

# The next wave of BNPL

*A global outlook*



# Buy Now Pay Later (BNPL) makes shopping easy and accessible for all

- BNPL is a form of short-term financing that allows payment in installments without any interest or fee within a specified period.
- With BNPL, interest charges may be avoided altogether or applied only if the payment plan extends beyond the interest-free period, providing more flexibility and potentially cost-saving benefits for consumers.
- BNPL is facilitated via a partnership between merchants, aggregators, and payment service providers to give consumers a more flexible payment option.

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**E-commerce transactions accounted for 20% of global retail sales**

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**Global e-commerce transactions in 2022 amounted to USD 6 trillion**

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**Global BNPL transaction value accounted for 5% of total e-commerce transaction value in 2022**

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**Global BNPL transactions amounted to USD 300 billion in 2022**

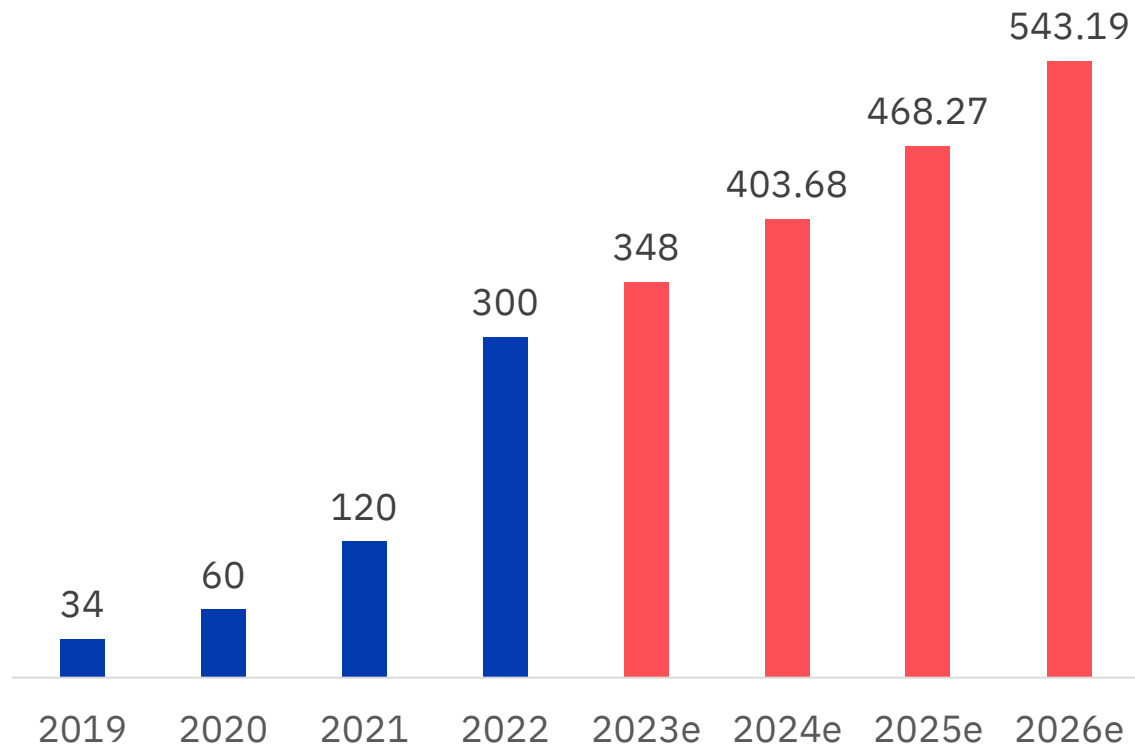
# BNPL growth opportunity

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# BNPL is projected to reach a market size of **USD 543 billion** by 2026

Global transaction value of BNPL in e-commerce (USD Billion)

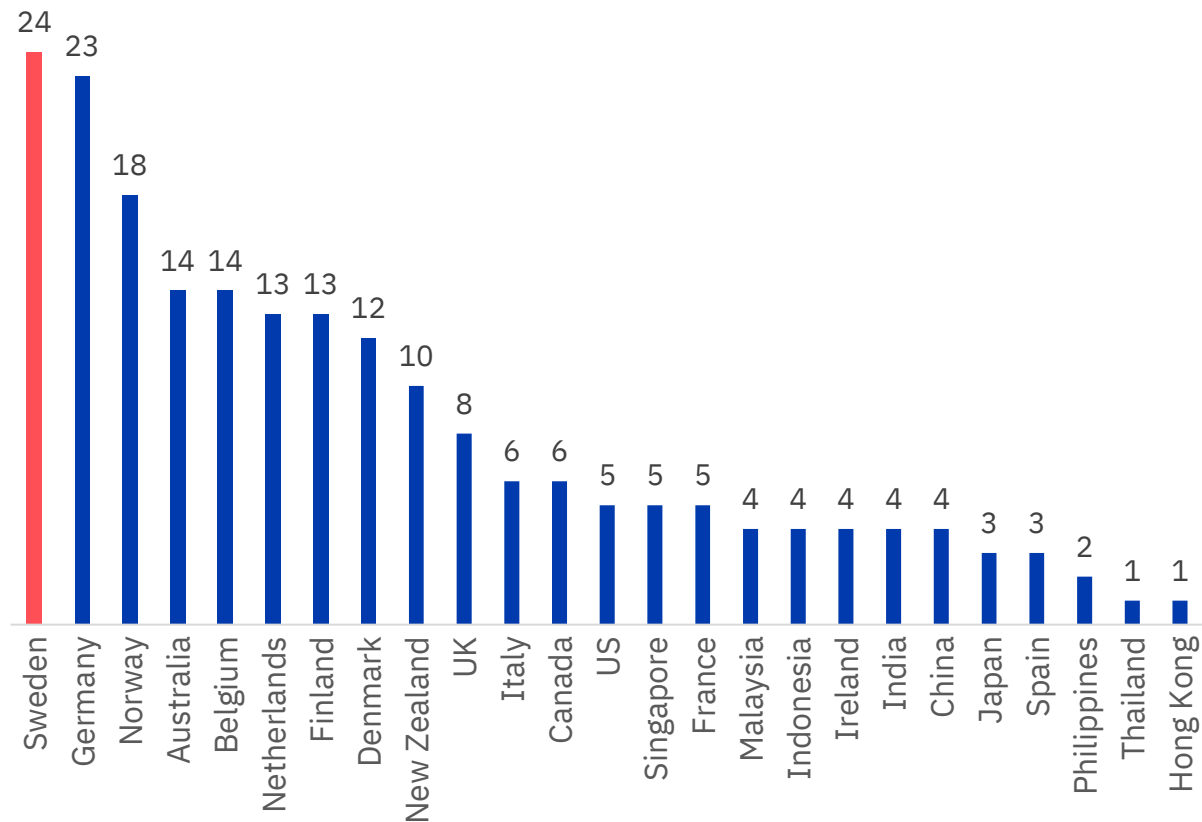


Source: Statista, FIS, twimbit analysis

**BNPL will account for ~6% of the total e-commerce transaction value across the globe by 2026**

# Sweden has emerged as the global market leader

Country wise BNPL e-commerce payments market share(%)



**Sweden** is the global market leader in BNPL e-commerce payments at a share of **24%**, followed by **Germany** and **Norway** at **23%** and **18%**, respectively.

# Europe and UK are the largest adopters of BNPL

No.	Metrics	Global	APAC	North-America	Europe and UK	Others
1	Population	7,974.9 Mn	4,385.7 Mn	369.7 Mn	523.0 Mn	2696.5 Mn
2	Banked population (%)	71	76	97	96	-
3	Online population	6,551.1 Mn	2,601.9 Mn	340.1 Mn	444.0 Mn	3165.1 Mn
4	B2C e-commerce market size (\$US bn)	6,000	2,664	1,601.1	933.3	801.6
5	E-commerce as % of total retail	24	29	16	17	-
6	E-commerce spending per capita (\$US)	803	739	4,338	1,930	-
7	Credit card penetration (%)	27	29	70	47	-
8	BNPL transaction value as % of total e-commerce transaction value in 2022(%)	5	4	5	10	-
9	BNPL transactions by value(\$US bn)	300	106	80	93.3	-
10	BNPL expected transaction value as % of total e-commerce transaction value by 2026 (%)	6	4	7	11	-

# Klarna, Afterpay and Affirm remain the dominant BNPL service providers globally

- The top 3 players in the market based on the number of users are: Klarna, Afterpay and Affirm.
- Klarna has more than **140 million active users**, the provider is trying to break into every retail category, with the most even distribution; 7 marketplaces, 7 fashion retailers, 2 beauty & consumer electronics, 1 in home & garden and groceries
- Afterpay has **19 million active users** and excels as a fashion retailer as female consumers aged between 25 and 34 years old make over a fifth of its user base.
- Affirm has a consumer base of **16 million active users** and has the higher share of users aged 45 and plus, 16% vs 12% on average. It is also strong in the consumer electronics category.

## Top 3 global players





## Other global players













# Growth drivers for consumer adoption

## Convenience and flexibility

Attracts Gen Z and Millennials with its payment splitting option, removing the need for upfront payment and offering an enhanced shopping experience.

## Financial empowerment and control

Offers transparency, helping users avoid credit card debt and enabling better budget management, fostering financial responsibility and informed decision-making in their purchases.

## Enhanced user experience

Excel in delivering experiences focused on integrability, intuitive UX design, appealing visuals, and providing end-to-end CX journeys.

## Accessibility and inclusion

Offers a more inclusive approach, allowing individuals to access desired products and services, promoting financial inclusion for underserved communities.



# Industry challenges

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# #1 Competitive threats and disruption:

- A surge in competition with numerous players vying for market share
  - In 2022, Afterpay was acquired by Block Inc., highlighting the consolidation trend in the BNPL space.
  - Apple launched "Apple Pay Later" in partnership with Goldman Sachs, allowing users to make BNPL purchases through their Apple Wallet.
- Increased competition has led to irresponsible lending behaviour amongst the market players resulting in profitability challenges and a liquidity crunch in the market
  - Affirm's decision to cease operations in Australia since February 2023 is indicative of the heightened competition in the BNPL market.

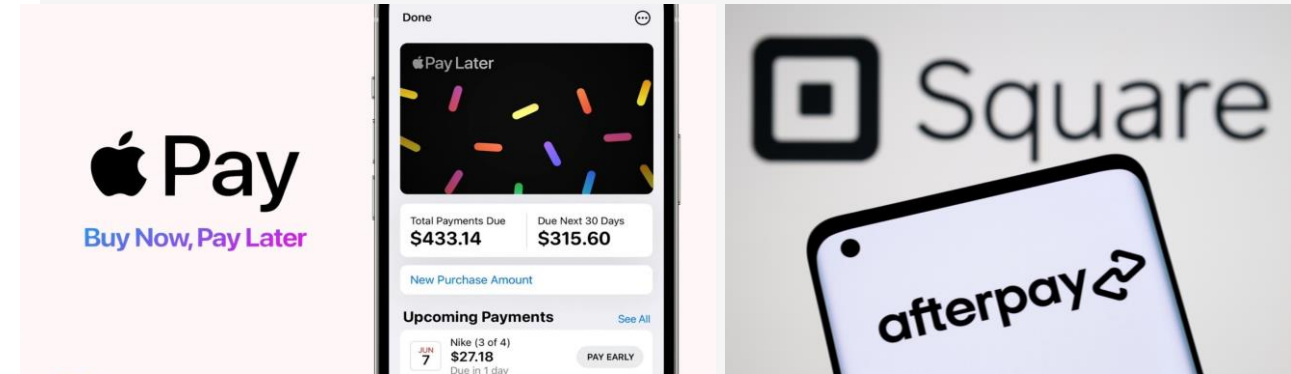


Figure 4: Apple's launch of Apple Pay Later and Square's acquisition of Afterpay are indicative of rise in competition and disruptive innovation

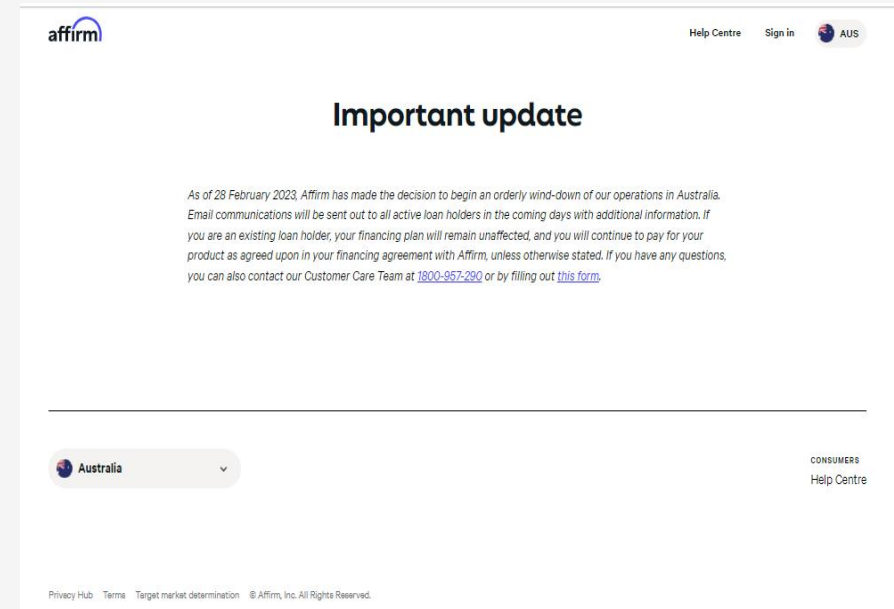


Figure 5: Affirm has wrapped up its operations in Australia due to heightened competition

## #2 Restricted regulatory environment to freely market and operate BNPL products

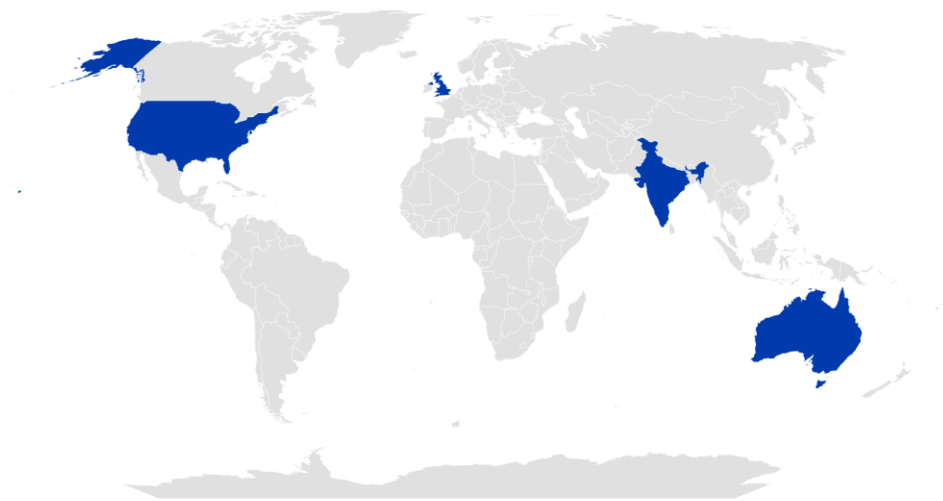


Figure 6: Indicates regions which have existing BNPL regulations

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 BNPL industry.

Source: twimbit analysis

**India-** The RBI guidelines restrict non-banking institutions from using credit lines and issuing prepaid payment instruments, impacting the expansion of the BNPL industry.

**Australia-** BNPL providers must obtain Australian Credit Licences, adhere to Responsible Lending Obligations, meet dispute resolution and hardship requirements, and the apps must comply with the National Consumer Credit Protection Act 2009.

**US-** Anticipated US BNPL regulations by the CFPB may align BNPL with traditional credit companies and limit data harvesting and leverage from customers.

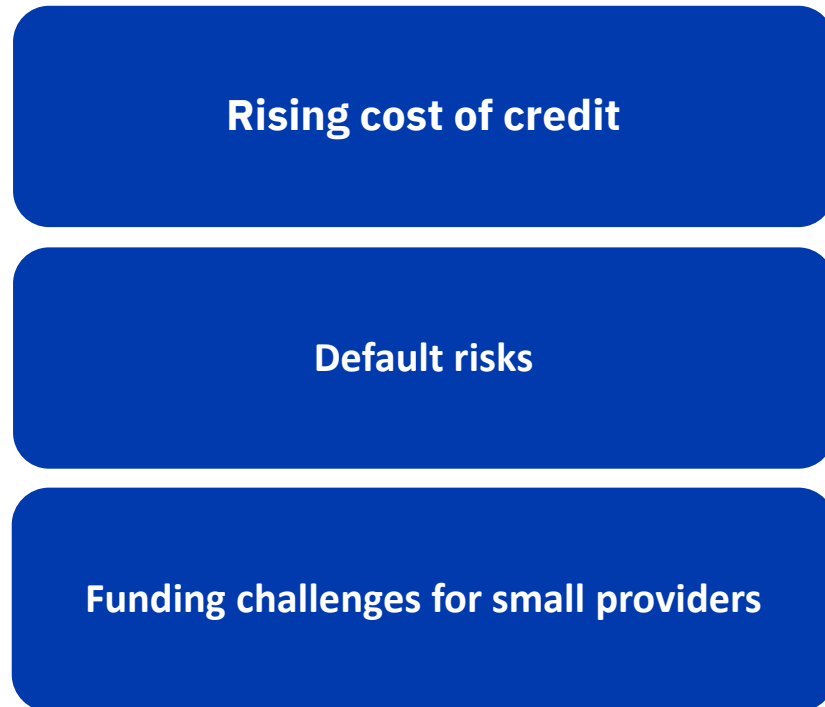
**UK-** Financial Conduct Authority (FCA) regulates BNPL providers under the Consumer Credit Act 1974. BNPL providers must be authorized by the FCA and comply with responsible lending requirements. The FCA also emphasizes transparency, affordability assessments, and clear communication with consumers.

**EU-** The European Commission plans to include BNPL under the Consumer Credit Directive. It has finalized regulatory framework in late 2022, awaiting full implementation.

**China-** There is no direct regulation for BNPL products, digital finance platforms offering interest-free short-term financing similar to BNPL are being strictly regulated by the government.

**Singapore, Malaysia, and Hong Kong –** While the industry in these countries is self-regulated, the respective monetary authorities (MAS, HKMA) and central bank (BNM) keep a close eye on the providers. Providers must comply with licensing requirements and consumer protection measures to operate in these markets.

## #3 Macro-economic impact on BNPL business model



- **Rising cost of credit:** increasing interest rates can raise the cost of providing credit to consumers, impacting provider margins and potentially leading to higher fees for customers.
- **Default risks:** less mature underwriting models may lead to higher default rates, posing financial risks for BNPL providers and necessitating better risk management practices.
- **Funding challenges for smaller providers:** tighter margins and increased credit risks can present challenges for smaller BNPL providers to secure funding for credit offerings.

Figure 7: Macro-economic factors affecting the BNPL market

## 5 BNPL business models

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# #1 BNPL-as-a-Service\*

- The concept of embedded BNPL is gaining momentum as it allows financial institutions to offer BNPL as a payment option directly through merchants' websites and apps.
- BNPL as a service is a business model that allows merchants to offer BNPL financing to their customers without having to develop their own BNPL platform.
- Banks can offer these solutions via APIs that allow merchants to integrate BNPL into their checkout process with minimal effort.
- They can earn a commission on each BNPL transaction that is processed.
- This model can become a key opportunity for revenue growth for banks and other BNPL providers in the market.

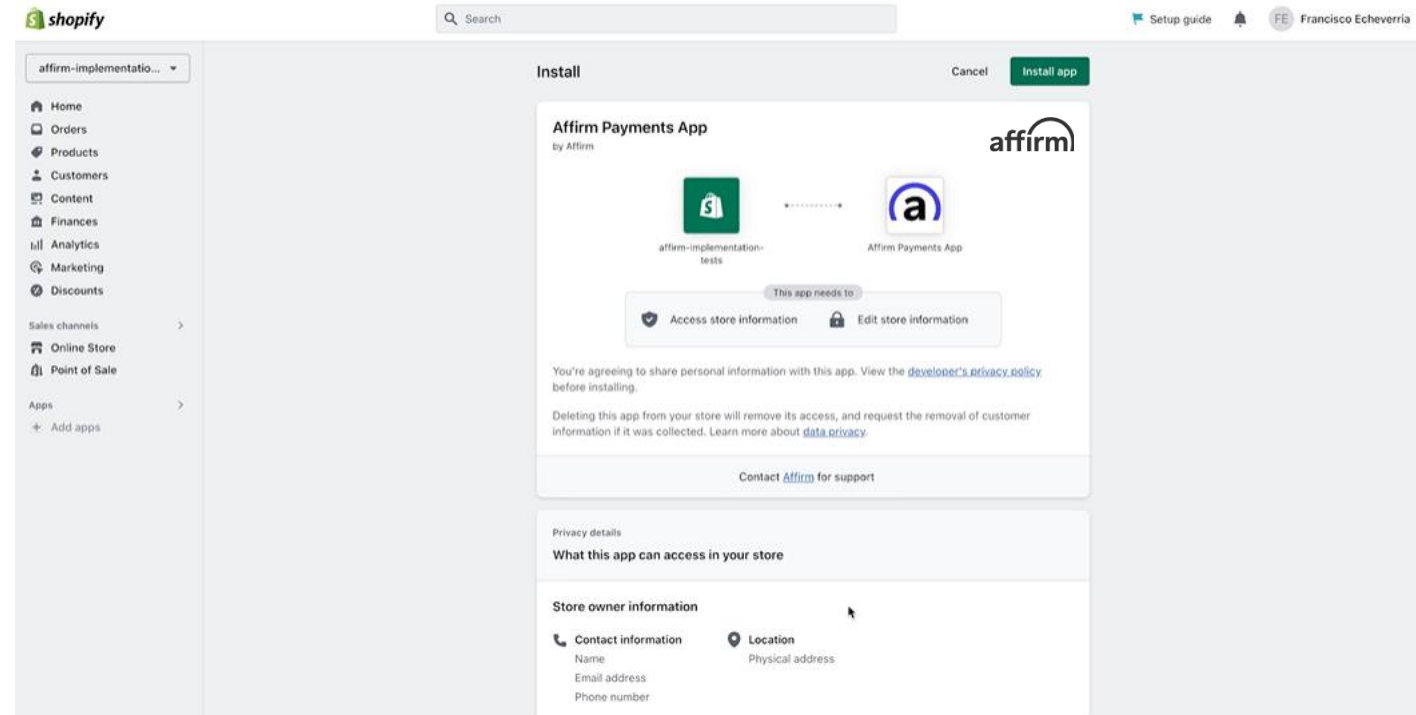


Figure 8: Affirm has introduced platform integration tools for popular e-commerce platforms

## #2 Card linked financing

- This offering is a prevalent form of POS financing with credit cards.
- BNPL now allows users to convert their regular purchases to 0% EMI.
- This is usually done with high-ticket purchases with an added benefit of reward points or merchant-offered subsidies.
- Card-linked BNPL gives more control to consumers by offering pre-purchase, at purchase, and post-purchase stages of transactions.

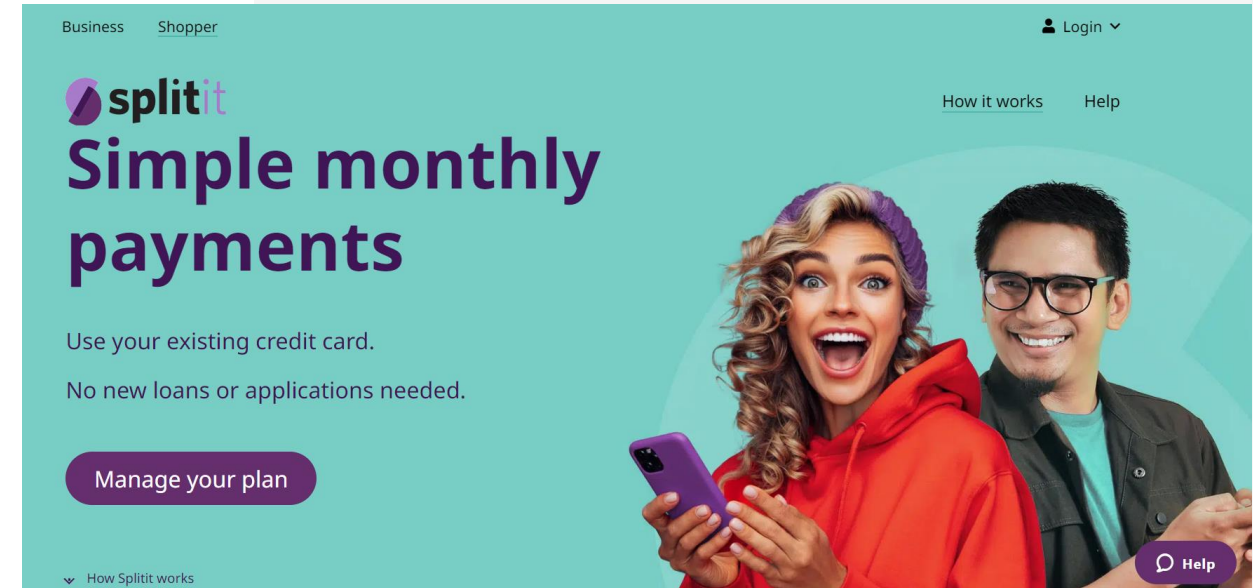


Figure 9: Splitit as an example of using card linked financing business model

## #3 Off-card financing solution

- Off-card financing solution, unlike card-linked financing offers credit with EMIs for the first few months at 0% APR and then has a subsidized Annualized percentage rate (APR).
- This service is available to high- to mid-ticket size items which have low frequencies, and such items usually require long EMIs ranging from 6 to 10 months.
- Off-card financing is prevalent in the furniture, home improvement, fitness equipment, and travel industry.
- Usual users of this service have high credit scores, and thus the risk of default is much lower than other products offered.
- Merchants who observe high cart abandonment rates and huge customer acquisition costs offer these services to promote the purchase of their product with no major impact on user cash flows.

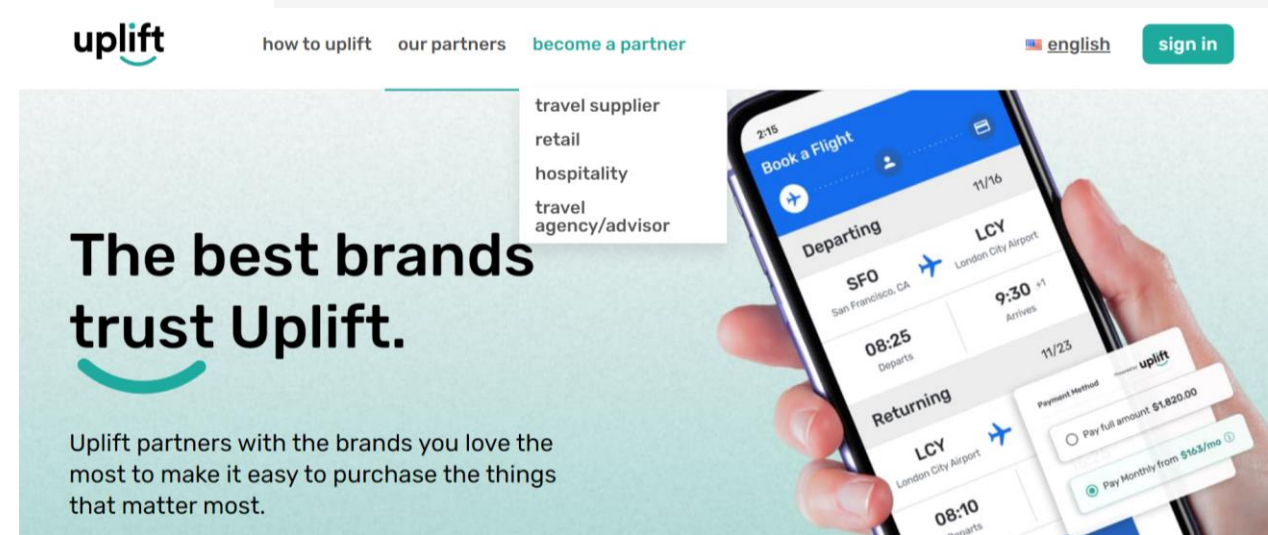


Figure 10: Uplift offers off-card financing solutions



## #4 Rent-to-own model

- This model is a boom for consumers with low credit scores, as it enables these users to avail credit for items they wish to own.
- The user gets the item on the day of the transaction, but the ownership lies with a service provider. As soon as the user completes all installments, the ownership transfers to the user.
- This service does not have a 0% APR but rather carries a charge in the range of 1% to 5%.
- About 95% of consumers have a credit score below 700, and almost 70% of consumers have a credit score below 600. This validates the untapped potential this business model can unleash.

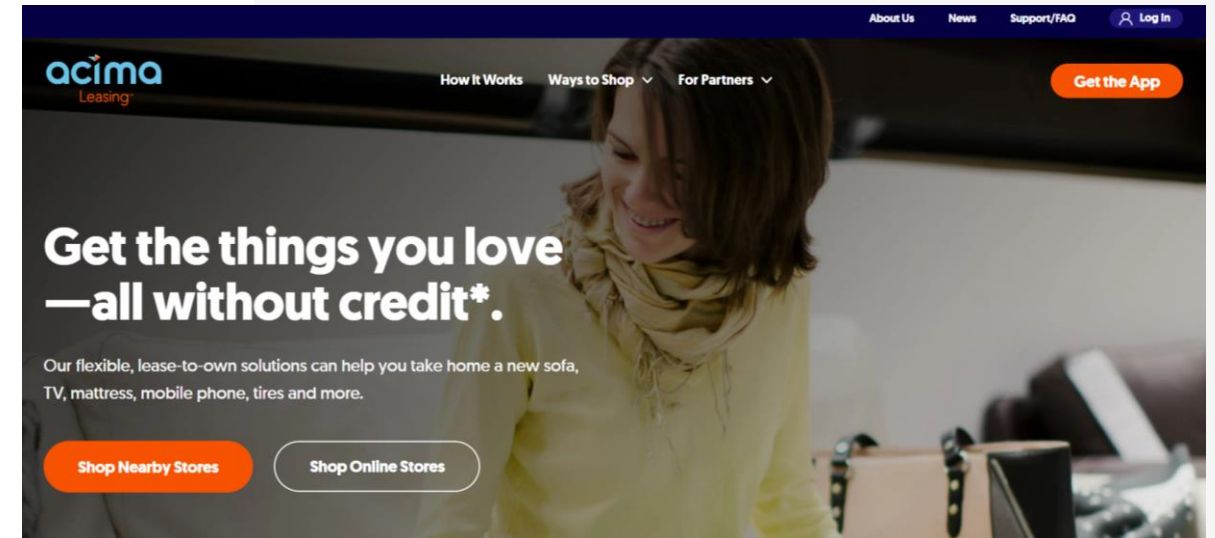


Figure 11: Acima operates under the rent-to-own BNPL model

## #5 Vertical-focused large ticket size financing

- BNPL started with financing small to mid-ticket-sized purchases with high frequency, but due to its efficient working model and viral popularity, few players started offering finance for vertical-focused high-value transactions.
- These transactions can range anywhere between US\$2000 to US\$50,000 and are offered in high-ticket industries like green energy, healthcare, and home improvement.
- Banks can partner with major operators/equipment manufacturers to achieve high volume and maintain a viable profit margin.
- To deploy this model banks, must assess their target markets and work relentlessly on their go-to-market strategy as various pure play BNPL operators have entered this market.

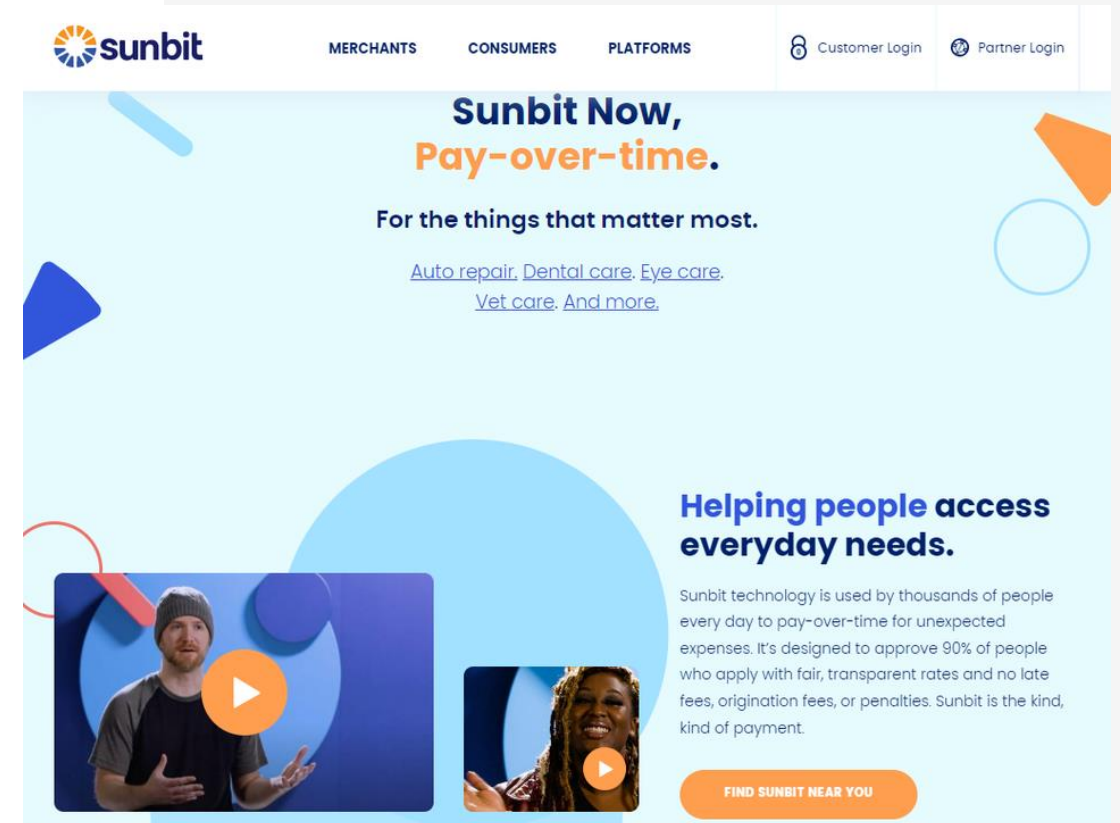


Figure 12: Sunbit focuses on vertical-focused large ticket items

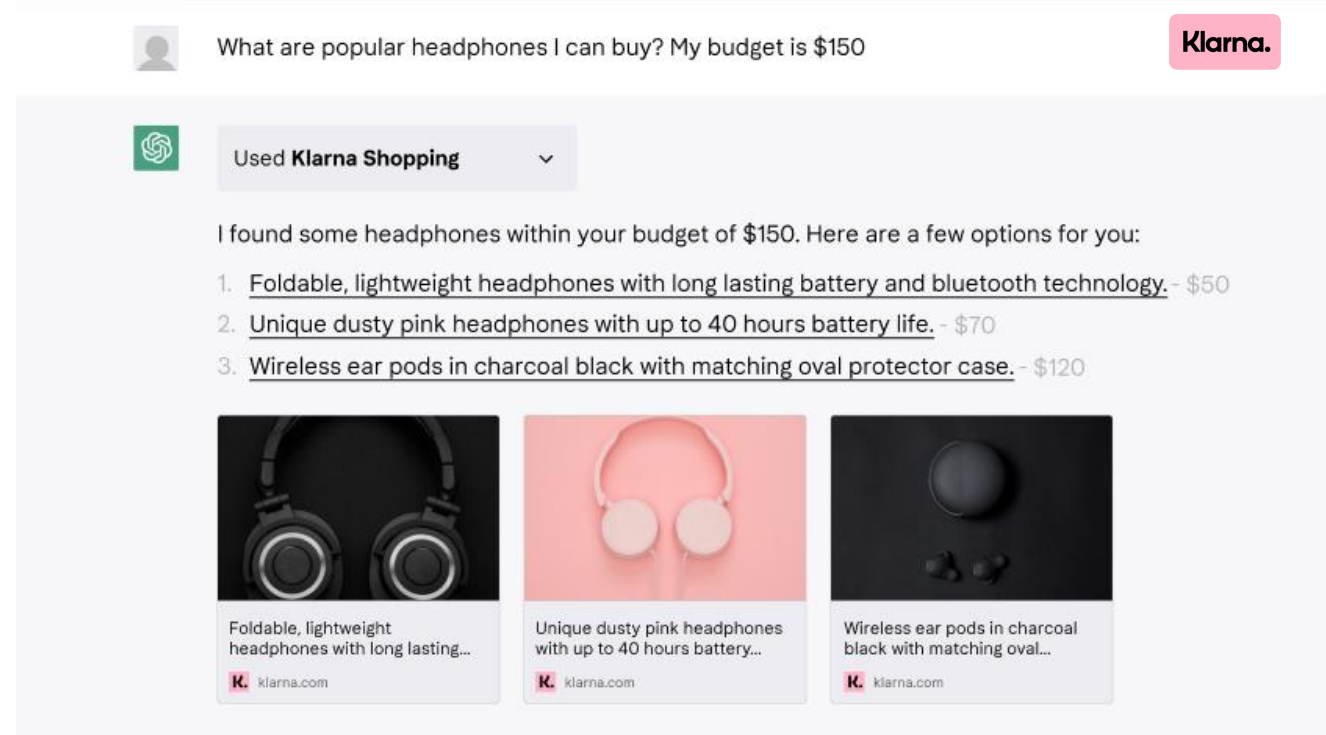
## 3 innovative use cases of BNPL

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# #1 ChatGPT powered shopping assistant - AI in everything

- Klarna collaborated with OpenAI to enhance the shopping experience on ChatGPT.
- Klarna's curated product recommendations will be integrated into ChatGPT, providing personalized shopping advice and links to shop through Klarna's search and compare tool.
- Users can ask ChatGPT for shopping ideas and receive a curated selection of relevant items.
- Feedback can be given to ChatGPT to receive updated recommendations.





What are popular headphones I can buy? My budget is \$150 Klarna.

Used **Klarna Shopping** ▾

I found some headphones within your budget of \$150. Here are a few options for you:

1. Foldable, lightweight headphones with long lasting battery and bluetooth technology. - \$50
2. Unique dusty pink headphones with up to 40 hours battery life. - \$70
3. Wireless ear pods in charcoal black with matching oval protector case. - \$120

  
Foldable, lightweight headphones with long lasting...  
K. klarna.com

  
Unique dusty pink headphones with up to 40 hours battery...  
K. klarna.com


  
Wireless ear pods in charcoal black with matching oval...  
K. klarna.com

Figure 1: Klarna has integrated a search tool powered by ChatGPT

## #2 BNPL SUPERAPP - Embedded shopping stores

- Affirm has partnered with these in-demand stores to bring them under one roof via its app.
- A one-stop solution for users to get the credit service and, at the same time, use their credit to shop on the BNPL marketplace with their favorite brands.
- Improves customer experience and helps merchants achieve greater visibility and higher revenue

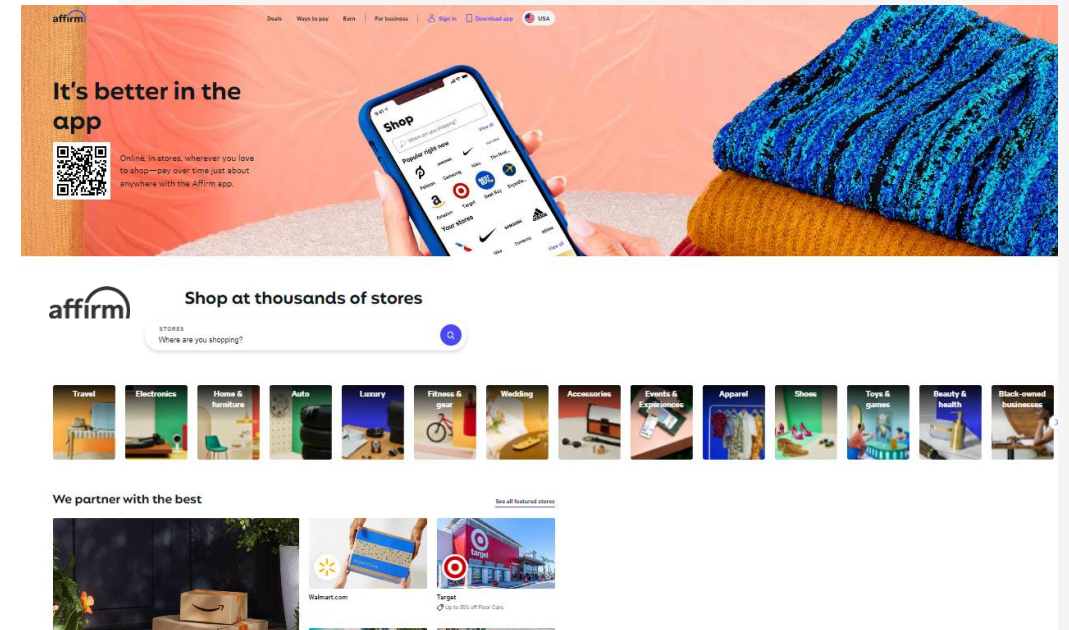


Figure 2: Affirm offers thousands of stores via its app

## #3 BNPL @POS - Expansion into offline retail

- Consumers can now use BNPL for payment in physical stores too. One method is using virtual cards offered by BNPL companies to pay in physical stores. Another way is to pay by scanning QR code.
- Klarna's app allows customers to generate one-time cards for use in physical retail stores, providing a seamless BNPL experience for in-store purchases.
- Afterpay allows its customers to use their Afterpay Card with Apple Pay or Google Pay to make a contactless payment at check out.
- Tabby also allows customers to add their Tabby Card to their digital wallets and use it by tapping their phones at checkout in participating stores.

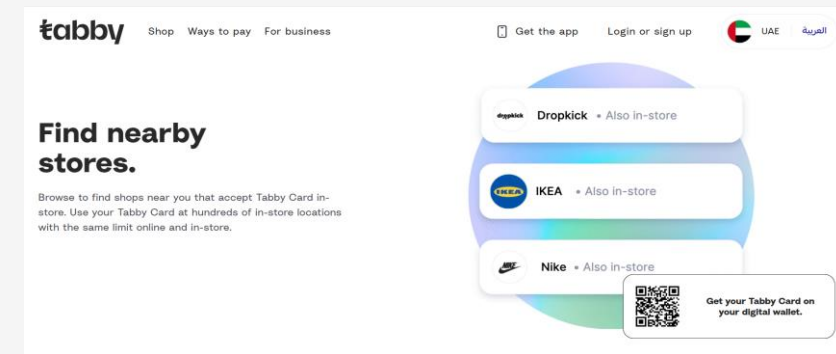
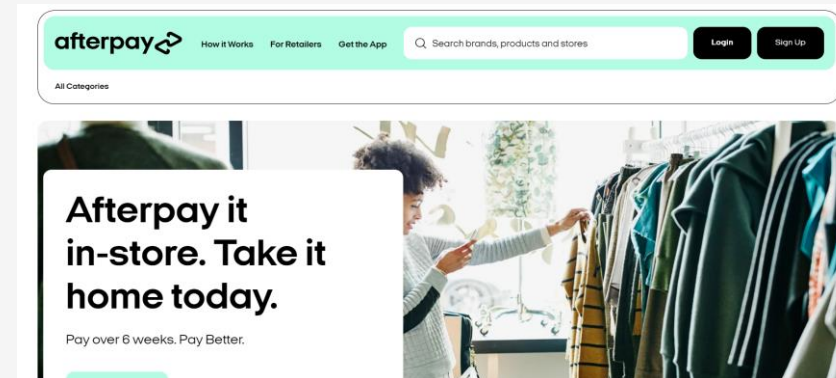
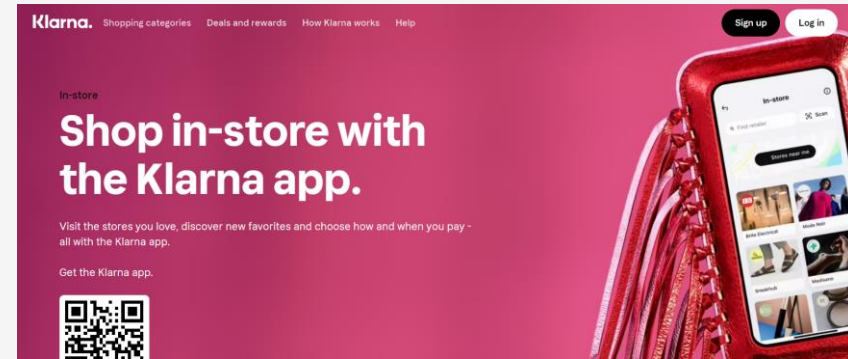
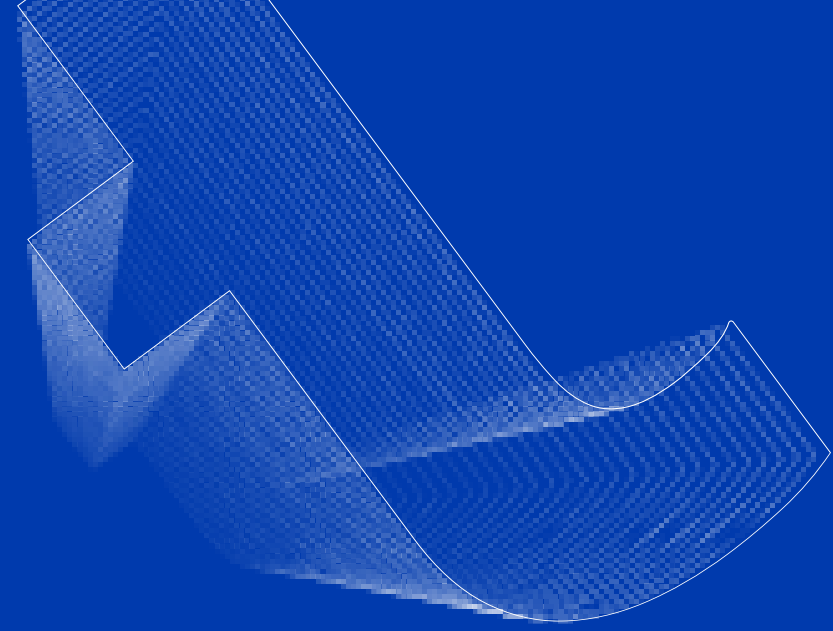


Figure 3: Klarna, Afterpay and Tabby are examples of BNPL offline expansions



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**purpose-driven businesses**

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