FIS

EXECUTIVE BRIEF

HOW BNPL IS CHANGING THE CREDIT MARKET

The buy now, pay later (BNPL) market is estimated to grow by ten to 15 times its current size by 2025, representing $650 billion to $1 trillion by 2025 globally, according to Bank of America analysts.

Read on to learn what's driving demand for short-term credit offerings, and how to bring similar value propositions to your customers to compete and differentiate.

How BNPL programs have become so popular

BNPL programs have risen to popularity because of the ease of use, flexibility and mutual benefit they provide at various phases of the value chain. Merchants who use BNPL programs get paid in full at the time of purchase, in exchange for the commission paid to the BPNL provider. According to IBISWorld, the fees merchants typically pay to the BNPL provider range from three to six percent of the transaction value. Despite that these fees are typically higher than most card network interchange fees, consumer appetite for alternative borrowing options justifies the expense for some merchants. Consumers benefit from the flexibility to spread payments for an item they purchase using a BPNL program over time, at no additional charge. At the same time, they save paying the interest that might be charged by their credit card, if they're not able to pay their card balance in full at the end of the statement period.

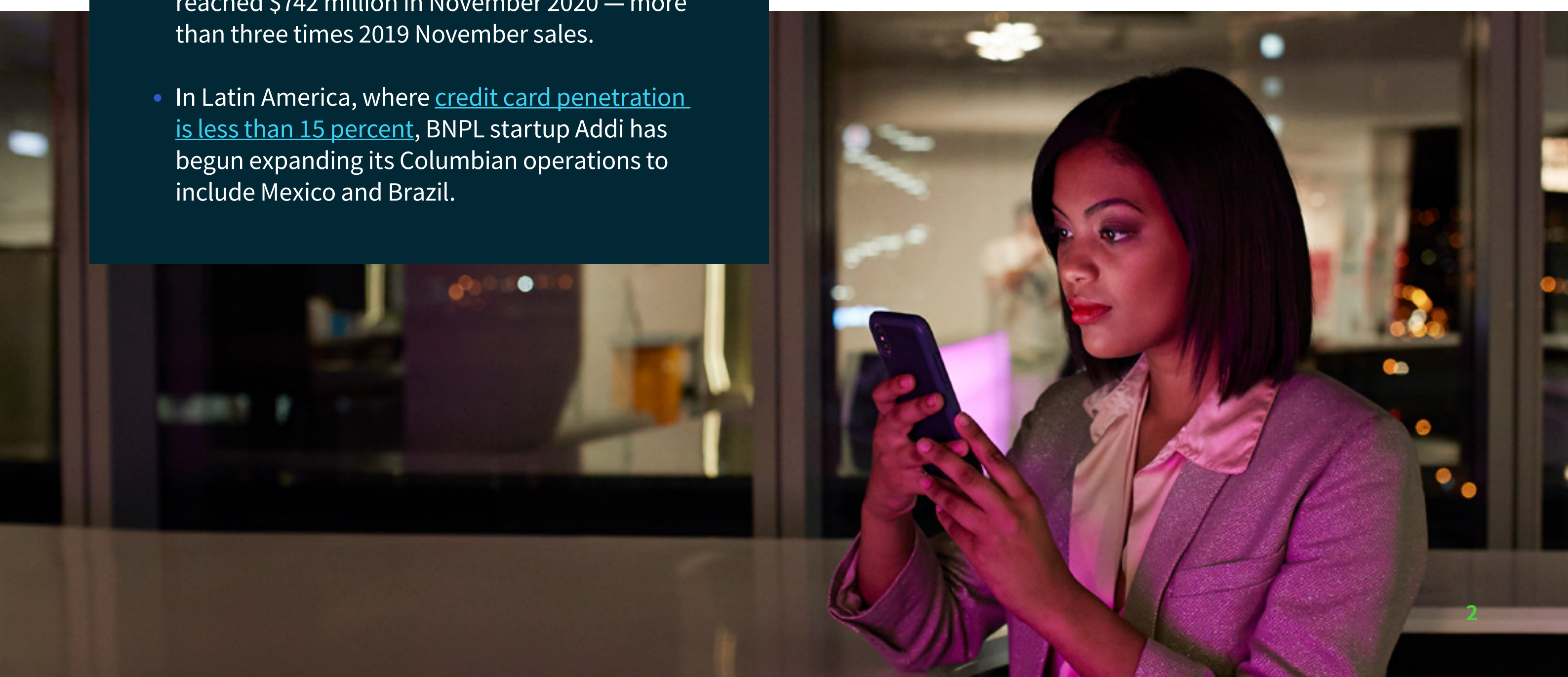
The global pandemic has fueled BNPL demand further:

- Europe-based Klarna had a 43 percent increase in the value of BNPL transactions made on its payment platform for the first nine months of 2020.
- Australia-based Afterpay's U.S. underlying sales reached $742 million in November 2020 — more than three times 2019 November sales.
- In Latin America, where credit card penetration is less than 15 percent, BNPL startup Addi has begun expanding its Columbian operations to include Mexico and Brazil.

The risk/reward of BNPL

BNPL programs are essentially treated as microloans that do not involve credit checks or similar aspects of the borrower's financial history. Because of this, they haven't historically faced the same regulatory scrutiny that Issuers in many countries have been subject to. But in early December 2020, Capital One became the first major financial provider to say it would stop allowing "transactions identified as point of sale loans charged on its credit cards, regardless of the point of sale lender," citing excessive risk for customers and their banks. Despite this, Afterpay CEO Nick Molnar told Pymnts.com that Capital One's decision will have little impact on its business. Not only are 90 percent of its transactions are paid for with debit cards, customers will simply opt to use a card other than one issued by Capital One, according to Molnar. In February 2020, the Financial Conduct Authority (FCA) in the United Kingdom released a report urging the need to swiftly introduce BNPL-related regulations, which could prompt other regions to follow suit.

Despite the changes that may soon take place in the BNPL industry, its popularity speaks to changing consumer wants and needs when it comes to how they find, access and use short-term credit. Issuers cannot underestimate BNPL as a passing trend or fail to address the overall consumer response to them.



Three ways issuers can compete with BNPL popularity

1. Reward cardholder loyalty with custom payment options.
Visa is launching a platform that will empower Issuers to work with merchants to develop custom payment-plan offers that sit within the online shopping cart, when the customer uses a specific card. Mastercard has developed programs that allow North American customers to split credit card purchases into installments. In July 2020, they entered into a multi-year deal with card-based installment solution Splitit. Some BNPL programs also issue customers a virtual or physical card that they can use to fund purchases anywhere, to access the terms of the BNPL program. (In Australia, Pymnts.com reports that 20 percent of Afterpay's transactions take place in physical retail channels). The Sezzle Virtual Card (contingent on credit approval and with credit limits) allows users to buy from select retailers using the card, while paying just 25 percent of the order total upfront. Quadpay allows users to link their Quadpay Visa payment card to the app or Chrome extension to buy from anywhere. The order is then split into four installments, to be repaid over the course of six weeks.

Consider how to evolve your offering by extending similarly customized payment options to valuable cardholders, along with benefits like no interest for a temporary time, or no late fees. Extend offers based on the borrower's real-time financial standing based on their account use — not a pre-approved credit line that may have been issued several months or years ago, or that is no longer relevant to the borrower's financial life.

2. Target the consumers most likely to use BNPL.
When FIS surveyed 15,000 consumers around the globe in June 2020, respondents between the ages of 18 to 39 were particularly receptive to the idea of paying with installments over time, for a few reasons:

- Value of having control over their money
- Desire to track their spending
- Wanting to avoid going into debt they might not be able to repay

Likewise, while 47 percent of consumers across all generations said they were comfortable taking on debt they could pay off over the short term, Gen Y and Gen X (consumers between the ages of 24 and 54) were the most likely to agree with the statement. Consumers surveyed in South America were more likely to use BNPL programs, with European consumers being the least likely adopters. Price point also matters when it comes to likelihood to use BNPL options. Half of the consumers surveyed would likely use BNPL for a purchase under $250, but just 41 percent said the same for a purchase between $250 and $999. If that purchase were over $1,000, just 31 percent of respondents said they'd likely use BNPL.

3. Offer competitive options at the right time.
As Mike Kresse, FIS' division executive of card and money movement, recently explained to *Forbes*, BNPL programs aren't new. In Argentina, Brazil and Mexico, for example, in-store installment loans that are processed manually have been available for decades. But they've become popular because they offer a newfound ease of use and contextual relevance; they are offered at the exact right time in the buyer journey. "The technical integration at the point of sale is what makes installment lending much easier and much more efficient at the moment of truth, allowing consumers to say, 'I'd rather pay this off in different payments,'" said Kresse. To nudge cardholders to choose a specific credit card, Issuers must offer a compelling "why" that's personalized to the customer. The offer should also be more appealing than other payment alternatives, coupled with a seamless checkout experience that makes it easy for the customer to take advantage of whatever incentive is offered in any channel.

Let's reimagine card payments

Issuers must be equipped to offer much more than a traditional card experience, and provide the contextual relevance, personalization, flexibility and ease of use consumers now expect when paying in any channel. FIS' Payments One Cards platform is built to enable the flexible, responsive and API-based connectivity that is critical to innovating and delivering sophisticated deferred payment solutions directly to the customer during the transaction, and deliverable in real time.

To learn more about how you can easily accommodate flexible credit arrangements with a single platform, visit FIS' Payments One Cards site.

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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