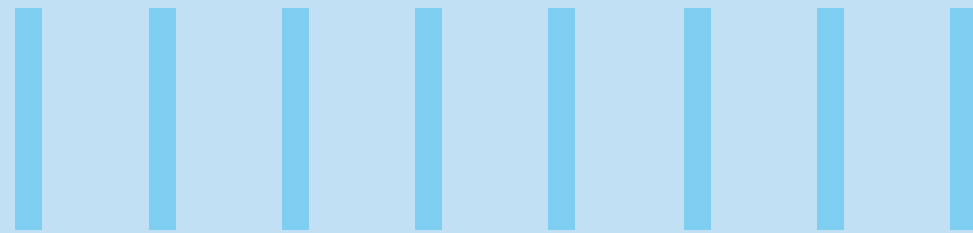




BUY NOW PAY LATER (BNPL) OPERATING MODEL

A possible ideal benchmark for traditional lending institutions to go fully digital



Abstract

The primary reason for the success and growth of 'Buy Now Pay Later' (BNPL), is its operating model. The BNPL operating model onboards and offer lending services quickly, with no physical branch visit, and documents. This paper discusses how is the BNPL operating model able to attract a significant number of customers and gain a high market share. It also explores the possibilities and advantages of benchmarking the BNPL operating model to enhance traditional lending institutions' current operating landscape to compete with BNPL – to recover and gain the market share, finally to be fully digital. The paper also talks about the key takeaways for the traditional lending institutions and digital practitioners.¹



Introduction

Buy Now Pay Later (BNPL) is an emerging lending business model, that offers small credit lines and enables periodic repayment installments, mostly interest free (at this point of time). BNPL business model, however, is not new to the society and there is enough evidence stating that consumer lending with installments

was practiced since 1840, and credit cards became more popular much later. In the early 21st century, entrepreneurs leveraged the technology advancement and accessibility to start fintechs or startups with innovative operating model. This meant going digital-first to provide superior

customer service with age old business products and services, though with some adjustments. COVID-19 fueled the growth of BNPL significantly, with the operating model attracting significant number of customers with quick client onboarding without physical branch visit and documents.



The strengths and threats of BNPL

BNPL is most attractive among younger generations that have

- Small credit lines usually enough to meet the immediate spending needs
- Flexible repayment arrangements (customized and standard installments)
- Instant approvals with limited documents, information, and without branch visit

The major strengths of the BNPLs (including any other FinTechs) are focused product offering and most importantly, its fully digital operating landscape.

BNPLs pose a major threat to the existing lending institutions by capturing a significant amount of the market with strong growth prospects. Some BNPLs have already enabled point of sale (POS) payments facilities along with physical cards. One of the

world's largest payments networks Visa, has developed "Installments Solution" post identifying that 42% of the global consumers expressed interest in making payments via installments. The BNPL market value was \$4.95 Bn in 2021 and is estimated to reach \$20* Bn by 2028 with a compound annual growth rate of 22.4%, which means that traditional lending institutions will lose what BNPL gains.¹

¹ <https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.18496.html>

* <https://www.grandviewresearch.com/industry-analysis/buy-now-pay-later-market-report#:~:text=The%20global%20buy%20now%20pay,22.4%25%20from%202021%20to%202028.&text=Moreover%2C%20the%20absence%20of%20interest,growth%20opportunities%20for%20the%20market.>

Combating the losing market share

One of the most critical issues for the traditional lending institutions is gradually losing the market share, as:

- Most of them are not yet digitally ready to adopt and offer BNPL products
- High regulatory, paper, and manual intensive efforts for both lender and borrower

However, the traditional lending institutions can compete with BNPL (or any other Fintech) business model by quickly developing a competitive edge through enhancing and/or adapting the existing 'BNPL Digital Operating Model', instead of taking a slower digital journey.

Digitization enables superior customer experience, cost reduction, and business efficiencies. It hence, is high time for the existing lending institutions to take the 'digital-first approach' seriously. The digital service providers also need to perform the role of key digital enablers to the traditional lending institutions, who can consult and advise their clients to choose real digitization practice with referencing new generation digital operating models like BNPL.

It is important to note that mere adopting a BNPL business model alone will not help traditional lending institutions. In order to compete, they need to have a comprehensive digital operating model as well. The BNPL operating model is the perfect benchmark for the institutions to adopt or build a desired digital operating model to offer seamless lending products and to sustain in the market against any new generation businesses.



Digitizing the traditional model

Digital enablers see two ways to digitize the traditional lending institutions operating model:

Piecemeal approach:

Enhance and enrich the existing operating model to accommodate BNPL segment customers (i.e., no branch visits, no physical documents, and quicker onboarding decision) without interrupting the existing business and operations. This approach demands small budgets and also potentially accommodates more use cases to transform the portfolio of line of businesses – economy of scale or build the required solution with best-in-class digital levers and configurable with the future connected flow.



Holistic approach

Connected flow model or client centric operating model, simplifies the existing operating and IT landscape with complete integration of applications and process, to enable seamless customer service with minimal human effort.

Most fintechs are operated on the connected flow operating and IT landscape, however connected flow is all established institution's dream, and it needs a strong digital practice and leadership. However, anyone can achieve connected flow with carefully designed modular digital solutions in the piecemeal progressive approach.

Most institutions understand the logic of moving from a piecemeal approach to a holistic approach. Yet, many fail because the leaders focus majorly on temporary

pain points to gain instant cost and profit reliefs to answer the pressure, instead of building logical blocks/ modular/ configurable solutions.

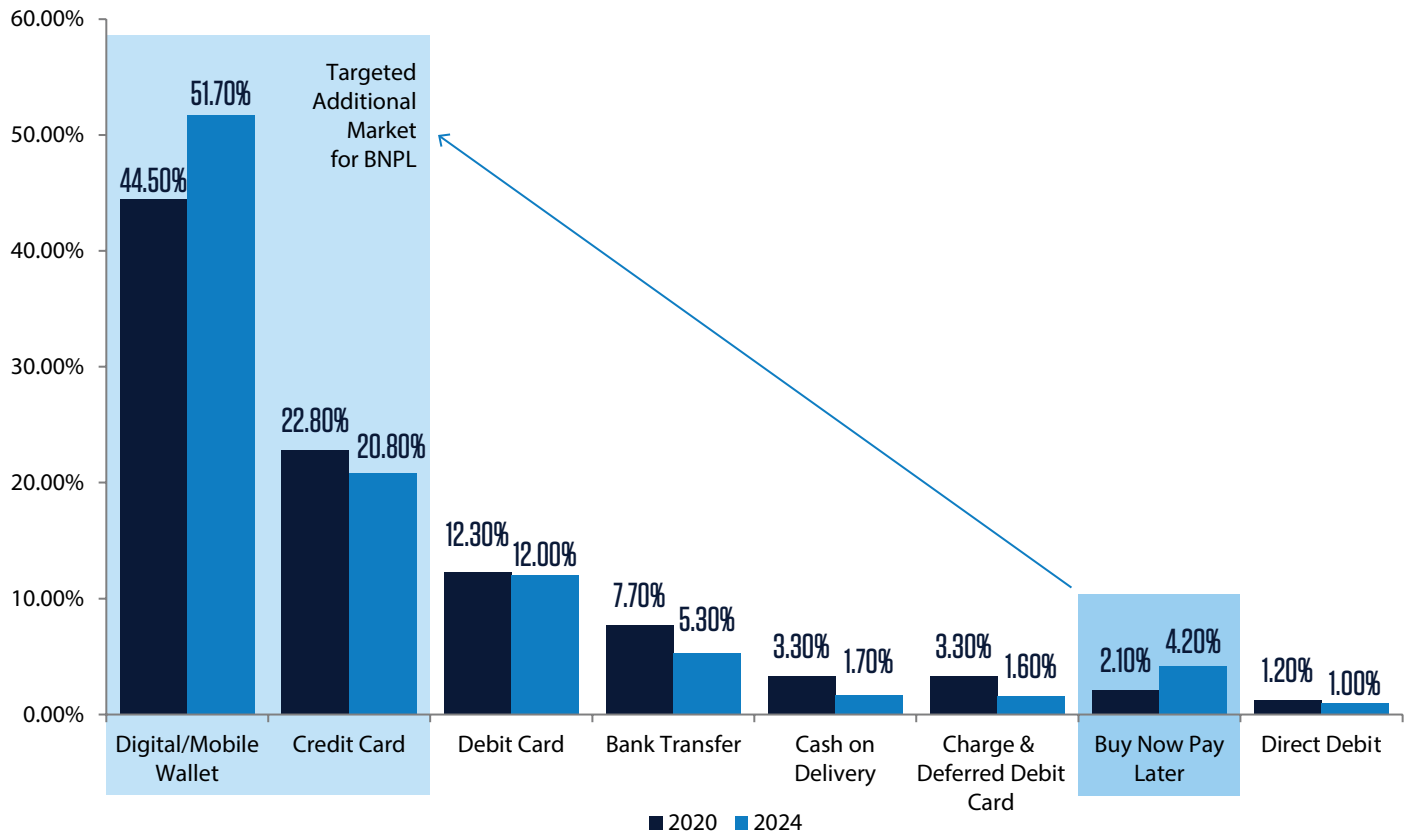
- Zinia is a BNPL platform developed by Santander Bank with an intention to merge consumer finance and Openbank/ Santander's digital bank. It is a perfect example of building a modular solution by accommodating maximum use cases from consumer finance and banking to be future-ready i.e., BNPL and Digital Banking, partially connected flow
- Visa Installments Solution, a modular solution developed by one of the world's largest payments networks to the growing demand of installment/ BNPL demand, potentially may become

an integral part of Visa's core operating landscape

Most of the secondary research like Bloomberg and CNBC concluded that millennials and gen-Z are quite keen on using BNPL than credit cards or consumer lending, as BNPL majorly involves a 'few clicks' deal and its quick customer service (no branch visit, documents, etc.).

Strong growth across e-Commerce, especially during the COVID-19 pandemic, made BNPLs issue physical cards and also enable mobile payment, similar to mobile scanning/UPI to capture the additional market. The below statistics are evident that if lending institutions do not adopt digital, they have to pay huge penalties and lose their market share in the coming days.

² <https://www.grandviewresearch.com/industry-analysis/buy-now-pay-later-market-report#:~:text=The%20global%20buy%20now%20pay,22.4%25%20from%202021%20to%202028.&text=Moreover%2C%20the%20absence%20of%20interest,growth%20opportunities%20for%20the%20market.>



The way forward

Another surprising news is that BNPL is making attempts to move into trade finance (i.e., B2B), which can potentially impact all possible lending business. Hence laying the right and strong digital operating landscape is a crucial and imperative step for the traditional lending intuitions. The overall developments with the BNPL phase are a real threat to the lending institutions, hence its high time to move quickly to digitization to compete with new-generation fintech companies. It is also necessary to upgrade the operating landscape by benchmarking with every revolutionary operating model.



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ⁱ This paper intently discounts regulatory requirements because, it talks only about the digital aspect in the BNPL operating model

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