

BNPL - (BUY NOW PAY LATER)

Introduction

Buy Now, Pay Later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them at a future date, often interest-free. It 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 installments over time.

How does BNPL Work?

Buy now and pay later has been used by a wide variety of business verticals such as e-commerce transactions, retailers, hotels, and many other fronts. The journey to using BNPL is incredibly simple from a consumer's standpoint.

Typically, users initiate the process by selecting the Buy Now Pay Later option at the point of sale (POS), either on a merchant's website or app. At this point, they will be directed to the BNPL provider's platform to create an account, and provide personal details, what is known as "Know Your Customer" (KYC) requirements, for a soft credit check used to approve the lending. Once these initial steps are successfully completed, and the credit limit is approved, consumers can select their preferred payment terms and finalize the purchase.

Growth of BNPL

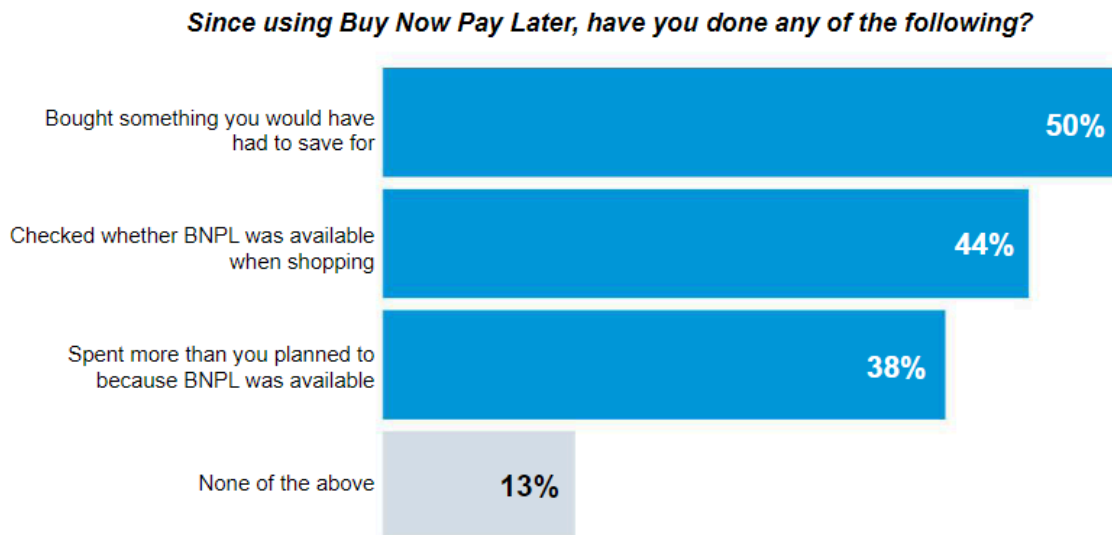
Buy Now Pay Later Market size was valued at USD 378.3 billion in 2023 and is expected to grow at a CAGR of over 40% between 2024 and 2032, driven by the consumer desire for flexible payment options.



Consumer Behaviour Analysis

BNPL appears to be associated with instances of impulsive shopping or unplanned, excessive spending. 38% of BNPL users agree that BNPL has made them “more likely to purchase things they don’t need” and 43% agree they ‘often spend significantly more money than planned when they use BNPL”.

One of the survey conducted by the Behavioral insights team in UK found that nearly 9 in 10 suggested that their shopping habits had changed since they started using BNPL.



Reasons for the growth of BNPL

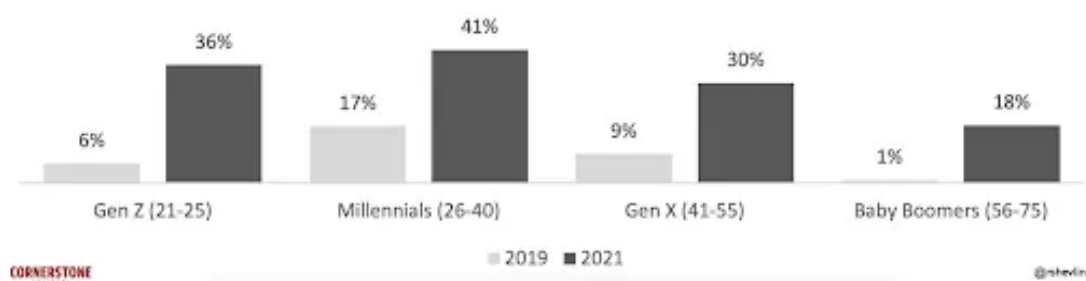
Buy now, pay later plans allow shoppers to stretch out their cart into equal payments over time — many providers even offer multiple BNPL options for further flexibility. Breaking items down into multiple pieces makes bigger purchases (e.g., furniture and electronics) more obtainable to more consumers.

Consumers indicate a perception that BNPL is more affordable than other forms of credit such as money lender loans, overdrafts, credit cards and personal or credit union loans. Awareness, accessibility, and affordability are three key drivers for the increase in BNPL adoption.

Users of BNPL

The target market for BNPL has been the younger generations, Millennials and Generation Z. According to a study by Forbes, the growth of BNPL among Gen Z has grown 600% since 2019, while the rate for Millennials has more than tripled.

Buy Now, Pay Later Adoption by Generation, 2019-2021



Categories of BNPL

[According to the study of BIT in UK,](#)

Fashion items such as clothes, shoes, accessories are one of the top categories of what consumers commonly use BNPL for.

Electronics including TV, computers, and mobile phones are closely followed by fashion items, especially amongst male consumers, with 40% of male consumers indicating they have used BNPL to buy electronics.

Other popular items people use BNPL for were related to home and wellness which includes home appliances, home decorations, and health and wellness products

Impact on business

BNPL can make the business more attractive to potential customers, particularly younger demographics like Millennials and Gen Z who are looking for flexible, non-traditional credit options. It can also increase customer loyalty as customers appreciate the flexibility and convenience.

BNPL service in india

In India, Buy Now Pay Later (BNPL) companies are considered to be intermediaries between lenders (banks and non-banking financial companies) and borrowers

(consumers). As such, they fall under the purview of the RBI, which is responsible for regulating lending and borrowing in the country.

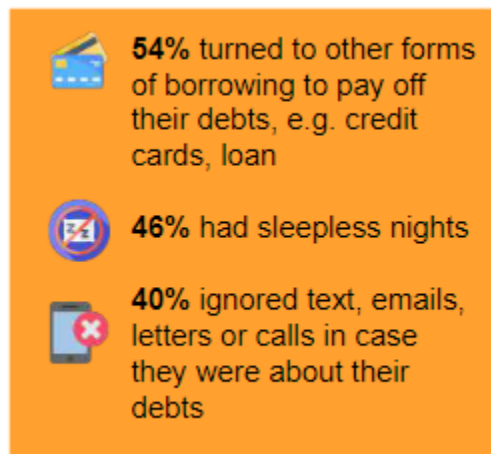
Pros and Cons of BNPL for consumers

Pros:

- It allows shoppers to indulge in their desires without immediate financial strain.
- By minimizing the immediate impact of payment, BNPL encourages consumers to spend more freely while reducing feelings of guilt or regret.
- With the ability to choose payment plans that suit their budget, consumers feel empowered to make informed decisions about their spending.

Cons:

- BNPL users have been chased by debt collectors in 2021, with 96% of people facing debt collection for BNPL debts reporting at least one negative impact.



- Data from a recent YouGov poll indicated that 39% of those with BNPL debt reported that credit had recently had a negative impact on their health, relationships or work. This compares to 22% of those who hold any credit product with an outstanding balance.

Pros and Cons of BNPL for companies

Pros:

Small business owners can improve conversion rates and increase average order value to boost sales using BNPL. Data from Stripe show that businesses that accept BNPL services experienced a 27% incremental uplift in sales volume. Likewise, in a study of

retailers by Affirm, businesses reported an average increase of 87% in average order value.

Cons:

BNPL providers charge fees to merchants for offering their service. “Buy now, pay later transactions cost merchants anywhere from 1.5% to 7% of a customer’s total purchase amount, compared to 1% to 3% for most debit and credit cards,” wrote NerdWallet. This fee may not seem like much, but it can squeeze businesses that are already running tight margins.

Recommendations:

- Partnership with government and BNPL providers to develop ‘code of conduct’ aimed at supporting consumers with credit management.
- Building the evidence base of the impact of behavioural interventions to support consumers in credit management.

Reference Articles:

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