

The ultimate guide to BNPL



The opportunity

Buy now pay later (BNPL) needs little introduction. It has taken the world by storm by bringing the concept of offering traditional instalment plans for large purchases into the digital age enabling online merchants to offer instalment plans for any purchase, no matter the size. With banks riding the latest wave and providing their account and cardholders with BNPL services, there is no better time to evaluate your position when it comes to this emerging payment method.

With consumer spend via BNPL platforms globally valued at US\$112 billion in 2022, and expected to reach US\$437 billion in 2027 (according to Juniper Research), the figures speak for themselves – not only is BNPL a huge growth area, but the opportunity for players in the space is vast.

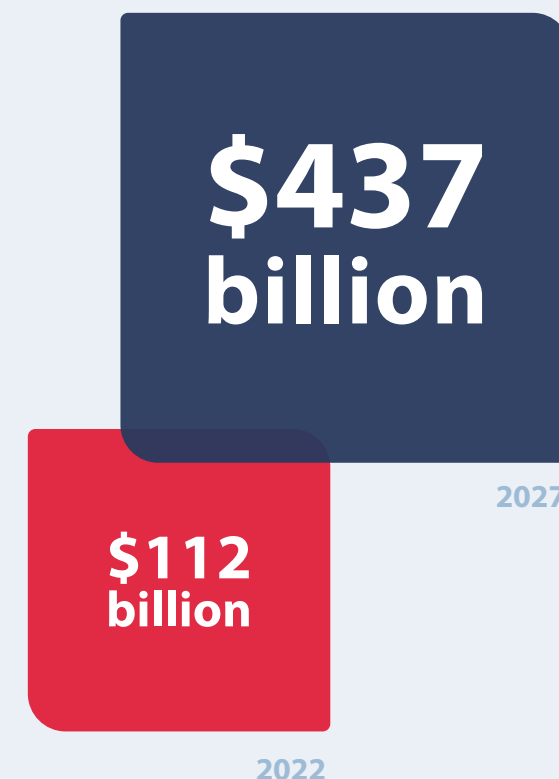
Although the concept of BNPL isn't new, the market is still very much in its growth stage. As such, there has been an influx of new entrants in the market in the last five years, each with their own strategy and offering. Today, there are various players from all over the globe seeking out their niche, including:

- global providers, such as Klarna, Afterpay and Affirm

- international payment networks, such as Visa, Mastercard and American Express
- regional providers, such as ePag in Brazil, Oriente and Latitude in Asia Pacific, and Shariah-compliant BNPL programs in the Middle East like Tabby and Tamara
- consumer banks, such as Monzo (UK), Chase (USA), Arab Bank (Jordan) and Westpac (Australia)
- industry specific providers covering travel (Fly Now Pay Later), healthcare (Openpay), utility and other bill payments (Deferit)
- merchants, such as Next with next3step and Very with VeryPay
- big tech companies, such as PayPal and Apple

Despite the volume of entrants, the good news is that the majority of consumers are still testing the waters and are yet to find their 'go to' providers, making it the perfect time for financial institutions (FIs) and payment service providers to get involved and establish themselves as recognised players before the market reaches maturity.

According to Juniper Research, in 2027 global consumer spend via BNPL platforms expected to increase to...



The appeal

As one of the fast-growing alternative payment methods globally, the importance of providing a BNPL offering should not be underestimated, but what actually makes it so appealing?



For consumers

- › Flexibility over cash flow management
- › Interest-free credit or low interest rates
- › Greater transparency over fees, interest, repayment plans
- › ‘Soft’ credit checks
- › Instant credit decisions and extended credit lines
- › Ability to purchase higher-value goods
- › Option to try before you buy
- › Variety of BNPL providers and products
- › Ability to link cards for wider acceptance

For merchants

- › Higher average order value
- › Lower cart abandonment rates
- › Repeat purchases
- › Increased revenue
- › Improved customer experience and satisfaction
- › Enhanced loyalty
- › New customer acquisition
- › Expanded reach into younger demographics

For BNPL providers

- › Attractive proposition for merchants and all affiliated benefits
- › Wider service portfolio
- › Merchant retention and new merchant acquisition
- › Additional revenue streams
- › Cross-selling opportunities
- › Enhanced consumer loyalty and engagement
- › Expanded reach into younger demographics
- › New customer acquisition
- › Wider consumer product portfolio
- › Better customer insights



The starting point

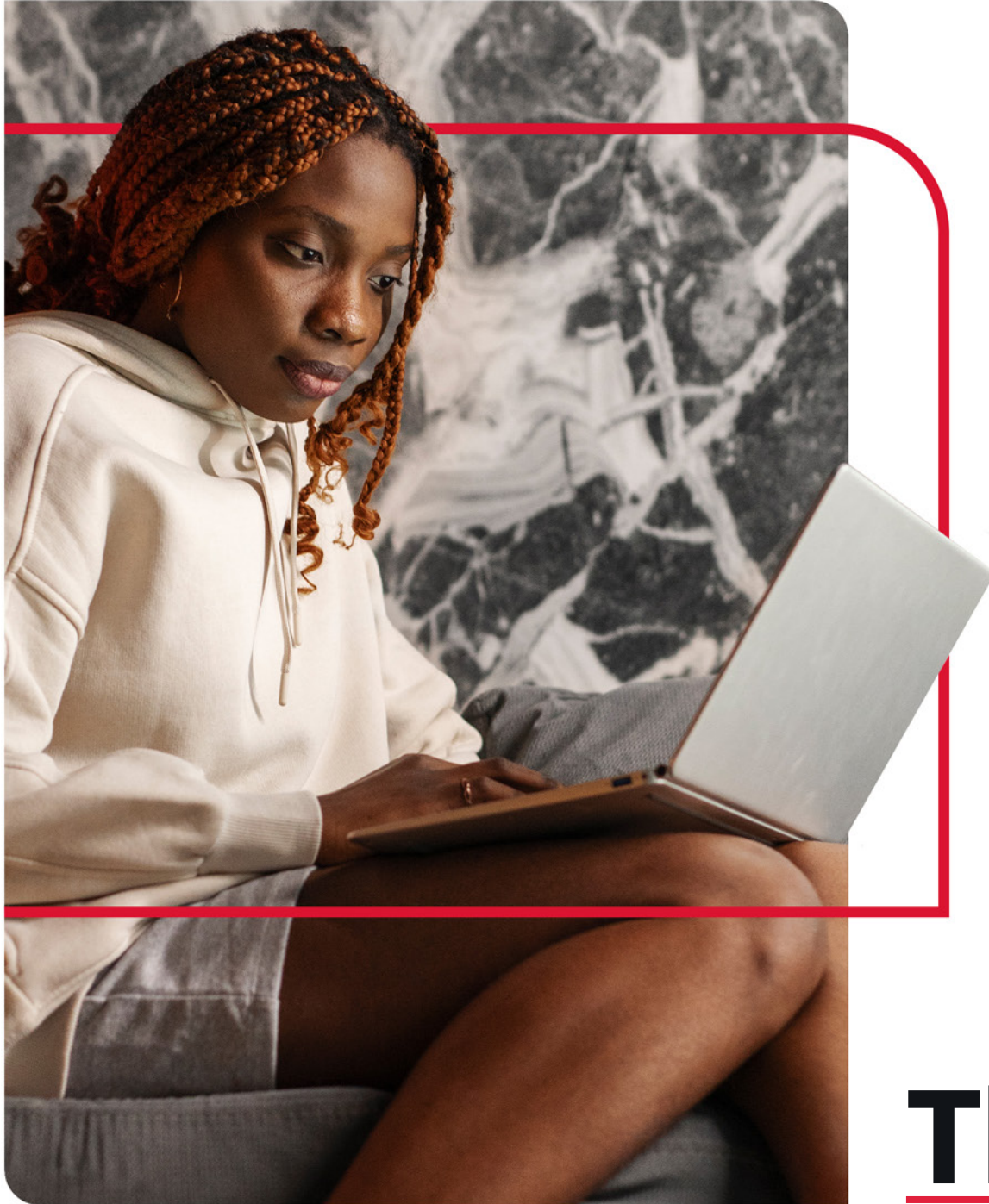
Today, BNPL manifests itself in many different forms, so for a player looking to enter the market and differentiate in an increasingly crowded marketplace, the sheer volume of options available can appear to be overwhelming.

For example, BNPL functionality can be offered through mobile apps, at POS terminals or e-checkouts, via ATMs, and other channels; a virtual or physical card can be issued as part of the package; one-off fixed credit or a flexible credit line can be provided alongside different instalment plans (e.g. pay later, pay in 3, pay in 6, pay in 12) all with their own interest rates, fees and other conditions. Any BNPL offering can also be supplemented with loyalty programs. There is a world of possibilities in terms of the differentiating features available, and combinations thereof, for players looking to enter the BNPL space.

Knowing where to start can be a challenge. However, as BNPL is such an exciting payment method, even offering the simplest proposition will immediately differentiate providers and establish a brand presence in the market. Value propositions can be evolved, launched in phases, or be expanded and flexed to suit both customer and market needs. Being inactive now will make it harder and more time-consuming to stand out down the line in a more saturated market.

Despite the number of variants available, buy now pay later offerings can be loosely placed into four models:

- Post-purchase off-card
- Card-linked
- At purchase off-card
- Merchant-funded



The models

Post-purchase off-card BNPL

This model enables customers to complete transactions with their preferred payment method and opt to convert eligible transactions into instalments after purchases have been made.

Instalment plans for transactions eligible for BNPL can be presented and agreed via a number of different channels, such as mobile banking app, ATM, kiosk, call centre, etc. As this model is financed by the BNPL provider, once an instalment plan has been selected and agreed, the purchase amount is returned to the customer's account by the provider, and the customer makes repayments to them.

The provider can open a credit line for the customer to encourage additional spend, or just finance one purchase. If the former, each purchase can be put on a different instalment plan (e.g. pay later, pay in 3, pay in 6, pay in 12) with different interest rates, fees, etc.

Limits and restrictions may be put on the transactions eligible for BNPL by the provider, such as transaction amount, MCC, type of purchase, channel, location, and time lapsed since the purchase was made.



Most suitable for

- › Consumer banks

Key model characteristics

- › No additional complexities of managing merchants, integrating with online shops and POS terminals
- › Reduced credit risk (in comparison to traditional credit products) as customers are less likely to default on payments

Card-linked BNPL

This model enables customers to pay for purchases in-store and online using a BNPL payment card.

BNPL enrolment and issuance of a linked-card typically happens in three ways:

- before purchase: providers can issue customers with a BNPL card for single or multiple purchases in advance of an initial purchase taking place
- during purchase: providers can issue a virtual BNPL card and the purchase is made using this card. Typically, an extended credit line is provided to encourage additional spend online and in the physical environment
- after purchase: as with post-purchase off-card BNPL, providers can flag purchases already posted to a customer's account that are eligible for BNPL. The customer can convert these purchases into instalments via applicable channels, e.g. mobile app, call centre, ATM, etc. The purchase amount is returned to the customer's account by the provider. Concurrently, the customer is issued with a BNPL card and an extended credit limit to encourage repeat BNPL purchases using this card

For subsequent purchases, the customer chooses to pay with the BNPL card at a merchant e-checkout or POS terminal. Instalment plan options (if available) are presented to the customer in near real-time and agreed for each purchase via a number of different channels. If a customer is offered a choice of instalment plans, they are given a short grace period (days) in which to choose their plan. If a plan is not chosen, the default instalment option is automatically selected (usually the one most favourable for the BNPL provider). If multiple instalment plans are offered (e.g. pay later, pay in 3, pay in 6, pay in 12), the customer has the option to choose which instalment plan to use for individual purchases made using their BNPL card.

For added convenience and speed, BNPL cards are usually issued as virtual cards with a physical one to follow, or with an option for customers to request a physical one should they wish to.

This model is financed by the BNPL provider, so customers make repayments to them.

Most suitable for

- › Consumer banks
- › Payment service providers who also serve merchants

Key model characteristics

- › BNPL card that can be used at any merchant, online and offline
- › Built on international payment networks
BNPL rails - Visa Installments Solutions, Mastercard Installments and American Express Plan It

At purchase off-card BNPL

This model allows customers to pay for goods or services using buy now pay later at the merchant e-checkout and/or POS terminals.

First-time purchasers are prompted to create an account with the BNPL provider and go through credit scoring for an instant approval decision. Scoring can be done separately for each individual purchase, or customers can be issued with an extended credit line at the time of the initial purchase to encourage repeat spend. Returning customers simply need to authenticate themselves to log in to their account to complete purchases - making transactions fast, convenient and relatively frictionless.

If applicable, and depending on how much merchants are willing to invest into their BNPL program, they may opt to offer one or several instalment plans (e.g. pay later, pay in 3, pay in 6, pay in 12) with different interest rates, fees and other conditions. Instalment plan options can be presented and agreed at the checkout, or at the authentication stage by the BNPL provider.



This model is typically financed by the BNPL provider, either through their own lending facility or underwritten by a third-party lender, so customers make repayments to them.

At purchase off-card BNPL providers can offer this model in two ways:

- direct-to-consumer whereby the consumer registers for an account with the BNPL provider and has a direct relationship with them. Here, the consumer pays with the BNPL provider's branded payment method at various merchants
- white-labelled BNPL whereby providers allow merchants to create their own branded BNPL offering, while they work as a technology supplier in the background. Here, the consumer journey is seamless as they only interact with the merchant brand (also see merchant-funded BNPL)

Most suitable for

- › Payments service providers

Key model characteristics

- › The only model where the BNPL provider typically owns the relationship with both merchants and consumers
- › This model can be offered as direct-to-consumer or as a white-label proposition

Merchant-funded BNPL

This model allows customers to make BNPL purchases at the point of sale, financed by the merchant itself or a third-party lender contracted to the merchant.



As with at purchase off-card BNPL, when using this payment method at the merchant checkout for the first time customers are prompted to apply for a BNPL facility and go through credit scoring for an instant approval decision. Scoring can be performed for individual purchases, or a credit line can be approved for all future BNPL purchases.

This model is typically provided to merchants as a white-label solution, allowing them to create their own branded BNPL offering. The merchant becomes the BNPL provider, while the payment service provider operates the technical backbone of the service, essentially providing BNPL-as-a-Service. Here, the consumers only ever interact with the merchant brand directly while making their purchases.

Depending on how much merchants are willing to invest into their BNPL programs, they can choose to offer one or several instalment plans (e.g. pay later, pay in 3, pay in 6, pay in 12) with different interest rates, fees and other conditions.

Some payment service provider's may have the capability to issue cards, in which case merchants may wish to link a card to their offering, essentially providing a BNPL store card.

Most suitable for

- › Merchants
- › Payment service providers wishing to provide white-label BNPL

Key model characteristics

- › This is the only model where the merchant funds the BNPL facility
- › The BNPL solution is white-labelled
- › Useful in regions where BNPL providers are not yet present

The takeaways

The unprecedented popularity, growth and opportunities BNPL can offer FIs and payment service providers is the call-to-action they need to make their play in this space.

1

Don't wait until it's too late

There is still time to enter the market and become a recognised player before it becomes saturated

2

Launch and evolve

Your initial BNPL solution doesn't need to be your last, it's better to evolve your offering to suit customer and market needs than to miss the boat

3

Find the right software vendor

Not all vendors can offer all models, meet your immediate needs, and align with your long-term vision



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