

Subjective research case study-BNPL

Topic :

The Rise of Buy Now, Pay Later (BNPL)

Explore the growth of BNPL services and assess their impact on consumer spending habits and credit risk in the fintech sector.

Introduction :

Buy now, pay later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them over time. BNPL is also commonly known as a Point-of-Sale (POS) installment loan that doesn't charge interest. For example, a customer making a \$100 purchase could pay for the item in four interest-free installments of \$25.

BNPL Through the Ages

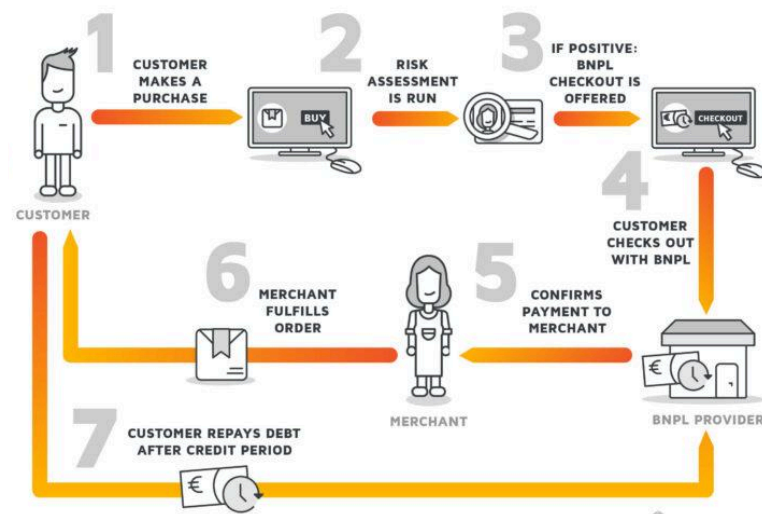
The concept of "Buy Now, Pay Later" (BNPL) has dramatically transformed retail and consumer finance, providing an alternative to traditional credit. Originating from early 20th-century layaway and installment plans, BNPL has evolved with technology, gaining immense popularity in the digital age. Modern BNPL services, pioneered by companies like Afterpay, Klarna, and Affirm, offer interest-free installment plans integrated seamlessly with e-commerce platforms. This model appeals particularly to younger consumers wary of credit card debt. The COVID-19 pandemic further accelerated BNPL adoption, highlighting its convenience and flexibility. Despite regulatory challenges, BNPL continues to expand, reshaping the financial landscape and consumer spending habits globally.

How Buy Now, Pay Later (BNPL) Works ??

Buy now, pay later programs have different terms and conditions. They generally offer short-term loans with fixed payments, no interest, and no additional charges. This means you know your payment amounts up front, and each payment will be the same. You can use a BNPL app to make the purchase, or you may have BNPL options through your credit card.

With BNPL, you can make a purchase at a participating retailer and opt for buy now, pay later at checkout. If approved, you make a small down payment, such as 25% of the overall purchase amount. You then pay off the remaining amount in a series of interest-free installments, usually over a few weeks or months.

Payments can be deducted automatically from your debit card, bank account, or credit card. You may also be able to pay via check or bank transfer in some cases, it is through the autopay method.



Despite its business model, a BNPL app acts as a financial intermediary at its core. It bridges the gap between customers, merchants, and financial institutions.

Customers use the app to make purchases and defer payments. Whereas merchants gain access to a broader customer base by offering Buy Now Pay Later services. Above all, BNPL service providers facilitate transactions and collaborate with financial institutions to ensure smooth operations.

BNPL vs Credit Card

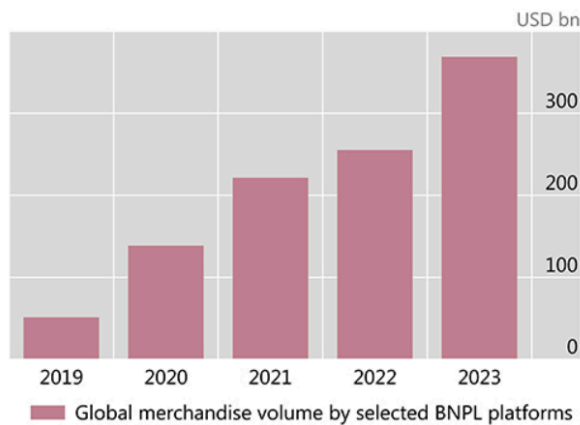
	BNPL	Credit card
Provider	Fintech companies	Banks
Application process	Fast and easy, only takes minutes	Complex and can take days to weeks
Credit check	Light check or no check, overdue usually won't impact personal credit	Requires verification of personal credit and overdue will be recorded
Credit line	Low	Low to high
Target users	Young consumers	Financially independent middle-aged people
Scenario	Small purchases	Large transactions
Repayment period	Bi-weekly or monthly	Monthly
Client fees	No management fees	Fees with high fines
Type	Virtual account	Account with a physical card

Growth & Consumer Behaviour Analysis:

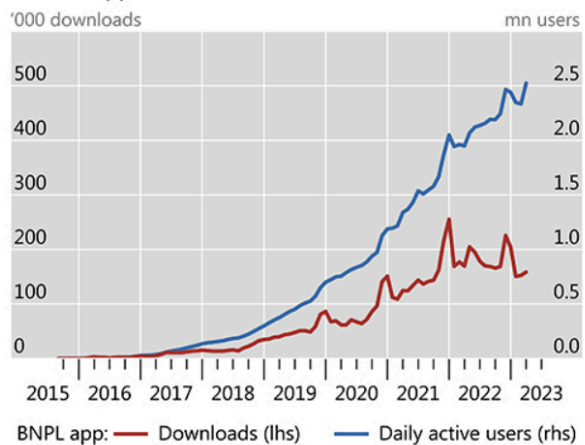
The rise of buy now, pay later¹

Graph 5

A. Volumes



B. BNPL app downloads and users



¹ See technical annex for details.

- There is a significant increase in the volume from 2019 to 2023.
- In 2019, the volume was the lowest, below 50 billion USD.
- From 2019 to 2020, there was a noticeable increase, almost doubling.
- The volume continued to rise sharply in 2021 and 2022.
- By 2023, the volume exceeded 300 billion USD, indicating substantial growth in BNPL services.

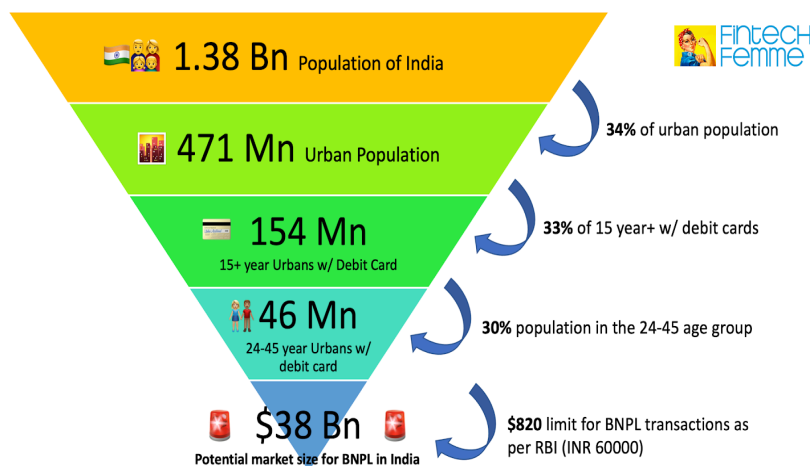
		% of each cohort who...	
		Used BNPL in past 30 days	Used BNPL more than once in past 30 days
All individuals		9.3	3.9
FICO Score	<600	23.0***	13.0***
	600-649	21.6***	11.8***
	650-699	13.3**	5.0
	700-749	11.0	2.9
	750-799	4.8***	1.5***
	>800	2.8***	0.8***
Bankrupt in past year?	Unknown	4.4***	1.9***
	Yes	23.4***	8.2
Race	No	8.8***	3.8
	White	8.4**	3.3**
Ethnicity	Black	15.1***	7.0**
	Asian	4.7***	2.2
	Other	11.7	6.0
Income	Latino	16.4***	7.8**
	Non-Latino	8.3***	3.4**
Gender	<\$25,000	10.8	5.1
	\$25,000-\$49,999	11.1	3.2
	\$50,000-\$74,999	13.6**	5.1
	\$75,000-\$99,999	9.2	6.2*
	>\$100,000	5.8***	2.4***
Gender	Female	11.6***	5.7***
	Male	6.9***	2.1***

- Individuals with lower FICO scores are more likely to use BNPL services. Usage is highest for those with FICO scores <600 (23.0%) and declines as scores increase, with only 2.8% of those with scores >800 using BNPL.

- Black individuals are the most likely to use BNPL services (15.9%), followed by those categorized as "Other" (11.7%). Asians are the least likely to use BNPL services (4.7%).
- Individuals who have declared bankruptcy in the past year are significantly more likely to use BNPL services (23.4%) compared to those who have not declared bankruptcy (8.9%).
- The pattern is similar for repeated use within the past 30 days: lower FICO scores, recent bankruptcies, Black and Latino individuals, and females show higher repeated usage rates.

Reasons behind growth and Simplicity of BNPL:

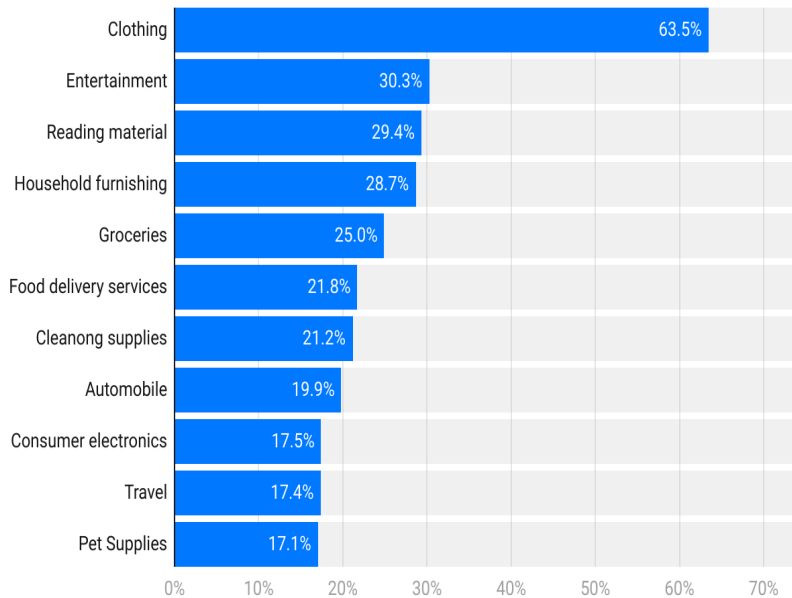
- **Convenience:** BNPL allows you to purchase items without paying the entire cost upfront. This makes it affordable to buy high-end items, even when you are on a tight budget.
- **No interest or fees:** Most BNPL service providers offer interest-free payments. This means you can spread the cost of the purchase without incurring additional interest charges.
- **Flexibility:** You can choose a repayment period that is convenient for you, as most companies offer tenures ranging from a few weeks to several months.
- **Easy to use:** BNPL payments are secure, simple, and transparent, and most companies facilitate a seamless checkout process. You will not have to fill out lengthy forms or provide much information.



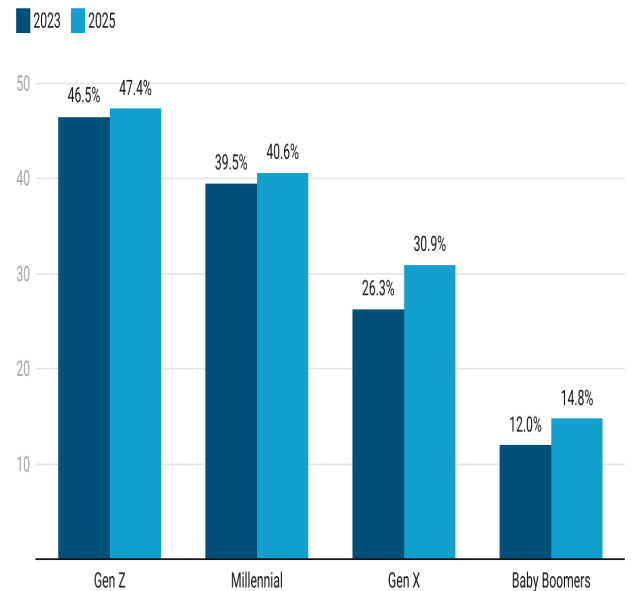
BNPL Boom in India

Which segments of users are most attracted to BNPL services, and which categories are experiencing the most growth?

Top 11 BNPL purchase category



Almost Half of Gen Z are expected to use BNPL by 2025



Young Adults (Millennials and Gen Z)

- Tech-savvy, budget-conscious, and comfortable with online shopping.
- Prefer easy and flexible financial management without traditional credit cards.

Individuals with Low Credit Scores

- Limited access to traditional credit products.
- Find BNPL accessible due to lower credit score requirements.

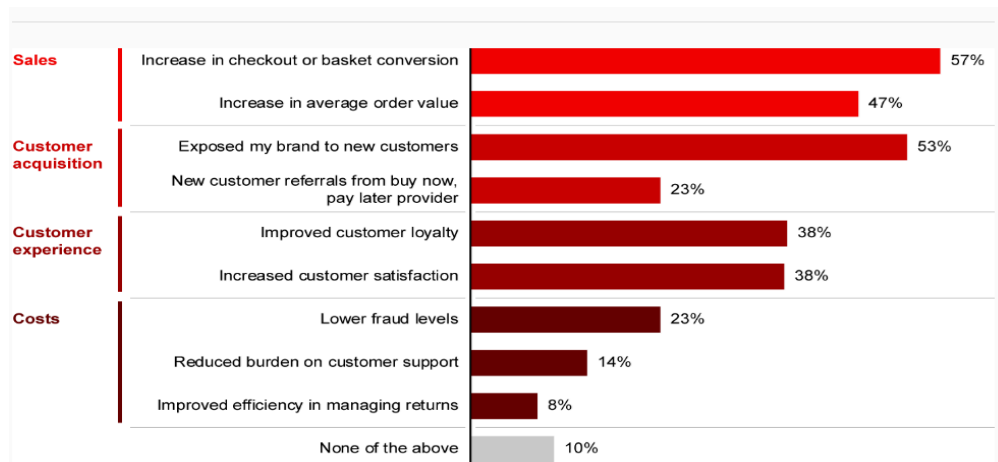
Budget-Conscious Shoppers

- Keen on managing cash flow and avoiding large upfront payments.
- Appreciate the ability to spread out costs without interest charges.

E-Commerce Shoppers

- Regular online shoppers seeking convenient and flexible payment options.
- Enjoy seamless integration of BNPL into e-commerce platforms.

What are the impacts on businesses?

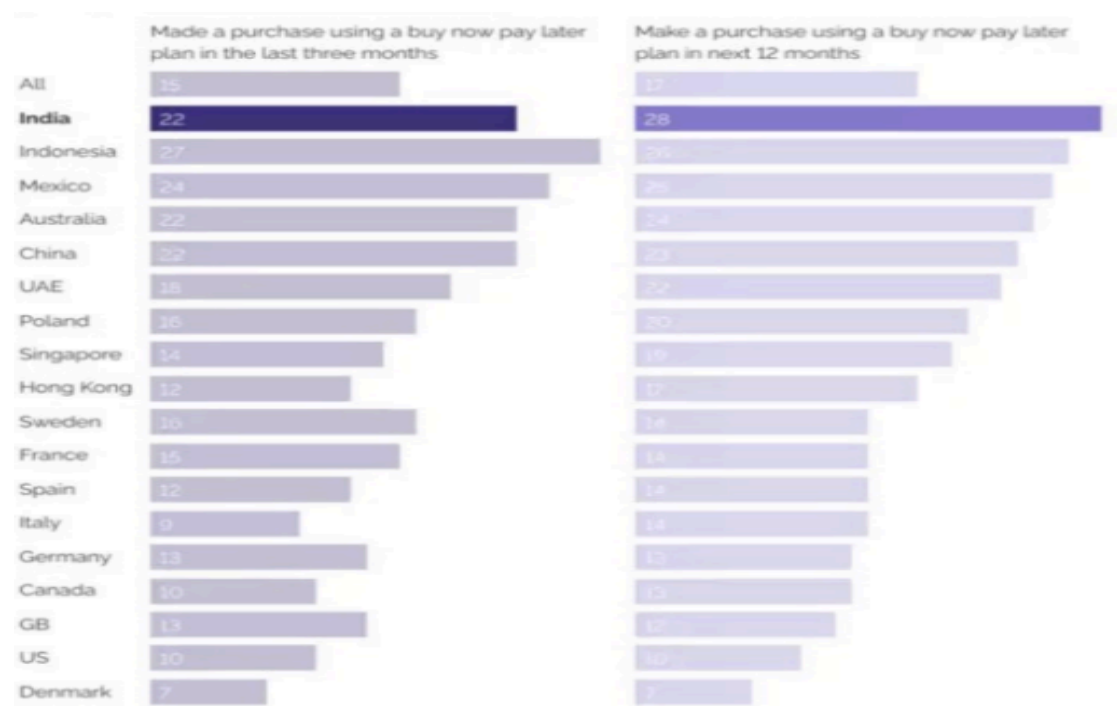


- 57% of businesses reported an increase in checkout or basket conversion due to BNPL.
- 47% of businesses experienced an increase in average order value with the implementation of BNPL.
- 53% of businesses noted that BNPL exposed their brand to new customers.
- 23% of businesses received new customer referrals from BNPL providers.
- 38% of businesses saw improved customer loyalty with BNPL options.
- 23% of businesses experienced lower fraud levels by using BNPL.
- 14% of businesses observed a reduced burden on customer support.
- 8% of businesses achieved improved efficiency in managing returns.
- 10% of businesses indicated that none of the mentioned benefits applied to them.

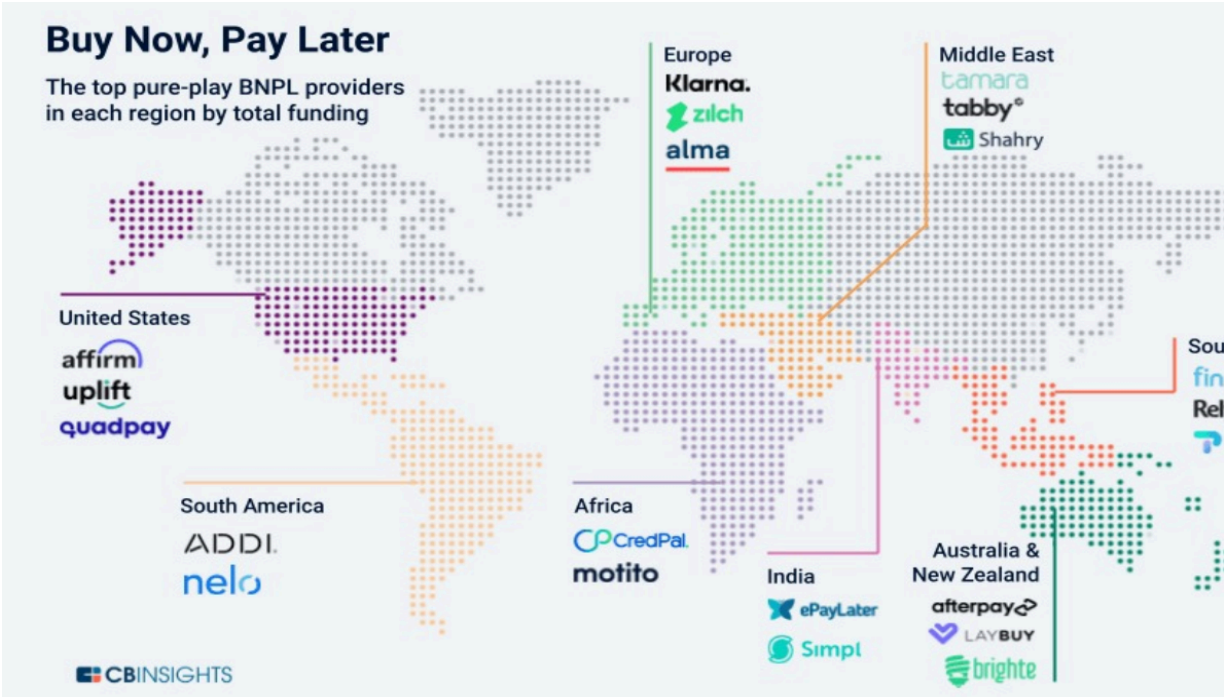
Why Does BNPL Matters To Retailers & Consumers, What are advantages and disadvantages,Risk

Stakeholder	Advantages	Disadvantages	Risks
NDFCs	- Increased customer base due to attractive payment options.	- High operational costs due to tech infrastructure and customer service.	- Risk of high default rates.
	- Potential for higher interest earnings from late payments.	- Dependency on third-party merchants for customer acquisition.	- Potential regulatory scrutiny and changes.
	- Enhanced data analytics capabilities from transaction data.		
Retail Merchants	- Increased sales and higher average order values.	- Higher transaction fees compared to traditional payment methods.	- Dependence on BNPL providers for a significant portion of sales.
	- Improved customer satisfaction and loyalty.	- Possible price inflation to cover BNPL fees.	
	- Access to marketing and advertising support from BNPL providers.		
Consumers	- No interest or fees if payments are made on time.	- Potential for overuse leading to financial strain.	- Risk of accumulating debt across multiple BNPL providers.
	- Ability to spread out the cost of purchases.	- Lack of traditional credit checks can lead to irresponsible borrowing.	- Possible impact on credit score.
	- Increased purchasing power and access to essential items.		
	- Convenience and ease of use.		

Compare Indian companies offering Buy Now Pay Later services with those in the global market



Consumer Engagement with BNPL: A Comparative Analysis by Country



Buy Now, Pay Later: Leading BNPL Companies Across the Globe

Insights:

- BNPL services have quickly grown from less than \$50 billion in 2019 to over \$300 billion in 2023, mainly due to the rise of online shopping and the convenience of paying in installments.
- BNPL is convenient and often interest-free, but it can lead to late fees and debt if not managed well. It makes buying easier but requires responsible use to avoid financial issues.
- Younger people (Millennials and Gen Z), those with lower credit scores, and individuals looking for flexible payment options are the main users of BNPL. It's especially popular among those with credit scores below 600.
- BNPL is expanding globally and in India, though there are differences in how it's adopted and regulated in each market. Companies often use multiple BNPL options to meet various customer needs and increase sales.
- BNPL helps businesses by boosting sales, increasing average order values, and improving customer satisfaction. Many businesses also attract new customers and build loyalty through BNPL options.

Citations:

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