



PYMTS



April 2022

BNPL Regulation Is Coming Slowly but Surely in 2023

Buy Now, Pay Later Tracker® Series

■ Read the previous edition



MARCH/APRIL 2023
**Buy Now, Pay Later
Tracker® Series**

- Consumer Protection Sparks Regulatory Action
P. 04
- Australia Takes the Lead in BNPL Regulation
P. 10
- BNPL Regulations Won't Affect All Providers Equally
P. 14
- Customers' Favorite Benefits of BNPL
P. 20

What's Inside

04 BNPL Draws Regulatory Scrutiny

The rapid global adoption of BNPL is sparking concern from regulators worldwide about risks to consumers of overspending, debt accumulation and privacy invasion.

10 Australia Takes the Lead in BNPL Regulation

The government is currently considering three different proposals to bring the industry in line with its credit counterparts.

14 Governments Around the World Explore BNPL Regulation

This month's PYMNTS Intelligence explores pending BNPL regulatory moves in the U.S and abroad and how these regulations could affect BNPL providers.

20 Customers' Favorite Benefits of BNPL

Nearly 60% of customers say BNPL offers better rewards than store cards, and 68% say BNPL payments are easier to track than other credit options.

22 Why Standardization Could Aid BNPL Customers

Omri Flicker, chief legal and risk officer at Splitit, discusses why BNPL needs to have regulatory oversight to protect customers from predatory fees.

26 Zip's Future Appears in Doubt

Having left most of the markets in which it has operated, BNPL provider Zip is working with advisory firms to sell off parts of the business.

28 BNPL Market to Hit \$3.8T by 2030

BNPL providers might be concerned about impending regulation in the industry, but so far it seems to be doing little to dim the field's future.

30 About

Information on PYMNTS and Splitit

PYMNTS



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Need to Know

BNPL Draws Regulatory Scrutiny

Buy now, pay later (BNPL) payments have exploded in popularity over the past several years, now having more than 360 million [users](#) around the world. In the United States, more than half of all consumers say they are interested in using BNPL, even if they do not use it themselves. Such installment loans can be a boon to consumers by making high-cost purchases more affordable, but they are not without their risks.

While BNPL offers no interest on payments made by the due date, users who fail to make payments on time can [face](#) massive fees. Further, concerns about consumer data privacy have arisen, as at least one high-profile BNPL provider has been [subject](#) to hefty fines for data privacy violations. These potential hazards have regulators worldwide [placing](#) BNPL in their sights.

BNPL use is [expected](#) to skyrocket over the next few years.



360M

BNPL users worldwide as of 2022



900M

Projected BNPL users by 2027

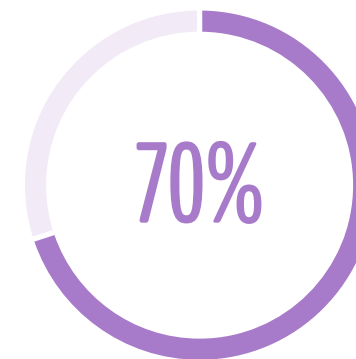
Need to Know

Concerns about BNPL debt are not without merit.

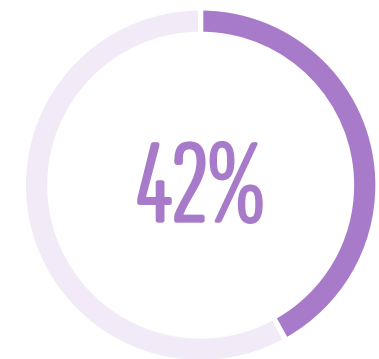
There is evidence that BNPL can lead to overspending if users are not careful. A recent [survey](#) revealed that 70% of BNPL users spent more than they would have on purchases paid upfront, and 42% of users have made a late payment on a BNPL loan.

Late payments, in fact, are a more serious problem in BNPL than one might expect, given that timely payments form the basis of its benefits. Delinquent payment rates are three times [higher](#) for BNPL than for credit cards at 30 days past due and twice as high at 90 days past due.

BNPL carries risks of overspending and debt accumulation if users are not careful.



Portion of BNPL users who spent more with BNPL than if they had made a purchase upfront



Portion of BNPL users who have made a late payment

Need to Know

World governments are beginning to step in with BNPL regulatory measures.

Despite BNPL's already-deep market penetration, the payment method's novelty and rapid rise have [kept](#) it largely outside the consumer credit regulatory framework thus far. It is only over the past year or so that BNPL regulation has been considered on a widespread basis.

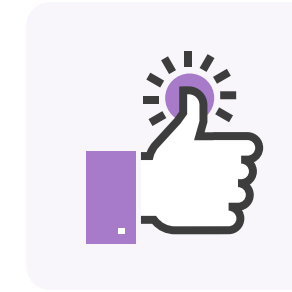
Most of these regulations [involve](#) bringing the BNPL industry in line with traditional credit options. Opinions on these regulations are mixed, however: While some BNPL providers are [working](#) hand in hand with governments to enact these rules, others feel that regulatory measures will unnecessarily impede the industry's rapid growth.

Governments around the world are [taking](#) their first steps in regulating the growing BNPL market.



1,092%

Growth in dollar volume of BNPL loans between 2019 and 2021



73%

Current BNPL approval rate in the U.S.

News and Trends

Australia Takes the Lead in BNPL Regulation

One of the most wide-ranging BNPL regulations in progress comes from Australia, where the government is currently [considering](#) three different proposals to bring the industry in line with its credit counterparts. Some BNPL providers, such as PayPal, back the proposed regulations, while others worry it will damage the quickly growing industry.

The first regulation under consideration is stronger self-regulation and affordability tests. The second proposal brings BNPL partly under the country's Credit Act, requiring companies to obtain an Australian credit license to do business. The third option puts the BNPL industry fully under the Credit Act, holding BNPL firms to the exact same standards as credit card companies.



News and Trends



U.K. government reaches out for industry feedback on BNPL regulation

The United Kingdom is also proposing new BNPL regulation, having recently [asked](#) BNPL industry leaders to provide feedback on the matter over an eight-week consultation period. Like Australia's, the British regulation aims to bring the industry in line with traditional credit, including requiring eligibility checks before lending.

One interesting facet of the proposed regulation is an amendment of marketing rules to ensure that BNPL advertisements do not mislead potential customers. This could be particularly helpful for the younger generations that make up the bulk of BNPL usership, who may be more susceptible to ads.

PYMNTS Intelligence

Governments Around the World Explore BNPL Regulation

The BNPL market has [operated](#) largely free of government oversight since its launch, following in the footsteps of many of its counterparts in the tech world. Much like ridesharing, streaming media subscriptions or short-term property rentals, the BNPL market surged while governments debated how — and if — the market should be regulated.

This laissez-faire environment could quickly be drawing to a close, however, as governments across the globe consider regulations that would apply many of their existing credit laws to the BNPL market. This month, PYMNTS explores pending regulations in the U.S and the European Union and how these regulations could affect BNPL providers.



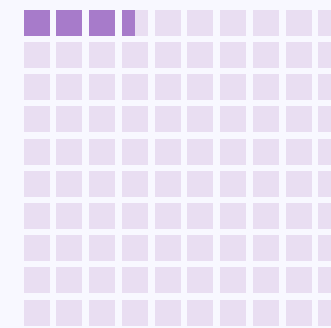
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U.S. and EU regulations under consideration

The U.S. BNPL regulation is being spearheaded by the Consumer Financial Protection Bureau (CFPB), which recently unveiled a study detailing the potential risks of BNPL. The report [highlighted](#) risks to consumers that include the potential not just for debt accumulation and overextension but also for having their data harvested without their knowledge by BNPL providers.

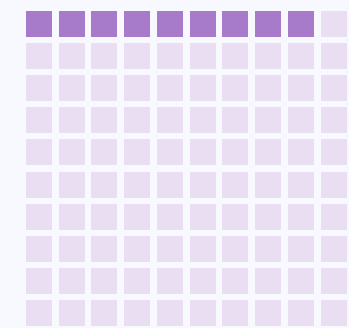
While BNPL regulation is generally absent in the U.S., experts [predict](#) that the CFPB will unveil proposed rules sometime in the near future. The exact regulations are unknown, but they may bring BNPL under the same umbrella as traditional credit companies and will curtail the amount of data that providers may harvest and leverage from their customers.

The U.S. and the EU are both planning to bring BNPL under existing credit regulations.



3.8%

BNPL's [portion](#) of
North American
eCommerce sales



9%

BNPL's [portion](#)
of European
eCommerce sales

The EU's BNPL regulatory framework is much further along. Like the U.S., the EU plans to bring BNPL under the existing credit umbrella — in this case, the Consumer Credit Directive. The European Commission [approved](#) a revision to the Directive in 2021 that would extend it to BNPL, including new protections geared toward a mobile-first market. Among these would be banning pre-ticked contract agreement boxes and requiring all contracts to be presented in a mobile-friendly format so that users more concretely understand the terms before agreeing to credit. The European Council announced it had decided on final regulatory language in late 2022, but the full regulation is still forthcoming.

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Potential massive impact of BNPL regulation

The U.K. will soon have the power to [ban](#) BNPL companies from doing business altogether if they fall under the jurisdiction of the Financial Conduct Authority once pending legislation passes. BNPL providers will need to ensure that their affordability checks are up to code, as well as the information provided to prospective customers about their loans, if they wish to [avoid](#) fines, imprisonment or both.

In other European countries, BNPL providers are already being punished when they break regulatory rules. Sweden, for example, [fined](#) BNPL provider Klarna SEK 7.5 million (\$787,000 USD) when it found the company in violation of GDPR's personal data protection clause.

**SEK
7.5M**

2

Klarna's [fine](#) in 2022 for breaking GDPR regulations

Potential years of prison time for BNPL executives [violating](#) pending U.K. BNPL regulation

Regulations will have unequal impact on BNPL providers

BNPL providers that [leverage](#) customers' own credit cards to make purchases rather than using independent apps already fall under many of the same credit regulations as normal payment cards. These organizations will thus likely see little change under the new rules. Other BNPL providers will need to comply proactively with the anticipated regulations if they wish to avoid difficulties such as Klarna's.

Chart of the Month

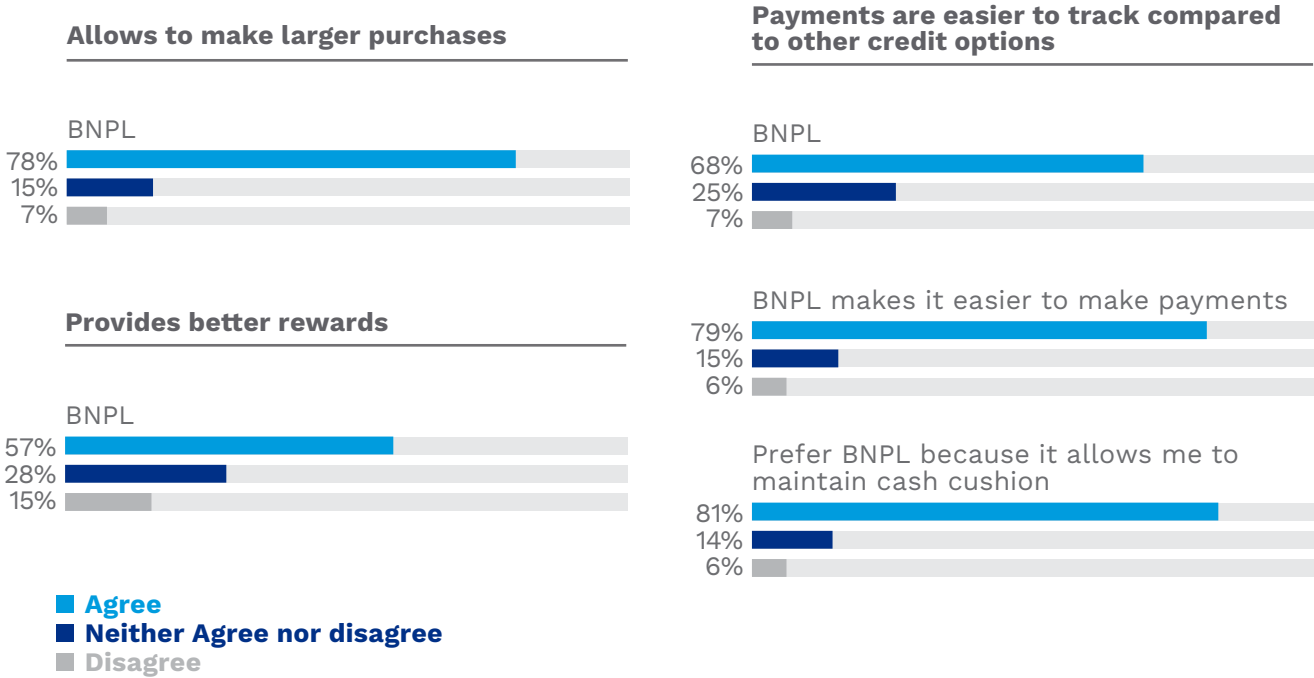
Customers’ Favorite Benefits of BNPL

Whatever form BNPL regulation ultimately takes, it remains to be seen how much it will impact customers’ experiences with the product. One of customers’ most widely felt benefits of BNPL is its ability to allow larger purchases, with 78% of customers saying so in a recent [survey](#). Fifty-seven percent of customers say BNPL offers better rewards than store cards, and 68% say BNPL payments are easier to track than other credit options. The single largest advantage expressed, however, is that BNPL helps customers maintain a cash cushion in their everyday budgets, at 81%.



Benefits consumers associate with BNPL

Share of consumers who agree or disagree with select statements about BNPL options



Source: PYMNTS
The Truth About BNPL and Store Cards, March 2023
N = 2,161: Complete responses, fielded Dec. 10, 2022 – Dec. 17, 2022

Insider POV

Why Standardization Could Aid BNPL Customers



OMRI FLICKER
Chief legal and
risk officer



“The credit card regulatory regime makes a lot of sense — and [Splitit is] trying to stay within that regime. There are a lot of consumer protections there — and so we think the interest in BNPL by regulators should be welcomed.”

PYMNTS interviews Omri Flicker, chief legal and risk officer at [Splitit](#), about why BNPL needs to have regulatory oversight.

BNPL has long been considered a valuable gateway for populations traditionally underserved by legacy credit options. While many considered this to be the first time such credit was available at all, it already existed in the form of riskier options such as overdraft facilities, payday loans and pawn loans.

“[BNPL was considered many consumers’] first taste of credit in order to build credit histories,” said Flicker. “But the numbers tell us that this is not necessarily true.”

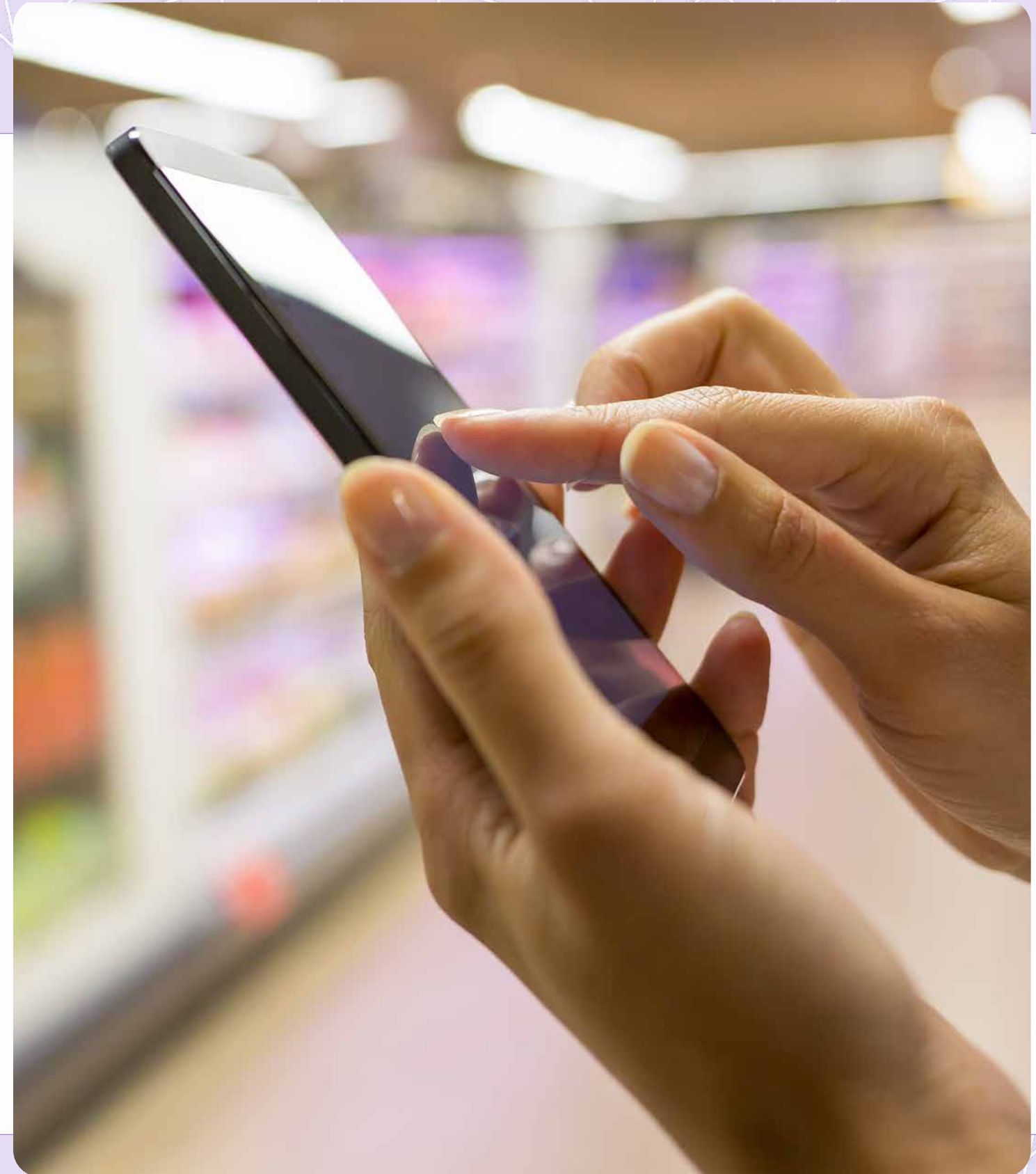
BNPL has not exactly been risk-free itself, either. While its interest rates still fall far below the 20% often charged by traditional cards, some BNPL providers can make installment loans prohibitively expensive by tacking on fees. With a growing segment of BNPL users leveraging this option for everyday expenses, these fees can add up quickly.

Insider POV

“[There can be high] interest rates associated with BNPL in the event of missed payments. There’s [also] an overall lack of standardized disclosures — pre-purchase and post-purchase — and no uniform reporting to credit bureaus.”

A certain level of regulatory oversight is called for to prevent predatory practices by some unscrupulous BNPL providers. In the U.S., this will likely come from the CFPB, which is currently discussing means to bring the BNPL industry under similar oversight to traditional credit bureaus. Other countries, such as Australia, might also provide inspiration, with ideas including industry-wide credit reporting and a dispute resolution process that clearly delineates the obligations of third-party providers and borrowers.

“The credit card regulatory regime makes a lot of sense — and [Splitit is] trying to stay within that regime. There are a lot of consumer protections there — and so we think the interest in BNPL by regulators should be welcomed.”



Companies to Watch

Zip's Future Appears in Doubt



Just one year after acquiring competitor Sezzle, BNPL provider Zip appears to be on shaky ground. The company has [exited](#) most markets in which it has operated and is now working with advisory firms to sell off parts of the business by the end of June. Zip's objective is to attain positive cash flow by the first half of 2024, but plummeting stock prices mean that whether it can accomplish this objective remains up in the air.



What's Next

BNPL Market to Hit \$3.8T by 2030

BNPL providers might be concerned about impending regulation of the industry, but so far it seems to be doing little to dim the field's future. A recent [report](#) estimates that the BNPL industry could hit \$3.8 trillion in value by 2030, representing a compound annual growth rate of 45%. The pandemic arguably laid the seeds for this stupendous growth by promoting eCommerce spending as well as shrinking consumers' finances, making options such as BNPL more appealing. Popularity among younger cohorts, including millennials and Generation Z, is also fueling growth as these segments comprise a larger portion of the overall spending economy.

Projected implementation timelines for BNPL regulations



Australia:

2023



EU:

2023



U.K.:

2023



U.S.:

No date projected

About

PYMNTS [PYMNTS](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



[Splitit](#) powers the next generation of BNPL through its merchant-branded Installments as a Service platform. Splitit is solving the challenges business face with legacy BNPL while unlocking BNPL at the point of sale for card networks, issuers and acquirers all through a single network API.

Splitit’s Installments as a Service platform mitigates issues with legacy BNPL such as the declining conversion funnel, clutter at the checkout and a lack of control of the merchant’s customer experience while also putting the power back in the hands of merchants to nurture and retain customers, drive conversion and increase average order value. Splitit’s white-label BNPL solution is the easiest installment option for merchants to adopt, integrate and operate while delivering an uncluttered, simplified experience embedded into their existing purchase flows. With no applications, redirects or new loans, Splitit is one of the most responsible installment payment options for customers.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at feedback@pymnts.com.

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