



A not-so beginner's guide to Buy Now, Pay Later

What you need to know now
and what's next



What is Buy Now, Pay Later (BNPL)?

Marketplace definition

While there's no formal industry definition, here are the core points:

- Point of Sale loan
- Installment and Line of Credit, with formats that vary in duration, APR, interest, minimum payments, payment frequency, and more
 - Examples include: Pay-in-four biweekly installments, 6 week duration, 0% interest
- Users approved with an algorithm based on PII, including: Name, address, phone number, birthday
- Provides a simple and lower cost financial alternative to payday loans
- Generally BNPL providers bear all credit risk and fraud risk on behalf of merchants



Primary sources:

[Buy Now Pay Later](#), [Investopedia](#), [Market Watch](#), [Buy Now Pay Later](#), [The Global Phenomenon of BNPL](#)

The rise to popularity



Early
2000s

2010s

2020

2021
and forward

Foundation of BNPL

- Historically: Layaway services
- Rise of the “.com” era and online retail
- Impactful sentiments following the 2007-2009 financial crisis
- Klarna created in 2005

Emergence of BNPL

- Australian and European rise in 2014 — Klarna (Europe) and Afterpay (ANZ)
- BNPL Classic Pay in 4 offered
- Affirm, Sezzle, Afterpay launch

Rise in popularity

- Buy Now Pay Later expands to the US
- Millennials reach height of purchasing power
- “Subscription lifestyle”
- COVID-19 Pandemic

Global expansion

- BNPL Market expands in the US
- Global Growth — Middle East, Asia, South America
- More Fintech providers
- Traditional institutions make their play
- BNPL represented roughly 2% of eCommerce transactions in the US

Primary sources:

Study: [Buy Now, Pay Later Services Continue Explosive Growth, Is Buy Now Pay Later the Newer, Cooler Layaway?](#)
CK article: [Mercator Advisory: Sam Klebanov's 2021 North American Payments Insights – Buy Now Pay Later Survey](#)
Merchant Maverick: [BNPL Statistics and User Habits](#)

Examples of BNPL types



The flavors of BNPL

1

Merchant transaction loan fee

- Smaller purchase(s)
- 0% interest to consumer, merchant fee
- Typically paid off weekly, bi-weekly, month basis, i.e. pay-in-4 option with 25% deposit
- Users tend to have less prime credit, not necessarily because they're subprime, but thin

2

Shopper interest loan

- Longer and/or larger purchases (\$\$\$)
- Interest on the consumer side
- Customized credit limit
- Typically paid on monthly basis, i.e. 30, 60, 90 day plans
- Users tend to have more prime credit (700+)

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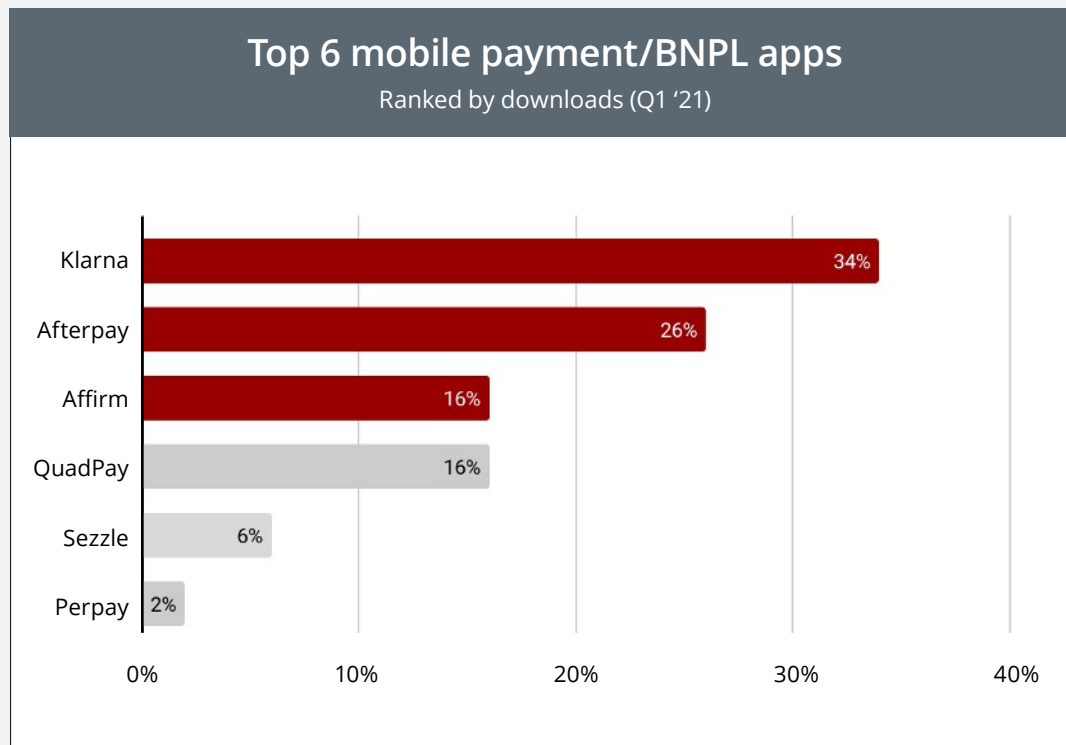
Existing credit card addition

- Financing option rolled up into revolving line of credit limit
- Typically financed in a pay-in-4 option
- Mirrors existing APR/Interest

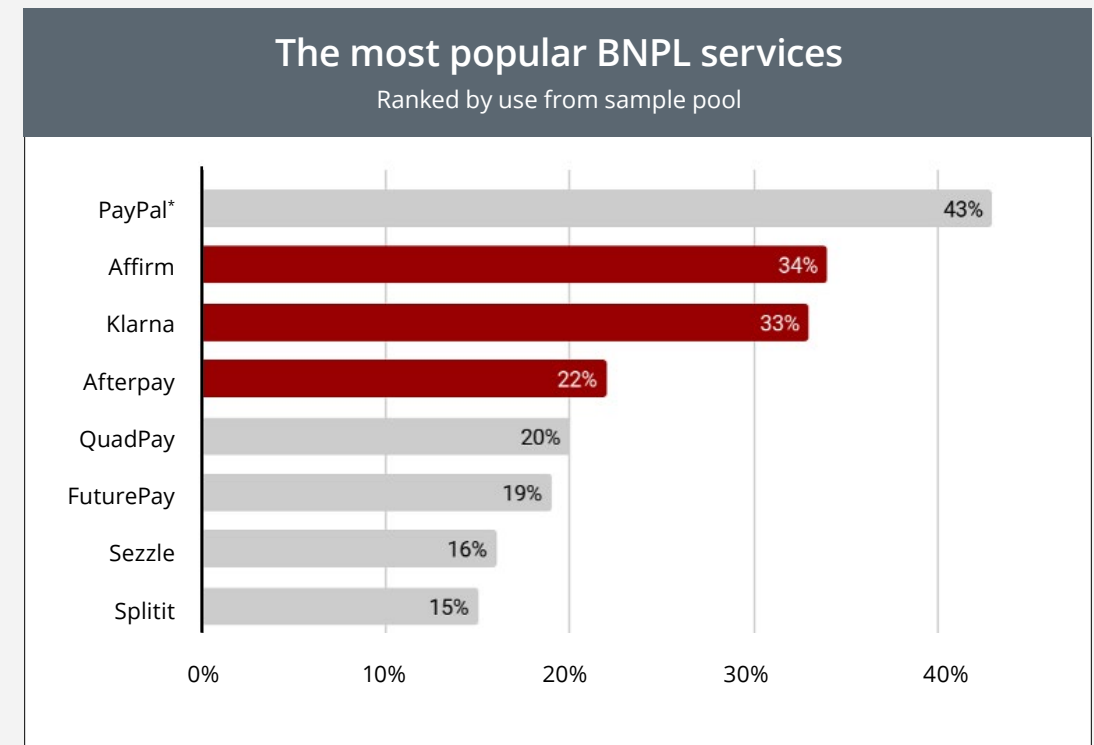
Primary sources:

The Global Phenomenon of BNPL, BNPL Statistics and User Habits, Merchant Maverick, Business Insider, Buy-Now-Pay-Later (BNPL) Disrupted Payments, now Banking, Sezzle, SezzlePlus, SezzleUp

Top BNPL providers in the United States



Data source: "The State of Payment Apps", May 11, 2021



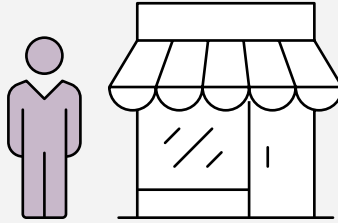
Data source: [The Ascent survey of 2,000 American adults](#), conducted March 10, 2021

* PayPal data includes several products, not necessarily just traditional Pay-in-4.

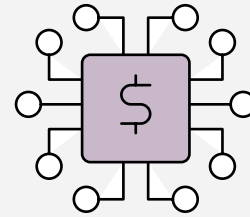
BNPL and merchant relationships



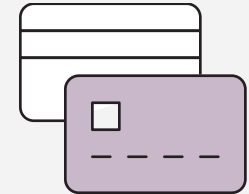
Via merchant



Via network



Via existing credit card



BNPL provider benefit:

Charges higher Merchant Discount Rate (MDR), of 3-6% vs 2-3% for traditional debit and credit products.

Merchant benefit:

On average, with BNPL merchants see more sales with higher conversion rates and increase in average order value (AOV).

BNPL provider benefit:

Does not have to have a direct relationship with every retailer, instead providing an overall service to a group of merchants connected on a preexisting platform.

Merchant benefit:

Convenience in establishing BNPL services for the merchant. BNPL not appointed at storefront, but merchants use a card network that has an already established partnership with a BNPL entity (e.g. Mastercard/Vyze or Visa/ChargeAfter) which in turn, has a network of lenders. Financing type and fee structure will vary based on the type of lender for a given transaction and can be passed onto the consumer.

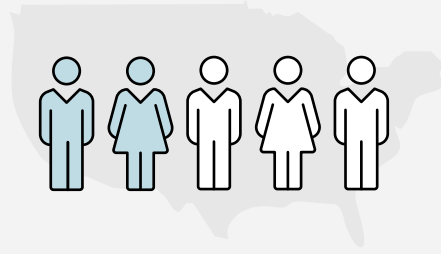
BNPL provider benefit:

Receives Interest/APR on the loan that mirrors existing credit line.

Merchant benefit:

Merchants already have a relationship with card providers and do not have to independently set up a BNPL option. Additionally, at the time of check out there is a lower merchant discount rate (MDR) of 2-3x less charged per transaction to the merchant. Finally, existing credit BNPL options (e.g. Chase, American Express) have other benefits to the consumer, such as rewards, further encouraging spending at merchants.

Who is using BNPL options?



42% of Americans have used some sort of BNPL service

Credit Karma survey



Americans spent an estimated \$20-\$25 billion using deferred payments in 2020

Bloomberg and CB Insights Study



Over 54 age group experienced 98% growth from 2020-2021, with 40.88% having tried a BNPL service

Motley Fool, The Ascent survey

Largest user types

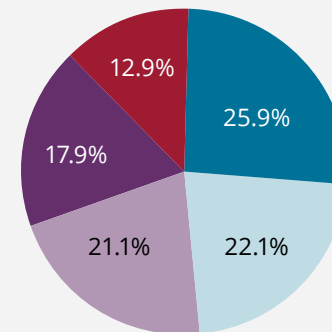
Credit avoidant

- Younger (Millennials and GenZ)
- Tech savvy
- Credit holders
- \$75-149k average income
- **Motive:** Budgeting, avoid interest

Thin-filed

- Across age ranges
- Thin-filed or have a small blemish on credit
- **Motive:** Ability to access credit

Most common purchase categories



- Groceries
- Electronics
- Fashion
- Furniture/appliances
- Household essentials

Market projections

Regulation

Regulatory bodies are starting to take notice amidst the growing number of BNPL users and overall fears of rising consumer indebtedness. BNPL firms currently fall into a regulatory grey area, with no specific policies surrounding their product offerings and terms. There is a need for more discipline and transparency in this space in the U.S., and how BNPL can best fit into a regulated environment.

Growth

Mercator Advisory Group sized the U.S. BNPL lending market in 2019 at approximately \$3 billion. In 2020, it experienced a 1200% increase to \$39 billion. By 2024, the market size is anticipated to surpass \$100 billion.

Anticipated BNPL product/feature expansion

Move from simply sitting at check out windows to integration into the full consumer experience, via tailored shopping apps/marketplaces that engage consumers through the entire purchase journey. Adding features such as rewards programs, affiliated marketing, and additional non-finance products help give each brand a competitive edge and retain consumer loyalty.

Primary sources:

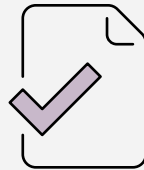
Customer Insight Group, Study: Buy Now, Pay Later Services Continue Explosive Growth, McKinsey BNPL Business Models, Affirm Reports Fiscal Year 2021 Q3 Results, Mercator Advisory Group, Klarna Financial Statement Release



Reporting benefits



Consumer benefits



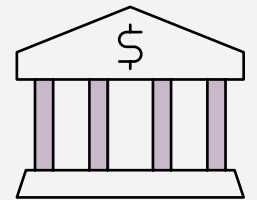
- Previously invisible consumers (no-file, thin-file, and subprime) have the ability to **establish tradelines**
 - Most products do not require credit, and those that do use soft inquiries
- **Help increase consumers credit scores** by reporting on-time payments as they demonstrate a responsible financial track record
 - Some BNPLs may already report missed/late payments (Quadpay, Affirm and Klarna) which can hurt scores

BNPL provider benefits



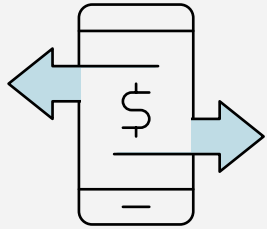
- **Incentivize stronger payment performance** with customer understanding that their payment behavior matters
- **Build consumer loyalty** with a bigger picture of total payment history to help you reward your customer with better access and terms
- With a shared payment history, gain a more accurate and holistic view of a consumers ability to repay to **prevent over-extending, loan stacking, and fraud**

Traditional lender benefits



- **Gain transparency** by seeing BNPL payment behavior on all consumers
 - Better assess risk with the full picture, vs potentially underestimating debt levels
 - **Say yes more** to a larger pool of consumers newly-established credit who may qualify with graduate with better terms
- Decide how to **use these trades in decisioning** by tracking and analyzing data through a unique industry code specific to BNPL tradelines

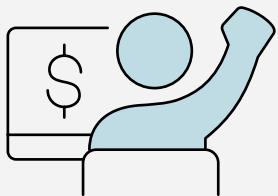
The financial industry is changing



Consumer expectations are evolving, with a rise in digitization of payments and eCommerce. Consumers expect seamless and instant payment methods in every part of their life.



BNPL financing is one method that is meeting these needs. While in its infancy in the U.S. with ~1.6% (~\$18B) of eCommerce transactions in 2020, BNPL is predicted to reach ~4.5% of eCommerce transactions in 2024.



For traditional financial institutions to remain competitive they must focus on adapting to the evolving needs of the consumer around digital and overall experience, while being able to confidently say yes more.



For additional resources from Equifax, please visit:
[equifax.com/business/fintech](https://www.equifax.com/business/fintech)