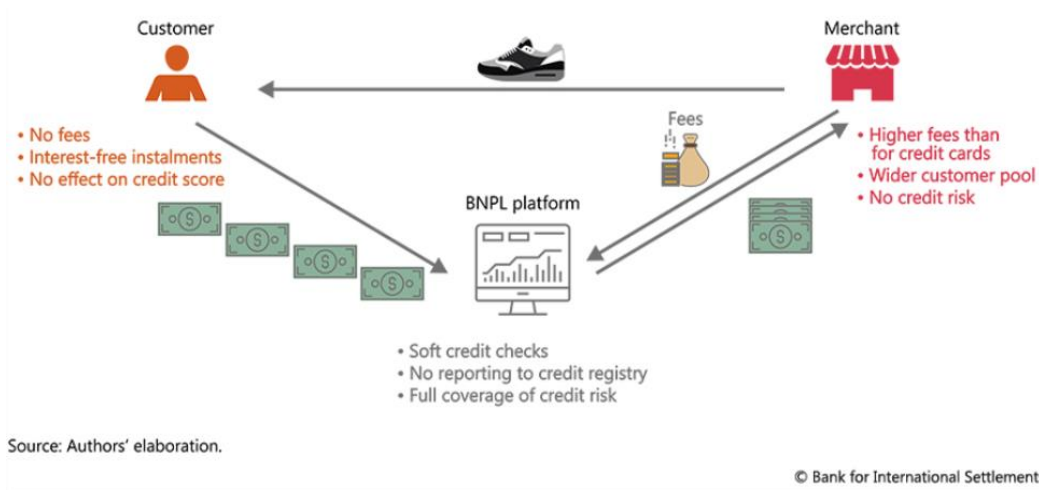
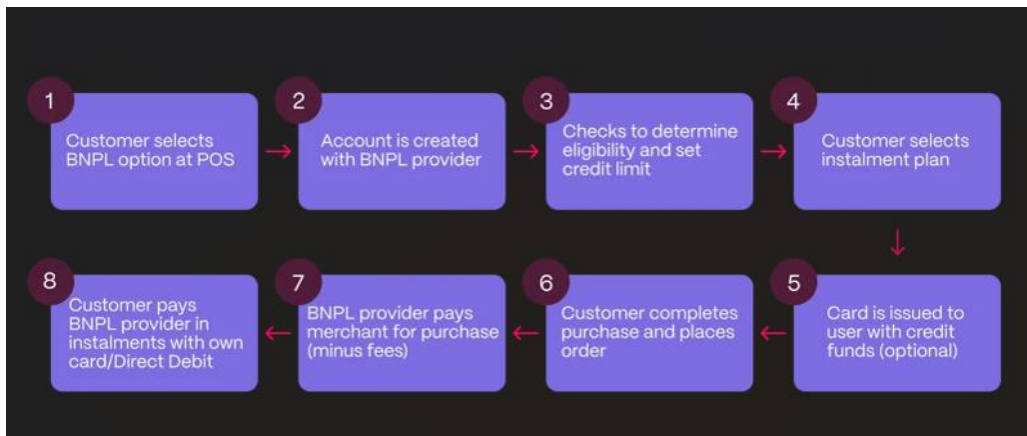


Buy Now Pay Later

***Meaning:** 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, since it is a type of credit offered at the point of sale. This means that consumers can apply for and receive credit immediately when they are making a purchase. Using BNPL financing can be convenient, but there are also some potential traps to consider. Consumers can make purchases using BNPL services offered by traditional and online retailers or through apps provided by third-parties. BNPL programs have different terms and conditions. They generally offer short-term loans with fixed payments, no interest, and no additional charges. This differs from a traditional credit card purchase, which charges you interest for every month you carry a balance, unless you're approved for a card with an introductory 0% APR offer on purchases.*

BNPL generally won't affect your credit score unless you make late payments or fail to pay. 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, although the Consumer Financial Protection Bureau (CFPB) says that most BNPL lenders give consumers no choice other than autopay. How it Works?



Types of BNPL Loans

Generally, there are two types of BNPL loans:

- **No-interest loans:** With these types of loans, the merchant pays a fee to the third-party lending company rather than the consumer paying interest on the loan.
- **Loans with interest:** These on-the-spot loans enable the consumer to make the purchase in the moment, but charge similar interest to a credit card, plus they may involve additional fees.

Typically both types of loans extend credit for a set time period. If you don't make the payments in full each month, you may be subject to penalties and other charges. And, if the BNPL came with a 0% interest

offer and you're late or skip a payment, you may be subject to deferred interest charges, which will retroactively apply to the entire balance.

With the rise of Buy Now Pay Later, the battle between modern flexible payments and traditional credit systems has intensified. While both options offer the perk of splitting purchase costs over time, BNPL is a well-liked alternative, with its user-friendly application process, granting consumers quicker access to funds at the point of sale.

Unlike the endless requirement of paperwork and credit scrutiny of credit card applications, BNPL often skips the hard credit check, simplifying the process for consumers. Additionally, the annual fees and accruing interests that come with traditional credit cards find no home in the BNPL sector. BNPL streamlines accessibility to credit options, making it a popular option in the ongoing duel between old-school credit systems and new-age financing.

While BNPL can help you make purchases you wouldn't otherwise be able to make at that time, if you're not careful, you could put yourself into a situation where you have more debt than you can afford. And that can impact your credit.

Advantages of BNPL for Consumers

- Ability to split up your payments. This might make an expensive item more attainable since you don't have to pony up a lump sum or pay interest.*
- There's no hard credit pull. Unlike applying for a new credit card, BNPLs are easier to qualify for and do not require a hard inquiry. This means that someone who is new to credit or doesn't have a strong credit profile might find it more appealing to make a purchase this way.*
- Simple to do. Online shoppers in particular may find the immediate gratification of buying what they want in easy-to-understand terms a preferable way to shop.*
- Can help manage cash flow. A BNPL can help someone buy what they need with a payment plan that fits their budget.*

Risks of BNPL for Consumers

- ***Overspending:*** BNPL can make it easy to overspend, especially if you are not careful. It can be tempting to purchase items that you cannot afford right away, and it can be easy to lose track of how much you are spending.
- ***Late payment fees:*** If you miss a BNPL payment, you may be charged late payment fees. These fees can add up quickly, and they can make it difficult to get out of debt.
- ***Damage to your credit score:*** If you make late payments on BNPL loans, your credit score could be damaged. This could make it difficult to qualify for loans and other forms of credit in the future.
- ***Debt collection:*** If you are unable to repay your BNPL loans, the debt could be turned over to a collection agency. Collection agencies can use aggressive tactics to collect debts, and they can damage your credit score.
- ***Addiction:*** BNPL can be addictive. The ease of purchasing items without having to pay for them upfront can lead to compulsive spending.

Now that we've looked at the advantages of BNPL for consumers, let's look at the pros and cons for brands.

Why do retailers offer buy now, pay later?

Retailers accept the backend fees of buy now, pay later services because the products increase cart sizes. When shoppers are given the option to pay off purchases in installments, they're more likely to buy more goods in one go.

Advantages for Merchants

- *One of the most important benefits of BNPL for brands is that it can significantly boost their conversion rates. This payment method facilitates manageable, interest-free installments, encouraging hesitant shoppers to complete their purchases.*
- *When customers can spread their payments over a longer period and only have to pay low upfront costs, they are more likely to add*

items to their shopping cart and shop more often. According to a study by Affirm, retailers using their BNPL services reported an average increase of 20% in conversions and 87% in Average Order Value (AOV).

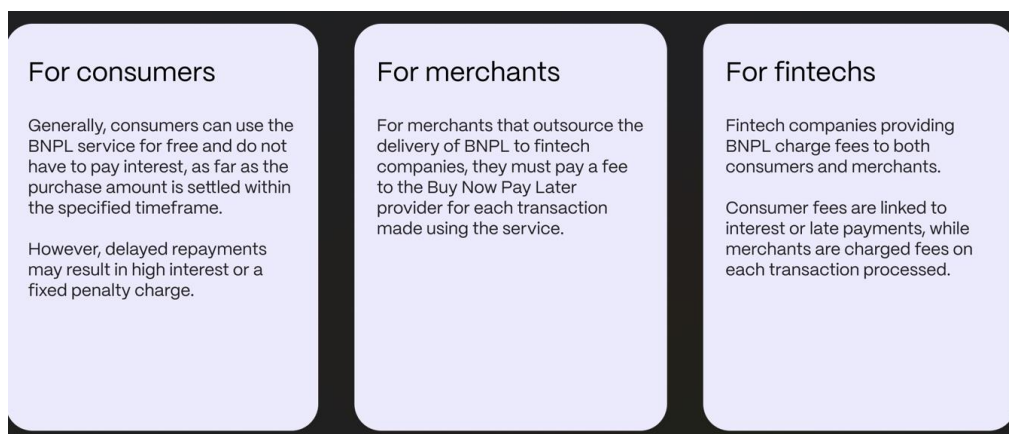
- Another advantage of BNPL is that it makes shopping more fun, accessible and less financially draining, making your brand attractive to a broader audience and opening up new opportunities for business growth. As customers get used to the convenience, flexibility, and advantages of BNPL, the chances of them searching for other retailers offering the same payment method increase. This allows you to tap into new customer segments and get actively promoted and featured on the website and social media feeds of your BNPL partner.
- Last but not least, implementing BNPL means you will still receive the full purchase amount upfront, even though customers pay in installments. As a company, you do not need to worry about cash flow and the hassle of chasing up delayed payments, as your BNPL provider will take care of these aspects for you.

Disadvantages of BNPL for Merchants

- As a BNPL service merchant, you will pay a merchant fee for every transaction completed (usually 2-8%) of the sale cost. These higher merchant fees can cut into profit margins.
- You should be prepared for the integration and accreditation challenges in implementing a BNPL payment method. These challenges will demand resources and time for a seamless implementation.
- The large number of BNPL providers in the market can make merchants feel lost and confused because of varying deals and terms. It can be challenging and time-consuming for merchants to compare BNPL providers and choose the most suitable partner.
- A large risk of BNPL financing is that it is very likely to contribute to the debt problems of consumers who may already be financially vulnerable. According to a study by the Consumer Financial Protection Bureau (CFPB), the average debt US consumers owe using a BNPL service is \$883.
- While Buy Now Pay Later for business can boost sales immediately, it may lead to consumer debts and potential payment

defaults. This can ultimately negatively impact a company's net income and brand reputation.

- BNPL offers many benefits, but brands should consider the risks carefully and implement this payment method thoughtfully to ensure customer welfare and sustainable business growth.*



Parting Thoughts

If consumers and merchants find value in shifting of credit risk to alternative platforms, financial risk managers can work toward more sustainable solutions. Basic credit risk scoring, responsible lending standards and affordability tests, for example, can all be more carefully applied to BNPL. Regulation and oversight are also crucial. However, since BNPL has a vital role in providing credit to consumers with limited access to regular financial products, regulation must be applied without hampering innovation.

BNPL Trends

BNPL is a payment option you may see more now than you did in the earlier 2000s. During economic times when inflation is high and interest rates rise, BNPL may be a helpful option for people making purchases.

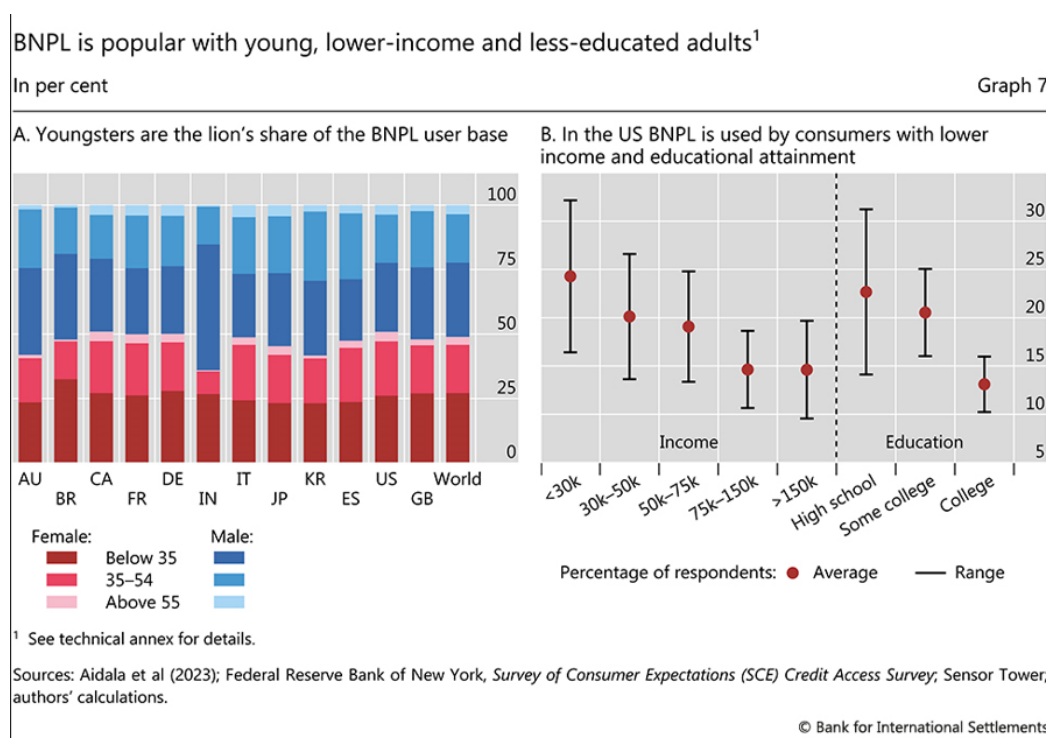
*A September 2022 report from the **CFPB** found that from 2019 to 2021, the number of BNPL loans originated in the U.S. by the five lenders it surveyed grew from 16.8 million to 180 million. This kind of financing was once most popular for beauty and apparel purchases, but it has branched out into other areas like travel, pet care, groceries, and gas.*

Most BNPL loans range from \$50 to \$1,000. The CFPB's research showed that the average loan was \$135 over six weeks.

Companies, such as *Affirm* and *Klarna*, offer BNPL financing on purchases at participating retailers. Some credit card issuers, such as *Chase* and *American Express*, have also set up similar financing arrangements.

Another CFPB report from March 2023 found that users of BNPL services were far more likely to have bank overdrafts, payday loans, pawn loans, and other high-interest financial products, indicating that they are more financially vulnerable than non-users of BNPL financing

- *Black, Hispanic, and female* consumers were more likely than average to use it, as were consumers with household incomes between \$20,000 and \$50,000.



BNPL has become a popular payment option in *India* recently because it is a convenient and affordable way to purchase goods and services online, especially for young consumers with limited credit history.

India's Buy Now Pay Later Services Market has generated a revenue of USD 8 billion in the current year and is poised to register a CAGR of 10% for the forecast period. 22% of consumers in India bought goods using BNPL services. The 26 to 35 age group is the primary segment of the BNPL market in India. Nearly 70 million Indians have access to credit, accounting for 7% of India. Still, 93% of Indians do not have access to credit.

The BNPL market in India has gained popularity due to its convenience and flexibility, especially among the younger generation and online shoppers. It has enabled consumers to afford expensive purchases and manage their finances better by spreading payments over time. The pandemic turned people towards online shopping, increasing digital payments and easy tax-free loans driving. 71% have been purchasing more items online since the pandemic. Clothing and Electronics are the major products purchased by BNPL service.

Lazy Pay witnessed a 400% growth in the last two years, with 296 merchant partners offering simple as a payment option. Customers like the low penalty for late payments, the app's reliability, and the speed with which customer issues are resolved. Even among niche players, the flexibility of onboarding new consumers has fuelled adoption. The BNPL market is growing rapidly, with a CAGR of over 300%. This growth is being driven by a number of factors, including the growing popularity of e-commerce, the increasing penetration of smartphones, and the rising demand for affordable credit options.

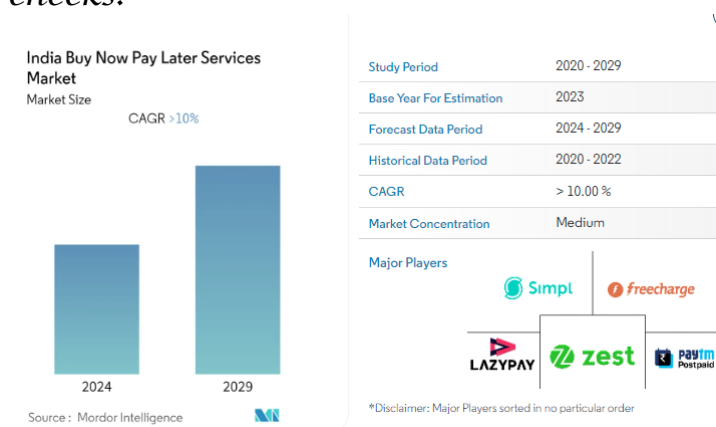
*The first ever BNPL company in India is widely considered to be **ZestMoney**. Founded in 2015, ZestMoney was one of the first companies to offer BNPL financing in India.*

Some other leading BNPL providers in India include:

- **Paytm Pay Later***
- **ZestMoney***
- **Simpl***
- **Affirm***
- **Slice***

The future of BNPL in India is bright. The market is expected to grow significantly in the coming years, driven by the factors mentioned

above. BNPL providers are also expanding their offerings to include new products and services, such as longer-term financing options and BNPL for businesses. The Gross Merchandise Value of the BNPL industry is expected to grow at a compounded annual growth rate of 400% by 2026. As the RBI regulates the BNPL industry, we can expect some limitations like limited credit, caps on fees and charges and more stringent credit checks.



BNPL payment schemes are growing rapidly in popularity across the globe, especially among young adults with less educational attainment. While consumers enjoy the advantage of immediate purchases with deferred payments at no added cost, merchants expand sales and their customer base. However, despite earning revenue from merchant fees, BNPL platforms face profitability challenges due to high fixed costs, increasing funding expenses and elevated delinquency rates.

The rapid ascent of BNPL could be of concern to public authorities for two reasons: consumer protection issues and the accumulation of credit risk FCA. It is thus important to establish whether BNPL schemes take advantage of financially constrained individuals through misleading promotions and inadequate information. In turn, since BNPL platforms suffer from high delinquency rates, a sustained growth of these platforms would warrant monitoring of their direct and indirect links with the rest of the financial system.

BNPL and Credit Risk

- *Consumer Spending and Credit Risk Guttman-Kenney, B., Firth, C., & Gathergood, J. (2023) have emphasized the need to analyse the BNPL mechanism as it pushes the consumers unsecured debt bill. Further, these bills may be repaid by additional loans or credit, thus thrifting the consumer spending with a spiraling upward debt crisis.*
- *Purnima Singh and Chrysann D'Souza, (2022) in their paper 'Buy Now, Pay Later' - Evolution of Consumer Credit have thrown light on the various risks which are consequence of the BNPL. The most important being the credit risk - defaulting by customers which may bring a cash crunch to the BNPL companies and interest risk - rise of interest on loans borrowed from lenders by the BNPL companies.*
- *Dí Maggio, Marco, Emily Williams, and Justin Katz. (2022) in their working paper titled "Buy Now, Pay Later Credit: User Characteristics and Effects on Spending Patterns' have also expressed the same concern of consumers overspending and making them purchases unnecessary goods which are of least utilization to them. Thus pushing the consumers into vicious credit cycle of paying the unpaid bills and leading to financial distress.*
- *Chandrima Sikdar (2022) in the column for the daily Financial express has pointed out to the data that indicates the upsurge in India in the usage of fintechs and BNPL. As per present data reported by Experian, the BNPL transactions in the country have surged by 22 per cent during the first half of 2022 and this is 3 per cent more than the global growth.*
- *Johnson, D., Rodwell, J., & Hendry, T. (2021) have brought to light the wider and quicker acceptance of the fintechs and 'Buy Now, Pay Later' model by the customers, indicating the need for government interventions and regulations, as the customers are quickly embracing the technological advancements exposing themselves to a greater credit risk and unforeseen hazards.*

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