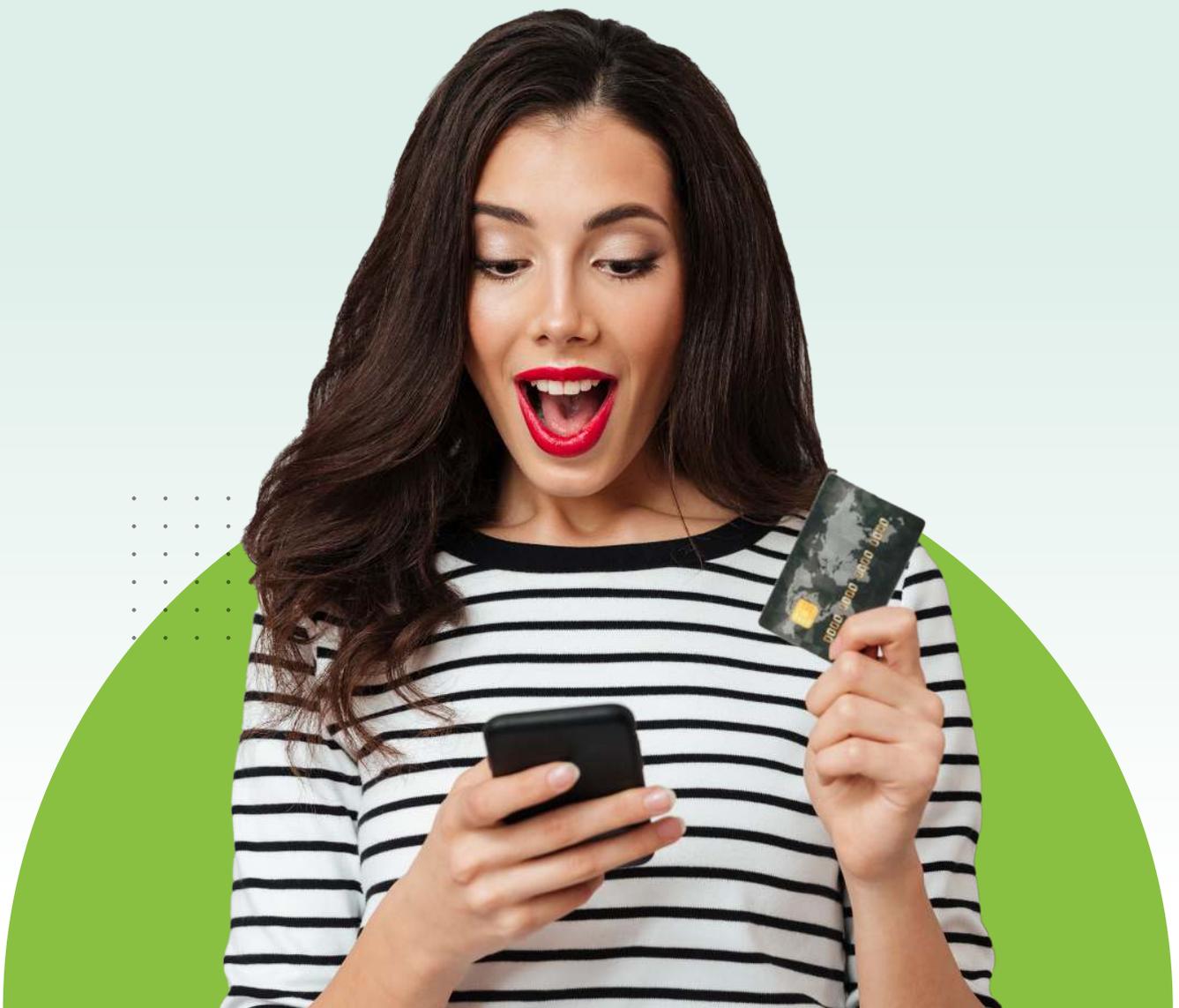


# BUY NOW PAY LATER



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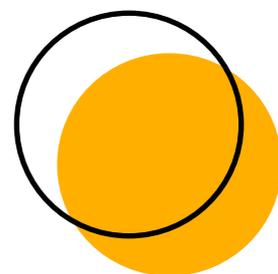
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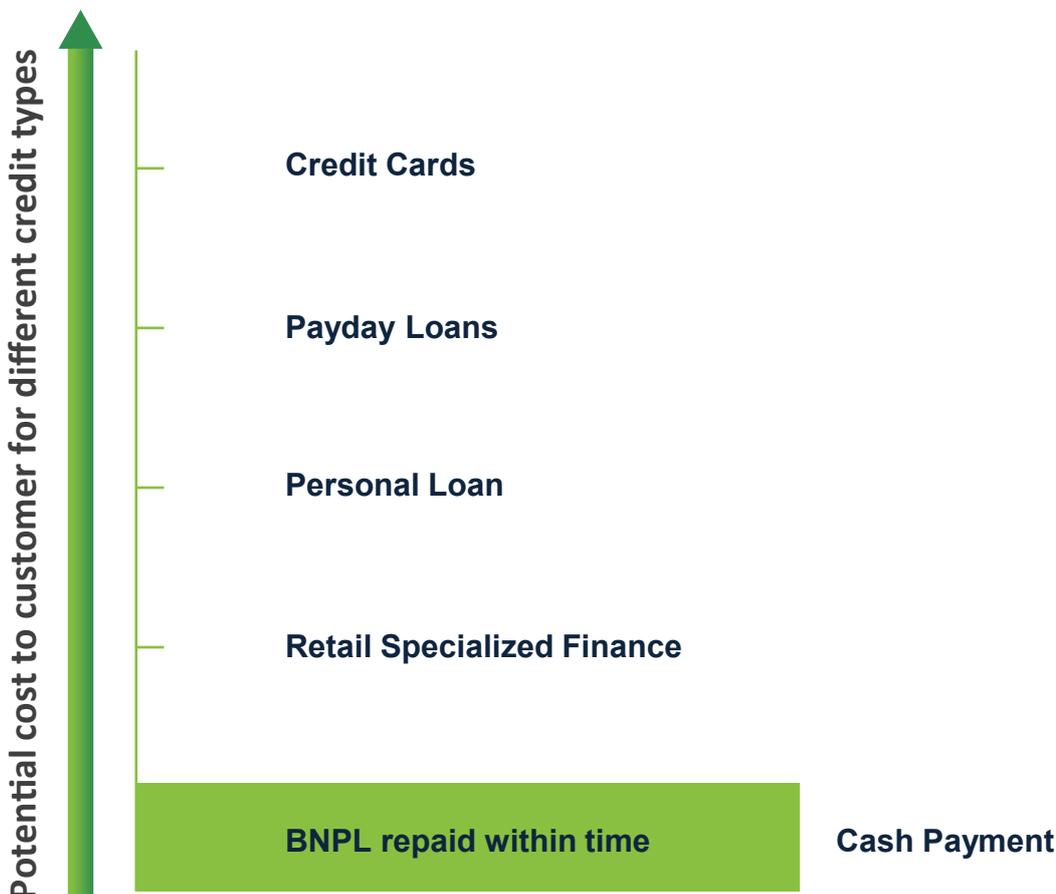


# Overview

**Buy Now, Pay Later (BNPL) enables small, short-term purchases, often repaid in interest-free installments. Beyond the interest free period, if there is a delay in repayment, the customer will be required to pay an additional fee**

In many cases an origination fee is also applied. Where there are no origination fees and the customer can pay back in time, BNPL actually provides flexibility to consumers in buying an item without paying upfront and at no extra cost.

BNPL has given consumers an easier way to buy without being trapped in incurring credit card debt. This product offering was surging even prior to COVID-19 but the pandemic has exploded its popularity given the increase in online shopping during the pandemic and more retailers and payment providers have adopted it. The fact that there is a landscape of unstable economic recovery also made consumers adopt alternative products that offered interest-free repayments and budgeting features which helped BNPL gain popularity even quicker.



- According to a Salesforce data , the use of BNPL during Cyber Week globally — jumped 29% this year over the last year<sup>1</sup>
- A robust 15% CAGR is projected for BNPL from 2020-2025
- The BNPL industry will rack up \$680 billion in transaction volume worldwide in 2025

# Types of BNPL Providers

**The recent Forbes article (1) points out an interesting perspective on how Pricing is now the 5th pillar of marketing and the reason why BNPL is gaining popularity is because it is a part of the customer buying experience.**

Traditional POS finance or Personal Loan was an item at checkout, however BNPL has changed it by influencing the decision very early in the buying journey. BNPL providers can be broadly categorized as following:

## Direct Providers

BNPL providers like Affirm offer BNPL at Point of Sales (POS) and are directly plugged into the buying journey. Some even host online stores where BNPL merchant items are listed.

## Facilitators

Payment gateway service providers like Stripe or ecommerce platform providers like Shopify have established merchant relationships and enable the offering through their merchant network.

## Retroactive Providers

Credit card issuers like American Express offer the BNPL payment option after the purchases have been made and the outstanding bill is split in equal installments.



# BNPL Advantage to Merchants

**BNPL, unless it is provided by a retroactive provider, has to plug into the merchant's ecosystem selling the product and this is where it has to make business sense to the merchant too. Merchant has to pay a Merchant Fees in some cases hence there has to be net economic benefit for the BNPL proposition to be attractive.**

There are major advantages to the merchants to offer the BNPL option to the buyer. With the buyer moving to digital channels for purchases BNPL can be seamlessly integrated in the journey thus providing the buyer with an added advantage of interest free, no upfront payment ownership experience. This seamless experience has helped in better conversion or check out rates.

Most BNPL providers pay the Merchant the purchase amount upfront so merchants have the benefit of faster revenue recognition.

BNPL option on online stores also help reduce the customer servicing cost as the physical cash collection and card swiping manpower is not used in this channel. Also, most BNPL providers recruit their own manpower at merchant locations and so physically availing BNPL is not a cost overhead for the merchant at the merchant location.

BNPL saves the merchant from credit card processing fees expenses, the benefit of which can be passed on to the consumer.

BNPL players also serve as a marketing channel where they provide in-app advertisement options with a fee on conversion thus helping merchants to list products on a brand new channel to acquire new customers.

The average basket size of a customer is also seen to grow once he is aware that purchases can be made with lower upfront cost. The 'consumer surplus' is thus better utilized and there is also an increase in repeat purchase for merchants providing BNPL flexibility.



Spending on BNPL, in the US has increases rapidly in the last year – up **230%** since the start of 2020



**45 million** Americans used BNPL in 2021



US consumers derived **\$1.6 billion** in surplus value from using BNPL



Consumers use BNPL because they like to pay in installments and find it helpful with their budgeting



Basket sizes are higher in value where BNPL is provided



Merchants obtain more new customers



Consumers save in credit card fees by making BNPL purchases



Merchants using BNPL gain in net economic benefits including new revenue



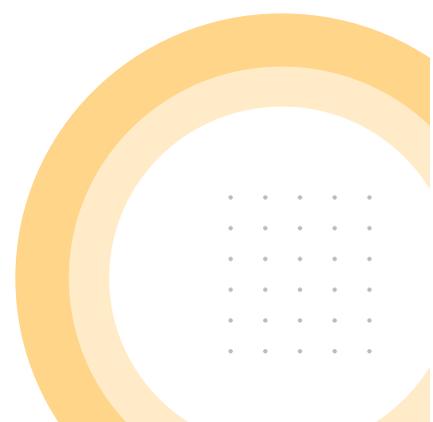
# How Digital Lending can Integrate into BNPL Requirements

**Improving access to credit is possible with BNPL. By providing easy, no interest access to credit, buyers are better positioned to avail the product; however their credit worthiness will also require new methods of credit risk assessment and data collection to capture more information on consumer income and spending habits, which can provide a more comprehensive view of credit risk.**

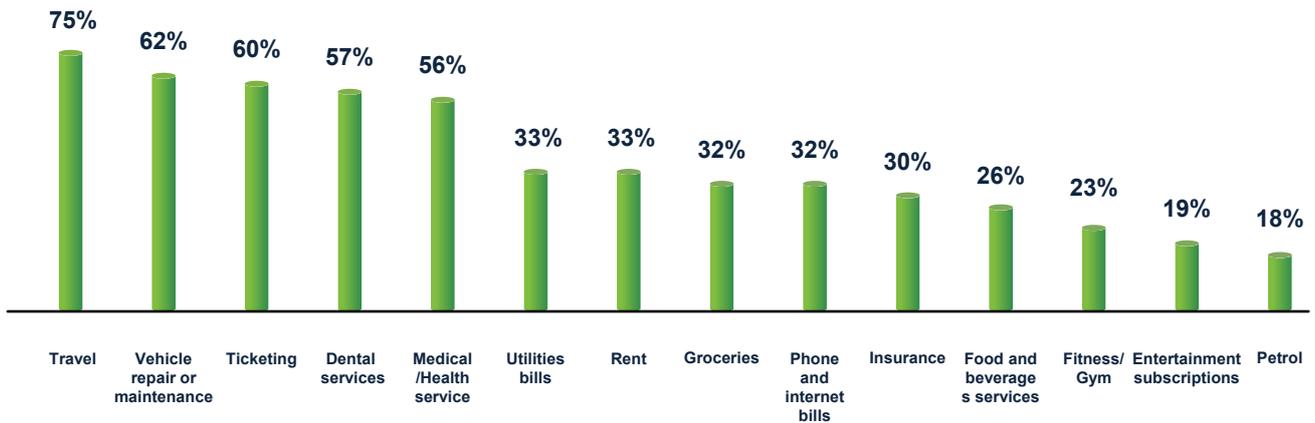
The Loan Origination System of the Lenders therefore has to support data enrichment from multiple sources and be able to create & run risk models based on the enriched data. Most consumer data is available in silos and thus an API based connector technology in the origination system can help to bring the data together and provide a holistic view.

An existing customer even though he has used BNPL for a different purchase can have his repayment behavior mapped from the Loan Servicing System to drive future funding decisions.

Today BNPL is available in ecommerce that too limited to apparels, fashion and beauty, jewelry, electronics etc. There is a huge market open for other products and services too, and to tap into this market will require faster, market ready implementation. The BNPL provider has to evolve itself into a shopping destination to draw greater volumes. A microservices driven technology platform will be the best choice as it can provide flexibility in defining workflows according to the product or service and seamlessly plug into the merchant ecosystem.



Consumer preference for future BNPL spend  
% who are interested or very interested in using BNPL to pay for category



Note: Responses do not sum to 100 as respondents could select multiple options.

Source: IPSOS survey of US BNPL (Afterpay) users 2021, n = 1,020

For onboarding new merchants in an existent category or to open up new categories of product or services, the application onboarding should be channel agnostic. There has to be a flexibility of onboarding applications from various frontend interfaces and then using APIs to push it into a centralized Loan Origination System backend.

If required, the merchant partner can have their own portal and dashboards seamlessly integrated into the system to provide them with an option to onboard and track application and also gauge performance.

The loan product in the Loan Servicing System has to enable consumers to pay interest free equal installments for purchases over a few weeks. There is a cost for late payments which can be automated by a digital loan management system. Late fees can be capped and also the late payment details can be made available to Loan Origination System via API to drive future decision making for the same consumer. There can also be an automated decline of additional BNPL purchases until the consumer catches up with the overdue accounts. This breaks the cycle of debt which is one of the primary distinguishable characteristics of BNPL over traditional revolving credit products like credit cards.



## **In this entire journey, a considerable amount of very useful data gets generated and processed by the Loan Origination and Loan Servicing Systems**

Thus Lenders can benefit from using a Business Intelligence Solution which will provide insights from the operational data to provide better customer Experience, higher approvals and reducing Frauds and Defaults. There can be Merchant Performance Dashboards, Demographic Dashboards, Portfolio reports based on product, location and merchants, Customer 360 view etc. to slice and dice data for improved decision making BNPL providers have data about consumers buying and payment behaviors and this can drive more transactions on a merchant's platform as against the merchant who never has this data from their partner banks and payment networks.

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