



BNPL, THE NEW TREND IN LENDING PUTS CREDIT ON CENTERSTAGE

Abstract

The idea of buy now, pay later (BNPL) is gaining traction these days. How does this impact the traditional lending ecosystem? This viewpoint attempts to answer this question, besides illustrating the trends, alliances, and acquisitions in the BNPL space.



The new trend on the block

Buy now, pay later (BNPL), which is one of the latest fintech (financial technology) trends, is garnering a lot of attention. It became a huge success among the millennials as it addressed two of their biggest financial conundrums — credit

BNPL and the future of credit

Here are some compelling statistics that indicate that BNPL can be much more than just a passing fad.

PYMNTS research found that about 11% of the population of the US, equivalent to 29 million individuals, have used BNPL at least once over the past 12 months. According to industry sources, the first half of 2021

card debt and cash flow. Gradually, it started growing in popularity, and soon reached developed markets such as Europe and the US, with providers including Affirm, Afterpay, Sezzle, Klarna, and PayPal. Although slow on the uptake, emerging

saw huge investments in this space, a whopping \$17.7 million. According to them, even the economic uncertainty of the pandemic couldn't dampen the BNPL industry. On the contrary, it is set to impact BNPL favorably. The industry is likely to rack up \$680 billion in transaction volume worldwide by 2025.

markets like India are also talking about it. BNPL is essentially a transformative new paradigm that will improve the agility of credit lenders.* The question is: Is BNPL just a passing fad?

Even in developing economies like India, several retailers are wooing consumers with BNPL schemes. BNPL has created stiff competition in the lending market space. How are the other fintech companies coping?



Forging partnerships for a win-win situation

Ecommerce giants are taking the partnership route with BNPL solution providers to gain traction in their sales. In

July 2021, Affirm and Shopify announced their partnership around BNPL, making it one of US's biggest BNPL rollouts. On

August 30, 2021, Amazon announced its partnership with Affirm to allow customers to pay for their purchases in installments.

Buying off smaller players in the BNPL ecosystem

Big players in the finance industry are always on the lookout to expand their financial-services ecosystems to 'own' customer experience. Acquisitions in the industry around BNPL stand testimony to how rapidly this territory is growing. Fintech giants felt it was too late to build the product in-house, despite having deep

pockets and the required technological expertise.

In October 2020, Alliance Data announced its acquisition of BNPL fintech Bread for \$450 million. Square followed in Alliance Data's footsteps, acquiring Afterpay for \$29 billion on August 1, 2021. The same year,

on October 29, 2021, Pawn store operator FirstCash brokered a \$1.17 billion deal to buy fintech firm American First Finance (AFF), in a move that marked its foray into the buy-now-pay-later (BNPL) segment.



Where does BNPL leave traditional lending?

About 10 years ago, when mobile wallets were rolled out, finance insurgents predicted the death of credit cards. BNPL's market valuation in the USA may appear big, but it is only a small part of the overall credit card market. Both modes of lending continue to co-exist. The case is somewhat similar now, with BNPL.

To help banks seize more of the BNPL opportunity, FI (Financial Institution)

technology provider Amount said that it would pair its configurable omnichannel loan origination BNPL solution with Marqeta's virtual card issuance capabilities to accelerate its entry into the BNPL space. Cross River Bank used Affirm for the origination of most of its loans. First National Bank of Omaha also rolled out a BNPL service in partnership with Skeps and EXL (an operations analytics

and management company). According to PYMNTS research, nearly half the consumers who use BNPL also said they would like to get that service from their bank or credit card issuer.

The skeptical view

For example, in Europe and Australia, algorithm-driven approval processes can sell installment debts up to as high as \$30,000 to consumers, which they are unable to repay, leaving them wrong-footed.

Since BNPL loans are unsecured, consumers can really stretch their spending with multiple lenders. Also, while most BNPL loans come with no interest or service fees, missing a payment can attract penalties. Who wins at the end? A feature-

wise comparison of banks and private lenders show that there is no clear winner here. It all ultimately comes down to an individual's relationship with his or her bank and how urgent the need for a loan is.

*For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organizations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organizations that are innovating collaboratively for the future.

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