buys
Potential Financial Strain	Can lead to financial stress when managing multiple BNPL plans simultaneously
Preference over Traditional Credit	Attracts credit-averse or young consumers seeking no-interest, easy-access borrowing
Retailer Demand for BNPL	Retailers see increased customer attraction and retention with BNPL options

Lower Perceived Financial Risk	May lead to overspending due to the initial minimal payment required
---------------------------------------	--

4. What are the reasons behind the growth of BNPL?

:Reasons of Key Growth Drivers:

Growth Driver	Explanation
Simplicity and Ease of Use	Easy sign-up, instant approval at checkout
Payment Flexibility	Interest-free instalments and manageable payment schedules
Enhanced Affordability	Allows access to higher-value items, with transparent cost structures
Appeal to Younger Generations	Mobile-friendly and a preferred alternative to credit cards
Minimal Credit Requirements	Low entry barriers make BNPL accessible to those with limited credit history
Increased Consumer Control	Clear terms and payment dates improve consumer confidence
Rise in E-commerce	Digital shopping boom pairs well with the instant, flexible payment BNPL offers
Retailer Adoption	Increased sales and AOV for retailers, plus additional BNPL marketing support
Lower Spending Barriers	Perceived low financial impact promotes spending and impulse purchases
Security and Transparency	Clear repayment terms and digital security enhance consumer trust

5. What segment of users are most attracted by BNPL and what are the categories growing?

Summary of Growing BNPL Segments and Categories:

Consumer Segment	Companies In That Space	Popular BNPL Categories	Key Motivations
Younger Consumers (Gen Z, Millennials)	Quad Pay, ePayLater, Simpl, Lazy pay	Fashion, Electronics, Travel	Credit-aversion, digital preferences, flexible payment
Credit-averse Individuals	Affirm, One Card, Uni Cards, postpe	Home Goods, Electronics	Alternative to traditional credit, low approval barriers
Online Shoppers	Amazon PayLater, Flipkart PayLater, Paytm Postpaid, Lazy pay	Fashion, Beauty, Groceries	Ease at checkout, habit of frequent purchases
Budget-conscious Shoppers	Splitit, Slice, Flexmoney, Zest Money, Mobikwik	Groceries, Essentials, Electronics	Cash flow management, low immediate cost

Impulse Buyers	Klarna, One Card, Lazy pay, Amazon BNPL, Flipkart BNPL	Fashion, Beauty, Gadgets	Instant gratification, minimal initial financial impact
-----------------------	--	--------------------------	---

6. What are the impacts on businesses due to BNPL?

Impact on Businesses	Description
Increased Sales and AOV	BNPL drives higher purchases by reducing the immediate financial barrier
Customer Acquisition and Retention	Attracts new, younger demographics and encourages repeat purchases
Reduced Cart Abandonment	Makes it easier for customers to finalize purchases, particularly online
Enhanced Customer Experience	Builds brand loyalty through a flexible payment option
Marketing Opportunities	BNPL providers drive traffic through co-branded promotions
Higher Transaction Fees	Fees to BNPL providers can impact margins, particularly for low-margin items
Increased Returns	Higher likelihood of product returns due to impulsive purchases
Operational Complexity	Requires new workflows, especially around refunds and accounting
Dependency on Provider Payments	Retailers rely on BNPL providers for timely payment remittances
Data Insights	Gain insights on customer behaviour for better marketing and inventory choices
Brand Risk	Potential negative associations if BNPL causes financial strain for customers

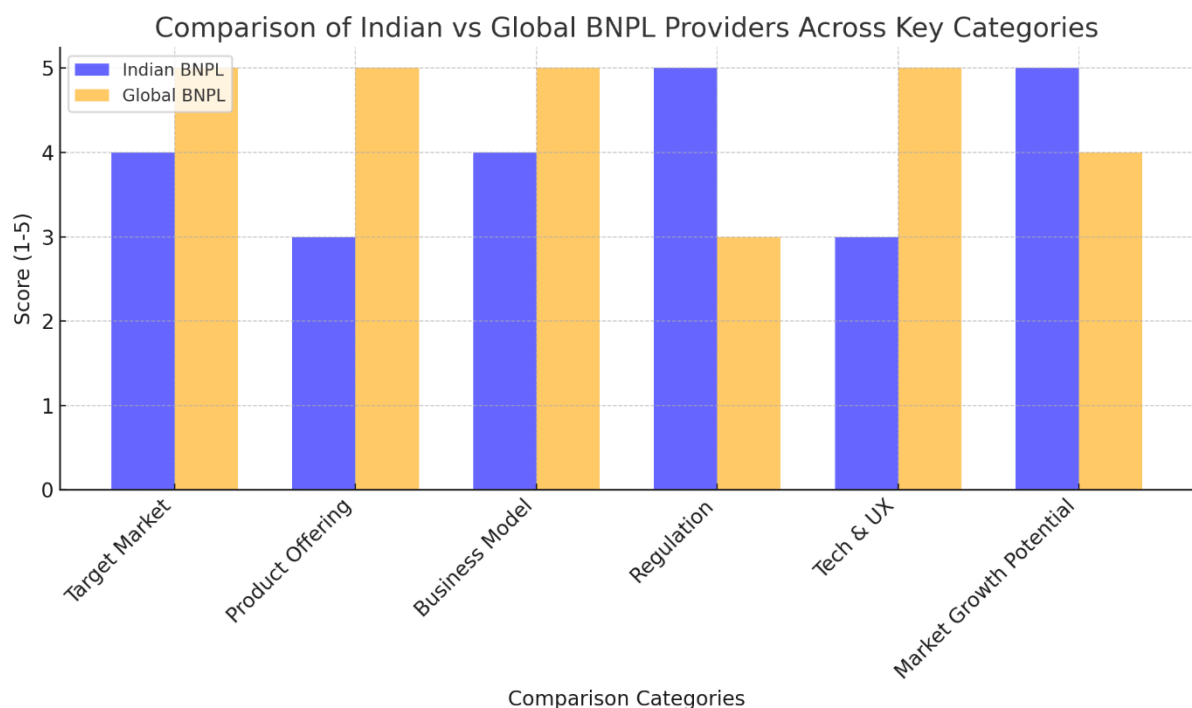
7. What is the difference in Business operation before & after introduction of BNPL?

Business Aspect	Before BNPL	After BNPL
Sales Volume	Limited by upfront costs	Increased due to affordability of split payments
Average Order Value (AOV)	Typically lower, price-conscious purchases	Higher AOV as customers feel comfortable adding items
Customer Acquisition	Limited to traditional financing options	Broader reach, including younger and credit-averse users
Conversion Rate	High cart abandonment, especially on large purchases	Higher conversions with flexible, lower upfront payments
Customer Experience	Limited payment options, reliance on discounts	Enhanced with flexible, interest-free payment plans
Return Rates	Generally lower, with careful upfront consideration	Higher due to impulse purchases enabled by BNPL

Operational Complexity	Simpler, direct payments and refunds	Complex backend processes, added reconciliation steps
Profit Margins	Standard transaction fees	Higher fees impacting low-margin products
Brand Perception	Focused on traditional service and pricing strategies	Customer-centric, flexible, seen as modern and accessible

8. What is the comparison of Indian companies offering Buy Now Pay Later services with those in the global market?

Aspect	India	Global Market
Major Players	Zest Money, Lazy Pay, Simpl, ePayLater, Capital Float	Klarna, After pay, Affirm, Zip, PayPal
Business Model	Small-ticket, short-term, low-cost transactions	Higher-ticket, longer-term, varying interest fees
Target Market	Young, credit-inexperienced, rural and urban consumers	Broader demographic, including credit-savvy consumers
Product Offering	Short-term, interest-free, UPI-integrated	Ranges from short-term to long-term interest-bearing
Regulations	Strict RBI regulation, KYC requirements	Varied by country, generally increasing scrutiny
Tech & UX	Mobile-first, local languages, UPI-enabled	App-based ecosystems, personalized and global-friendly
Market Growth	High in Tier II/III cities, entering new sectors	Mature in developed regions, high-growth in emerging markets



9. What are the advantages and disadvantages for both consumers and companies using this BNPL?

Aspect	For Consumers	For Businesses
Advantages	- Flexible, low-cost payments	- Higher conversion, AOV, and sales

	- Accessible to low or no credit users	- Attracts younger, credit-averse demographics
	- Easier approval process than traditional credit	- Competitive edge and potential for customer retention
	- Convenient shopping experience	
Disadvantages	- Risk of overspending and debt accumulation	- Higher transaction fees that impact profit margins
	- Late fees and potential credit score impact	- Increased return rates due to impulsive purchases
	- Limited consumer protections compared to credit cards	- Operational complexity in accounting and reconciliation
		- Dependency on BNPL providers' policies, potentially impacting business flexibility

10. What is the future of BNPL ?

BNPL adoption is still in the early stages, so where could it go from here? A few predictions:

- **Omnichannel BNPL** – Providing flexible payment options consistently across retail, online, mobile channels.
- **Blockchain-based BNPL** – Cryptocurrency allows global, decentralized BNPL platforms outside the traditional finance system.
- **Vertical expansion** – New verticals like healthcare, education, B2B, travel, etc will adopt BNPL solutions tailored to their needs.
- **Bank partnerships** – Banks will invest in BNPL lenders and integrate installment financing into their own payment products.
- **Regulation** – Governments will look to tighten regulation of BNPL lending, especially for younger demographics.
- **Market consolidation** – The crowded BNPL competitive landscape will consolidate into a few dominant players.

References:

- <https://stripe.com/in/guides/buy-now-pay-later>
- <https://www.hedgethink.com/buy-now-pay-later-business-model-how-bnpl-companies-make-money/>
- <https://www.tactygal.com/blog/bnpl-buy-now-pay-later-business-model/#:~:text=It%20allows%20consumers%20to%20purchase%20products%20and%20services,recurring%20payments%20over%206%20weeks%20or%20several%20months.>

- <https://www.globaldata.com/media/banking/buy-now-pay-later-market-india-reach-15-billion-2026-estimates-globaldata/>