



Visa Consulting & Analytics (VCA)

Buy Now Pay Later (BNPL)

Perspectives on and insights
into the BNPL market



The credit landscape is changing

E-commerce growth and technological innovation have converged to deliver transformation across the credit industry. This has opened the door for alternative payment methods including several BNPL options.

In this paper, Visa Consulting & Analytics (VCA) offers an overview of the current landscape, the rise of BNPL alongside the challenges these products face, and provides our perspective on and insights into the BNPL market.

The pandemic forced more of our daily lives online, from working to grocery shopping, children’s education to socializing. Throughout this period, BNPL products continued to grow. At a time when many consumers found themselves in unpredictable financial positions, BNPL was an appealing way to create some liquidity.



Snapshot of the BNPL market

Size of the global BNPL market in 2021	US\$132bn
Annual growth rate	200-300%
BNPL as a share of global e-com	2.9%
Top global BNPL markets (% share of total e-com)	Sweden 25% Germany 20% Norway 18% Australia 10%
Regional BNPL penetration (% share of total e-com)	Asia Pacific 1% Europe 8% Latin America 1% Middle East & Africa 1% North America 4%

Sources:

Straits Research, "Buy Now Pay Later Market Size is projected to reach USD 3.68 Trillion by 2030, growing at a CAGR of 45%", July 26, 2022, <https://www.globenewswire.com/en/news-release/2022/07/26/2486253/0/en/Buy-Now-Pay-Later-Market-Size-is-projected-to-reach-USD-3-68-Trillion-by-2030-growing-at-a-CAGR-of-45-Straits-Research.html>

FIS/Worldpay, The Global Payments Report, Powering the Next Payments Frontier, March 2022: <https://worldpay.globalpaymentsreport.com/>

Although BNPL still represents a relatively small share of all e-commerce, it is growing rapidly across much of the world. In 2021, the global BNPL market size reached US\$132 billion¹ and through to 2030, with a compound annual growth rate of 45 percent, it could reach US\$3.68 trillion.²



1. Straits Research, "Buy Now Pay Later Market Size is projected to reach USD 3.68 Trillion by 2030, growing at a CAGR of 45%", July 26, 2022, <https://www.globenewswire.com/en/news-release/2022/07/26/2486253/0/en/Buy-Now-Pay-Later-Market-Size-is-projected-to-reach-USD-3-68-Trillion-by-2030-growing-at-a-CAGR-of-45-Straits-Research.html>

2. Straits Research, Buy Now Pay Later, July 2022: <https://www.globenewswire.com/en/news-release/2022/07/26/2486253/0/en/Buy-Now-Pay-Later-Market-Size-is-projected-to-reach-USD-3-68-Trillion-by-2030growing-at-a-CAGR-of-45-Straits-Research.html>



What is driving the high rate of consumer adoption?

BNPL products appeal to consumers because they address the need for funding consumer payments in a more seamless and transparent way than traditional payment methods. Some key characteristics include:



1. Low upfront cost

BNPL gives consumers the flexibility they need to make repayments with a frequency that works best for them. This can be useful as a financial management tool for higher value purchases or to better manage expenses.

Additionally, the pricing structures are transparent, especially for customers who intend to abide by the standard repayment schedule, and the shorter-tenure plans are often interest free; longer-tenure plans tend to be expensive due to the inherent lending costs for issuers, therefore pushing the costs to consumers. Late fees are also charged for late payments.

BNPL appeals to consumers who want to manage their finances effectively without increasing their debt. It is in the best interest of the consumer to consider their overall financial health and ability to pay when choosing a BNPL option, and to do their research when choosing the right installment plan for them.



2. Optionality

BNPL can appeal to people who have previously been marginalized by traditional credit products. For example, many young consumers don't have sufficient credit history to receive approval for traditional credit products. Historically, the "soft" credit checks used by BNPL providers have not used traditional credit bureaus to measure affordability, which would otherwise disadvantage this segment.

On the other hand, traditional financial institutions have extensive experience in risk management and underwriting and are therefore well-positioned to smartly offer BNPL only to customers who can manage their expenses effectively, even choosing to cap transaction size, number of transactions, and other features to ensure customers are not overextending their repayment capabilities.

That said, in some markets, BNPL providers have started sharing purchase data of customers with credit bureaus. We also expect the use of data available through open banking platforms to provide a more comprehensive approach to credit decisioning, addressing one of the key criticisms of the industry. And it is worth noting that regulatory scrutiny is increasing in many markets, with a particular focus on affordability.³



3. Simplicity and seamlessness

Online BNPL options are often introduced to the customer on the landing page and throughout their browsing experience. The ability to select a BNPL option is fully integrated into the checkout experience making it easy for consumers to select this option and therefore reducing the risk of abandonment.

Additionally, BNPL offers what can be seen as a better customer experience when compared to traditional credit solutions, including faster real-time 'soft' credit checks and an optimized, digitally native user experience tailored to e-commerce. Most providers also offer an app for BNPL users to easily manage their payments 24/7.

Some are even building a "Super App", bringing the shopping and discovery experience directly to consumers who are using BNPL.

3. The Fintech Times, Spotlight: Klarna to Start Reporting BNPL Data to Credit Agencies, May 11, 2022, <https://thefintechtimes.com/spotlight-klarna-to-start-reporting-bnpl-data-to-credit-agencies/>

Why is BNPL popular with merchants and providers?



Merchants

BNPL has been adopted as an embedded finance solution across a huge range of merchants with differing target audiences and with terms and conditions that vary. Having such a wide range of options improves the customer experience and gives shoppers additional choices. Delving deeper into the popularity of BNPL products with merchants, Visa conducted research with over one thousand merchants.⁴

When questioned about the key drivers for accepting BNPL, the top reasons cited were: customer convenience, customer demand, the belief that BNPL could increase average spend, and the desire to remain competitive.

Crucially, BNPL has also given smaller merchants an opportunity to compete to win customers who may not have shopped with them in the past.



Providers

BNPL providers can be segmented into three categories:

1. Monoline BNPL providers – Afterpay, Klarna, Clearpay, Sezzle etc.
2. Traditional lenders/incumbent banks
3. Big Tech

The BNPL market landscape is changing quickly and continuously evolving, but providers are convinced there is still space for new entrants. For example, Apple announced that, in September 2022, it would enter the U.S. BNPL market with Apple Pay Later, allowing users to pay for goods in four equal payments, without interest.⁵

This foray into BNPL by the tech giant, demonstrates further the consumer demand for these solutions. However, BNPL solutions are an attractive proposition for providers who benefit from:

1. Ease and low cost of customer acquisition
2. Opportunity to increase usage of credit lines for existing customers, resulting in greater customer engagement
3. Ability to extend credit to new customers, thereby increasing spend and customer base
- 4.

It's clear that consumer and merchant adoption of BNPL are high but, despite this rapid growth and clear customer need, BNPL faces some challenges.

4. BNPL Multi-Client study, Visa RFI research, 2020

5. Finextra.com, Apple launches BNPL product, June 2022, <https://www.finextra.com/newsarticle/40391/apple-launches-bnpl-product>

Current challenges facing BNPL

Despite BNPL's rapid growth and ability to address clear customer needs, the industry faces some challenges and new solutions must be developed with these in mind:

Challenge #1: Regulation

The need for responsible lending, which is underpinned by new regulation already in effect in several regions and impending regulation in other markets, will drive change in the assessment of affordability and the distribution of lending.

BNPL is positioned and marketed as a no-interest credit option. However, if payments are missed, providers do charge interest and, if they are repeatedly missed, this may impact the consumers' credit score.

The seamless, user-friendly customer experience can contribute to a lack of awareness on the part of the consumer that they are incurring debt and are, in fact, borrowing money. Younger consumers who may be digitally savvy are not always financially savvy, with little understanding of the long-term implications that missed payments could have on their future.

Customers can register with multiple BNPL providers with no central record of their various accounts. This means that financially vulnerable consumers could be accruing debt across several platforms.

Some regions have already implemented new regulation that impacts BNPL. For example, in India, the government has limited BNPL optionality by restricting fintech companies from loading prepaid cards / mobile wallets with credit from non-bank entities. This limits who can offer credit, potentially driving some fintechs to get a banking license and others to partner with firms who can legally provide credit.⁶ Meanwhile, in the U.S., the Consumer Finance Protection Bureau has required the five largest BNPL providers to submit additional data on their customers for reporting and risk evaluation purposes.⁷ Singapore has also added limitations on the maximum outstanding payment amount customers can have with a BNPL provider unless they pass additional credit assessments.⁸

To get ahead of impending regulation in other markets, BNPL providers are enabling this shift towards responsible lending in different ways. For example, Clearpay, Klarna, Laybuy, and Openpay proactively chose to alter their terms and conditions and, from mid-2022, Klarna committed to report missed repayments to the credit reference agencies.⁹

Challenge #2: Industry saturation

We expect that existing business models will continue to evolve with the rapid pace of entry of new players and market saturation will result in:

More consolidation among existing players (e.g., PayPal's acquisition of Japan's Paidy for US\$2.78bn in September 2021).¹⁰

Attempts to solve profitability challenges could result in entrants being purchased by more established players in vertical acquisitions or more horizontal acquisitions. Established companies with larger balance sheets better able to absorb the rising cost of capital, may use this as an opportunity to acquire smaller players and grow their market share.

The entry of big tech companies and credit card issuers, while providers look to grow their customer base and diversify revenue streams (e.g., through affiliate revenue) as the rising cost of capital tightens their margins.



6. Globaldata.com, "RBI new restriction on fintechs offering credit in collaboration with non-banks will affect BNPL market in India, says GlobalData," July 13, 2022, <https://www.globaldata.com/media/banking/rbi-new-restriction-fintechs-offering-credit-collaboration-non-banks-will-affect-bnpl-market-india-says-globaldata/>

7. Consumer Finance, "Consumer Financial Protection Bureau Opens Inquiry into 'Buy Now, Pay Later' Credit", Dec. 16, 2021, <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-opens-inquiry-into-buy-now-pay-later-credit/>

8. SFA, "Buy Now, Pay Later (BNPL) Working Group launches BNPL Code of Conduct for Singapore", Oct 20, 2022, <https://singaporefintech.org/buy-now-pay-later-bnpl-working-group-launches-bnpl-code-of-conduct-for-singapore/>

9. FCA, "FCA secures contract changes for buy-now-pay-later customers", February 14, 2022, <https://www.fca.org.uk/news/press-releases/fca-secures-contract-changes-buy-now-pay-later-customers>

10. Paypal.com, "PayPal To Acquire Paidy", Sept. 7, 2021, <https://newsroom.paypal-corp.com/2021-09-07-PayPal-To-Acquire-Paidy>

Challenge #3: Macro-economic impact

BNPL providers are facing price pressures such as the rising cost of credit due to interest rate increases as well as potential increases in defaults due to less mature underwriting models. These pressures are tightening provider margins and could present a particular challenge for smaller providers as they look for ways to fund credit.

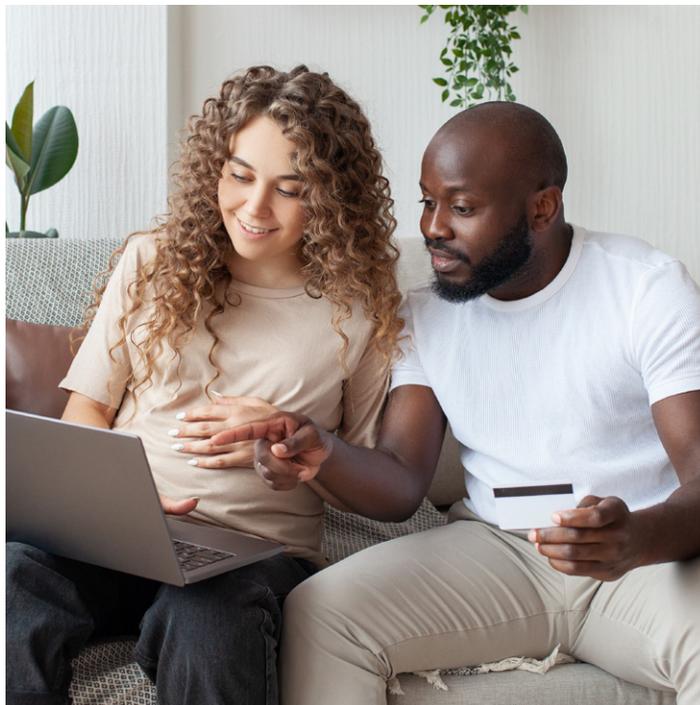
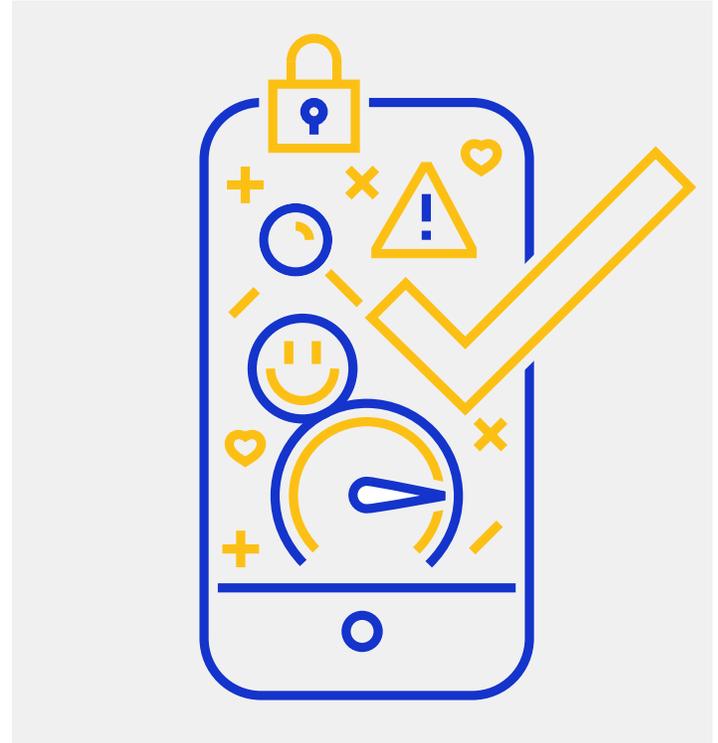
Providers are tackling these price pressures in different ways:

Developing new business models targeting different revenue streams including affiliate revenue. BNPL providers give brands the opportunities to reach new consumers and to encourage repeat purchases through additional promotional opportunities.

As B2B e-commerce expands and grows, it makes sense for BNPL providers to diversify their offerings to target this new market.

Existing players are enhancing their loyalty offerings to deepen customer ties such as rewarding users with points when they make on-time payments using BNPL.

There is the potential for increased merchant power to drive down the merchant discount rate as the market gets more saturated with BNPL providers. In turn, this price pressure may result in providers looking for different revenue streams like affiliate revenue.



Challenge # 4: Making the economics work for both the providers and the merchants/acquirers

In many markets, there is a disconnect between what BNPL providers wish to get paid and what merchants or acquirers are willing to pay.

As a result, there is an effort to diversify BNPL offerings and provide additional flexibility to the participants. For example, some players allow for hybrid pricing that is split between the merchant / acquirer and the customer.¹¹ There are also other models and pricing features being explored, which is especially relevant for smaller businesses, who cannot afford additional costs.

11. Affirm.com, Business FAQs, <https://www.affirm.com/business/faq>



Our perspective on and insights into the BNPL market

As the BNPL market adapts, providers are approaching BNPL in differing ways, addressing customer needs while delivering a profitable solution through distinct business models.

Based on Visa marketplace research, we have identified numerous factors, which underpin the various business models:

 <p>Card-based/ off-card/ hybrid</p>	<ul style="list-style-type: none"> • Card-based – installments are facilitated through the card networks and delivered in two main ways – through dedicated new cards whose primary focus is BNPL (e.g., virtual cards), or adding on BNPL as a capability to existing cards (e.g., leveraging existing card credit line). This offers potential for broader merchant / channel-agnostic distribution and acceptance of solutions. • Off-card – Interaction and relationships with merchants enable payments to merchants to bypass card networks. Opportunities exist to monetize the data from the two-sided merchant and consumer relationship. • Hybrid – Combined card-based and off-card models have emerged. Historically off-card-only players now offer card-based methods to broaden the distribution opportunity of their solutions.
 <p>Merchandise ownership</p>	<ul style="list-style-type: none"> • Own and pay where consumers own merchandise upfront versus rent/lease-to-own, where ownership transfers once the payment plan is complete.
 <p>Revenue/credit funding</p>	<ul style="list-style-type: none"> • Providers have access to various potential revenue streams, including fees from consumers, fees from merchants, and affiliate marketing fees.
 <p>Credit terms and decisioning</p>	<ul style="list-style-type: none"> • Credit terms – There are a range of APRs, eligible transaction value term durations, and payment frequencies offered in the market. • Credit decisioning and extension <ol style="list-style-type: none"> 1. For traditional card players, installment solutions use existing credit limits on the underlying card. Some players leverage various consumer data points to extend personalized installment terms on a per transaction basis. Providers run (mostly ‘soft’) credit searches at their first interaction with the consumer, then pass through internal credit scoring models for every subsequent purchase. The internal underwriting models improve as more data is fed through. 2. For off-card, short-term, low average order value products, lenders typically approve and extend credit on a per transaction basis. 3. For off-card, high average order value or longer-term products, lenders run hard credit searches, approve, and extend credit on a per transaction basis.
 <p>Lending and distribution options/ Go To Market</p>	<ul style="list-style-type: none"> • There are a range of different sales and distribution channels that providers can utilize to generate and facilitate sales. Additional considerations include availability across merchants, branding, financing, and partnerships.
 <p>Value chain participation</p>	<ul style="list-style-type: none"> • There are a host of activities across the value chain that various players could choose to own – and a range of different combinations and permutations of how providers choose to bundle and organize these activities to deliver their solutions.



To succeed in this market, providers need to focus on customer-centric business models that best fit their target segment and align with their targeted business outcomes and place in the customer lifecycle. While we believe a BNPL proposition helps solve a need for the provision of credit, there are some key success factors for a profitable proposition that must be considered. We believe it is important to determine a suitable profitability model which considers:

Merchant profitability

- **Low cost of customer acquisition** – Some providers use Instagram friendly filters, catchy advertising slogans and access to a wide audience, resulting in increased visibility for merchants. This translates into more customer traffic and more purchases for little cost when compared to traditional marketing spend. For example, PayPal offers BNPL at no cost to the merchant and Laybuy only charges merchants a transaction fee with every purchase made using its service.
- **Increased conversion rate** – BNPL providers report a higher average order value and a lower abandonment rate compared to traditional e-commerce transactions. According to Accenture, merchants that use BNPL are 30 percent more likely to close a sale than those that don't.¹²
- **High customer retention** – BNPL offers a seamless customer experience and an affordable shopping basket, which leads to more repeat purchases.
- **Moving BNPL to an omni-channel/omni-merchant offering** – BNPL is evolving from a pure e-commerce distribution of credit to include face-to-face point of sale channels.



Issuer profitability

- **Stronger and deeper customer relationships** – This is particularly important in the millennial and Gen Z categories. For them, BNPL is popular and, often, they don't yet have strong financial ties to a bank. In many instances, the first time a consumer accesses credit is through BNPL.
- **Low cost of customer acquisition** – Issuers can cross-sell BNPL products to existing customers at a low cost.
- **Drive customer engagement** – Providing credit to customers not covered within traditional affordability assessment models.
- **Responsible lending** – With increased regulatory scrutiny, this is becoming an ever-more important consideration:
 - Lenders will automatically be given access to the necessary data to verify the affordability for users before completing purchases. This transparency will allow BNPL providers to offer a better experience with more clarity, richness of data, and ease of affordability checks.
 - Existing credit referencing systems were not designed to meet the needs of such high frequency, low value transactions.
- **Transparency with built-in rewards or loyalty** – To show the full picture and incentivize the right behaviors:
 - Currently, consumers can get credit across several different BNPL providers simultaneously. Even if a customer misses a payment with one provider, they can still get credit with another provider. Unlike in traditional credit models where a full credit check is completed, the 'soft' checks of BNPL do not flag any concerns. There is therefore a need for more transparency and aggregation across all credit providers to create accurate affordability checks. Research from Bain & Company suggests that consumers themselves want this transparency – with two thirds of under-45s saying they want their BNPL activity to contribute to their credit score.¹³

Given the variety of BNPL business models, there is room to be creative when designing a BNPL solution. Providers can choose to target a specific segment of the value chain and bundle the many activities (from consumer acquisition to repayment processing, to managing consumer accounts) in a bespoke way to deliver their solutions.

How Visa Consulting & Analytics help you differentiate your BNPL solution

At VCA, we can help clients to take a dual-faceted approach to installments – one that enables issuer-led BNPL models and accelerates time-to-market by leveraging the existing Visa network of merchants and acquirers.

With our access to extensive customer behavioral data combined with our knowledge and expertise of the marketplace, we are ideally placed to help you deliver against all the requirements for a successful BNPL solution.

12. Accenture, Can banks grab the Buy Now Pay Later opportunity? April 2022, <https://bankingblog.accenture.com/can-banks-grab-the-buy-now-pay-later-opportunity>

13. Bain & Company, Buy Now, Pay Later in the UK, 2021, <https://www.bain.com/insights/buy-now-pay-later-in-the-uk-bnpl-report-2021/>





About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com or visit us at Visa.com/VCA

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