

Buy Now Pay Later

A Financial Innovation Story

Frank Tian

May 2023



Buy Now Pay Later

- Introduction
- The rapid growth
- Responses from industry stakeholders
- Current state in new macro environment
- Learnings from the BNPL journey

Introduction

BNPL

Buy Now Pay Later



Image source: medium.com, connectivepayments.com

- New alternative to traditional credit.
- Popular apps for online shopping.
- Also available in physical stores.
- Most popular form is Pay-in-4.
- No interest.

Key Players in BNPL

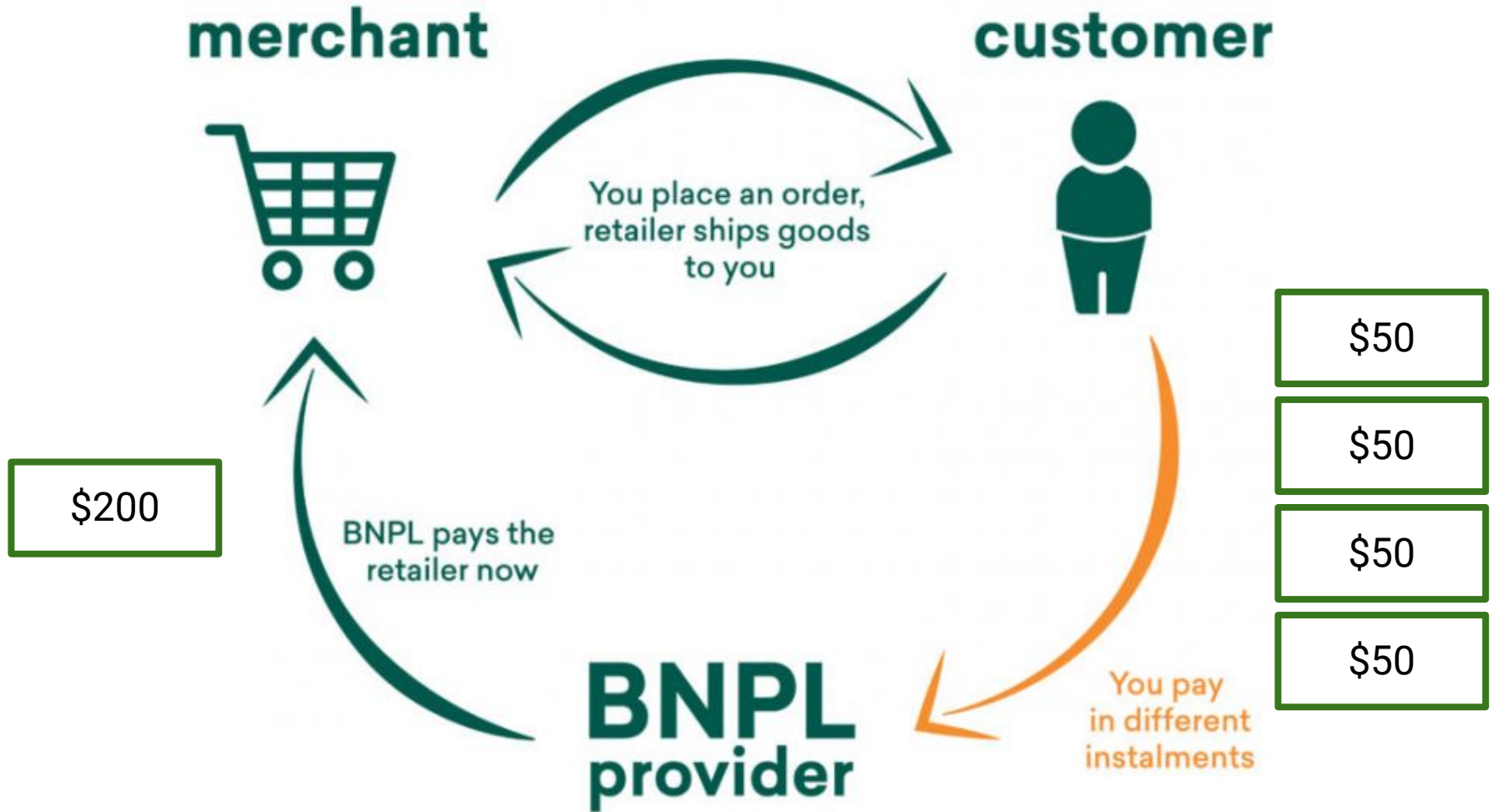


Image source: [dailyscandinavian.com](https://www.dailyscandinavian.com)

More resources at risk-school.thinkific.com

The Rapid Growth

Benefits for Consumers

- Convenient financing option at checkout
- Expand the access to credit
 - Some don't qualify for traditional credit
- Transparent payment schedule
 - Pay in 4 installments
- No interest



Image source: finshots.in

Benefits for Merchants

- Boost merchant sales
- Increase customer loyalty

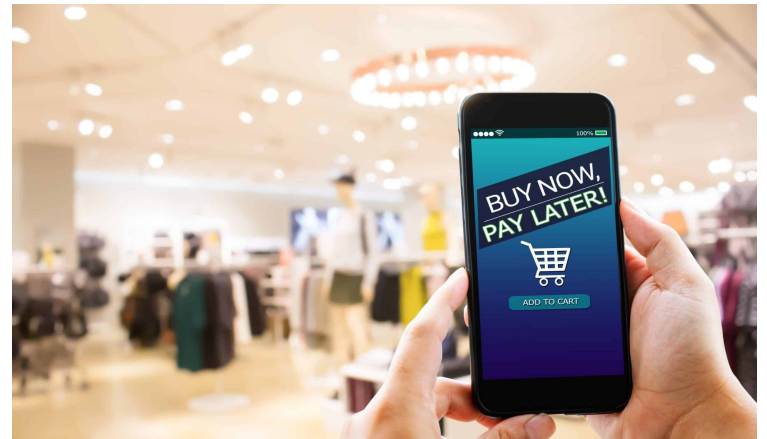
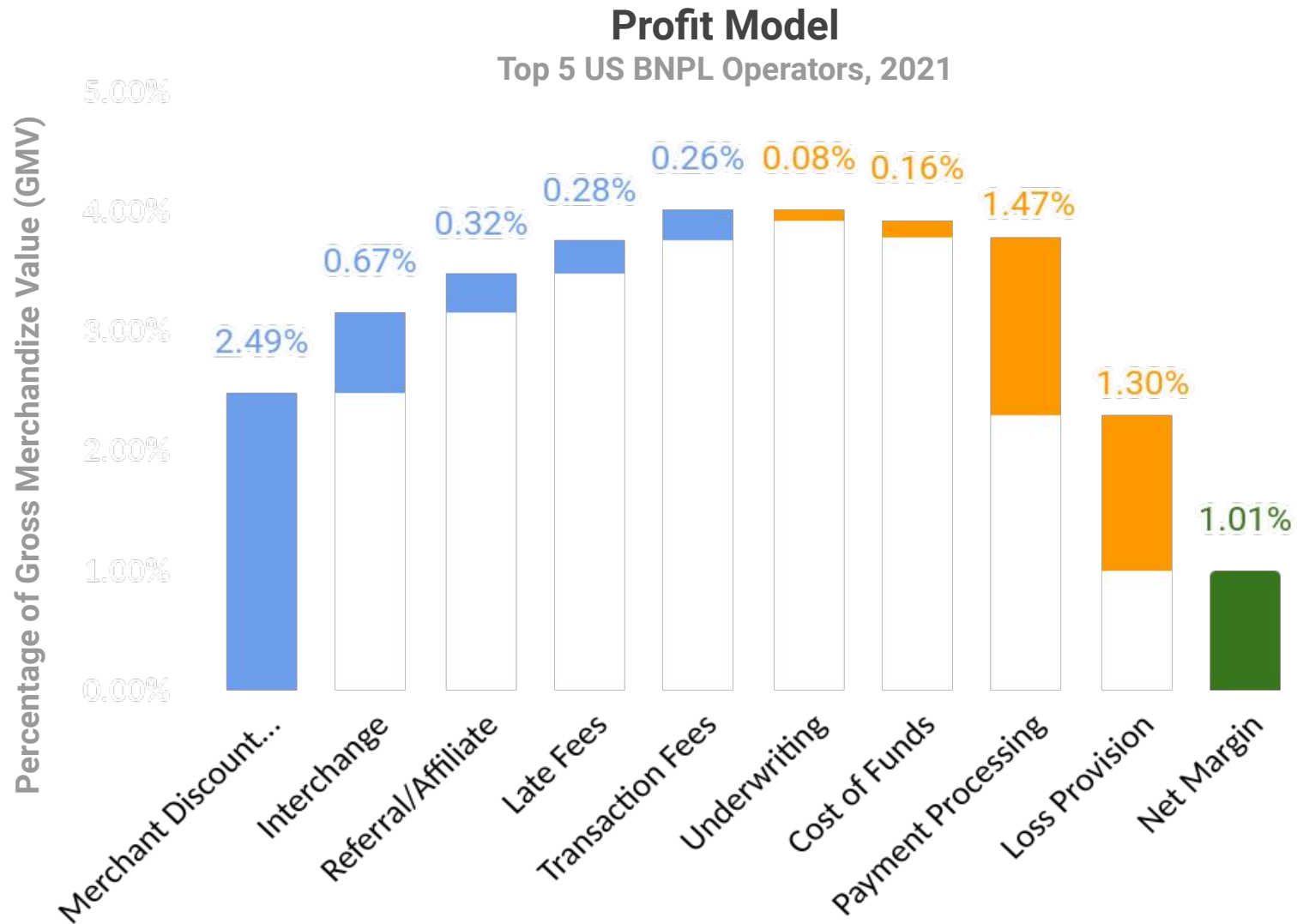


Image source: [fitsmallbusiness.com](https://www.fitsmallbusiness.com)

Economics of BNPL



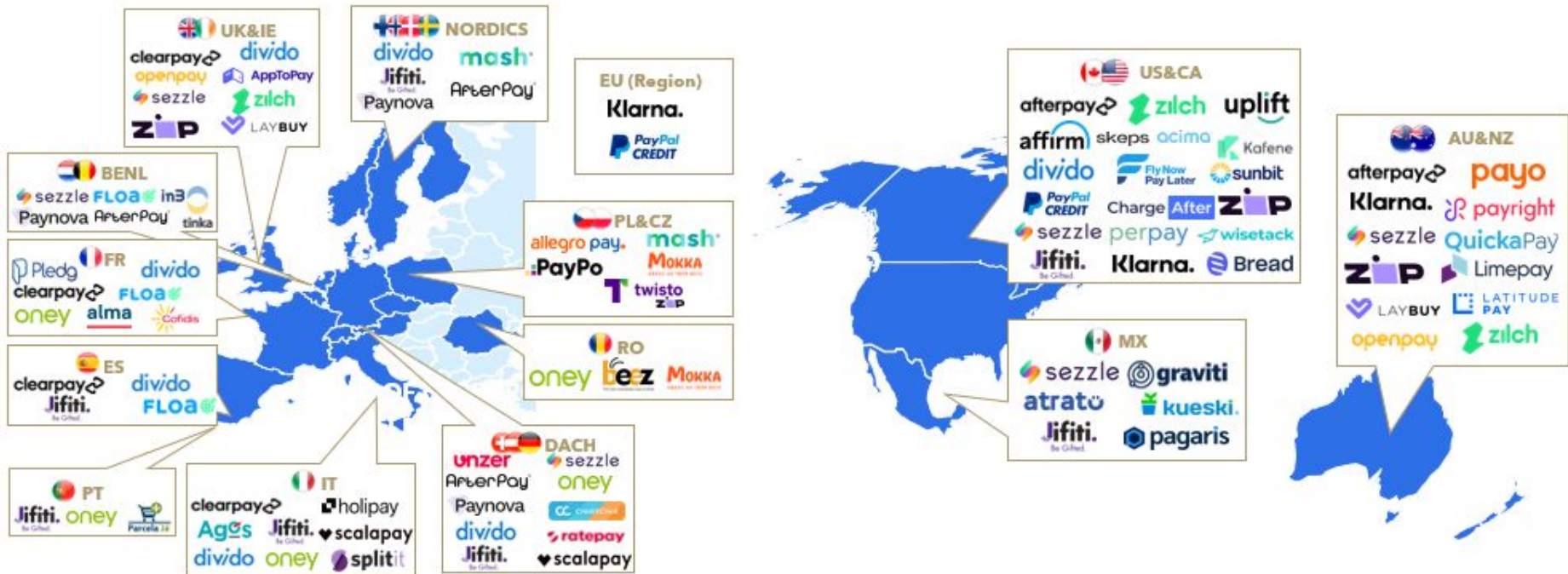
Source: CFPB, variable components only.

More resources at risk-school.thinkific.com

Rapid Growth of BNPL

EUROPE

NA & ANZ



Source: thepaypers.com, 2022

More resources at risk-school.thinkific.com

Competition Pressure Led to Land Grab

➤ Land grab at merchant checkout



➤ Land grab at web browser



➤ Land grab at payment processors

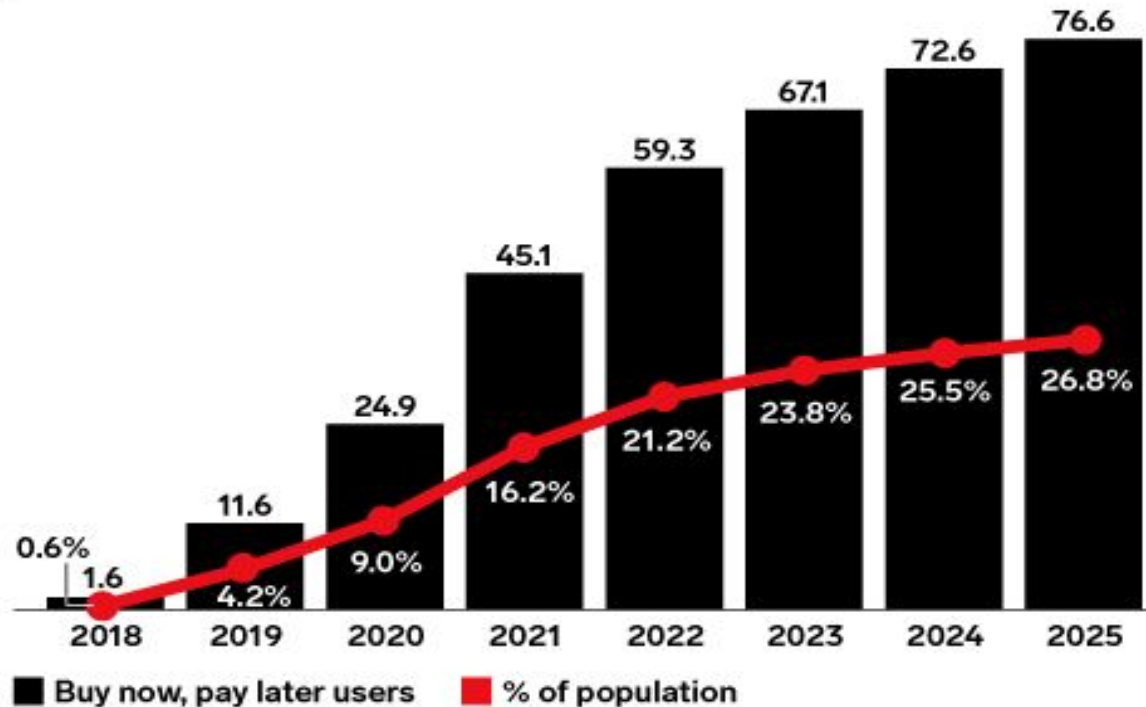


➤ Land grab at e-wallet



Growth of BNPL in the US

US Buy Now, Pay Later Users, 2018-2025
millions and % of population



Note: ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services

Source: Insider Intelligence, May 2021

Source: Insider

Disadvantages for Consumers

- Potential for overspending
- Hidden financial cost via fees
- Invisible credit
 - Less incentive for proper finance management.



Image credit: Visual Generation.

Disadvantages for Merchants

- Transaction cost
 - Could be higher than other forms of payment.

- Returns and chargebacks
 - Could be costly for merchants.



Image credit: Getty Images/iStockphoto.

Responses from Industry Stakeholders

Responses - Credit Card Issuers

- BNPL post authorizations
 - Amex Plan It
 - Citi Flex Pay and Flex Loan



Image source: Amex.

Your loan

\$20000 ×

Monthly Payment*	\$396
Terms in Months	60
APR	6.99%

\$500 \$20,000

Loan term (in months):

12 24 36 48 **60**

*Your loan's monthly payment will be included in your Citi card's Minimum Payment Due

CONTINUE

Image source: Citi, myFico forum.

Responses - Card Networks

- Visa
 - Visa Installment

Installments
enabled by **VISA**®

- Mastercard
 - Mastercard Installment



Image source: Visa, Mastercard, FinancialIT.net

Responses - Apple

- Apple BNPL
 - Apple Pay Later launched in 2023 in the US.
 - Partnership with Goldman Sachs and Mastercard.
 - Another strong competitor to pure BNPL providers.



The logo for Apple Pay Later, featuring the Apple logo icon followed by the text "Pay Later" in a bold, sans-serif font.The Goldman Sachs logo, consisting of the words "Goldman Sachs" in a white, serif font centered on a solid blue square background.

Image source: Apple, Goldman Sachs, and Mastercard.

Responses - Credit Bureaus

- Accept BNPL trades starting from 2022
- Not required to report; not consistently reported.
- Short-term impacts to credit scores not clear.

BNPL's Impact on FICO 8 Score

Credit Bureau Data		
BNPL Classification	Line of Credit	Installment Loan
Risk Level of Sample	Subprime	Near Prime
FICO without BNPL	Average FICO 573	Average FICO 662
Time of Scoring	July 2021	September 2020
Loan Term	4 months	< 12 months
Sample Size (# files)	123,000	600,000
\$ Credit Amount	\$250 - \$4,000 Average credit line \$1,200~	< \$500
FICO Impact with BNPL	+ 9 points	- 3 points

May 2022

Compiled by: Frank Tian

Source: FICO, Equifax, and Experian.

Responses - Regulators

➤ Australia

- Feb 2023: released all the opinion submissions on the proposed three BNPL regulation options.
 - Tougher self-regulation code + affordability check
 - Limited regulation under the credit act, including required licensing.
 - Full regulation under the credit act - treat as credit cards.

➤ UK

- 2021: Woodland Report
- Feb 2023: draft legislation calls for mandatory affordability checks, licensing of operators, and fair marketing.

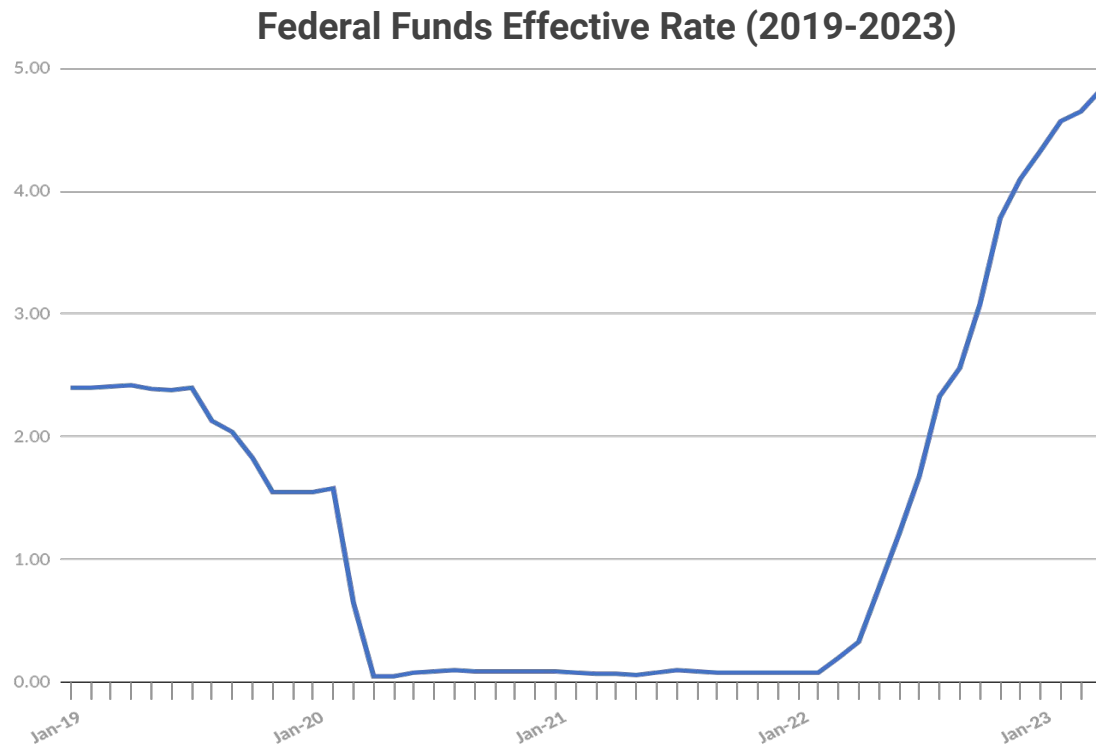
➤ US

- 2021: CFPB collected data from top 5 operators.
- 2022: published a comprehensive report on BNPL.

Current State

Macro - Interest Rate

- Fast-rising interest rate increases the cost of funding.
- Rising rate leads to risk normalization (increase).



Source: Fed, FRED

BNPL Current State - Valuation

- Investors shift their mentality from growth-at-all-cost to profitability.

12-Month Performance of Selected BNPL Stocks



Affirm Holdings Inc	\$14.67	-\$9.78	↓ 40.02%
Zip Co Ltd	\$0.56	-\$0.31	↓ 35.63%
Openpay Group Ltd	\$0.20	-\$0.10	↓ 35.00%
Humm Group Ltd	\$0.43	-\$0.28	↓ 40.14%
Payright Ltd	\$0.015	-\$0.095	↓ 86.36%

Source: Google Finance

BNPL Current State - Different Strategies

- Tighten the underwriting
- Cost cutting
- Scale back
- Increase fees
- Pivot to new business models



Image source: riedjal - stock.adobe.com

BNPL Current State - Divergence

- Unique value proposition
 - Beyond lending
- Do the right things
 - Underwriting
 - Credit reporting
- Struggle to turn around

Examples



Image source: companies websites.

Learnings

Learnings

- Financial innovation → regulation arbitrage
- User experience vs. product fundamentals
- Revolution vs. evolution
- Venture capital
- Social media

Learnings (continued)

- Product of the macro environment
- The test of 3 business cycles
- Other examples in finance



Image source: www.sovereignman.com

Financial Innovation

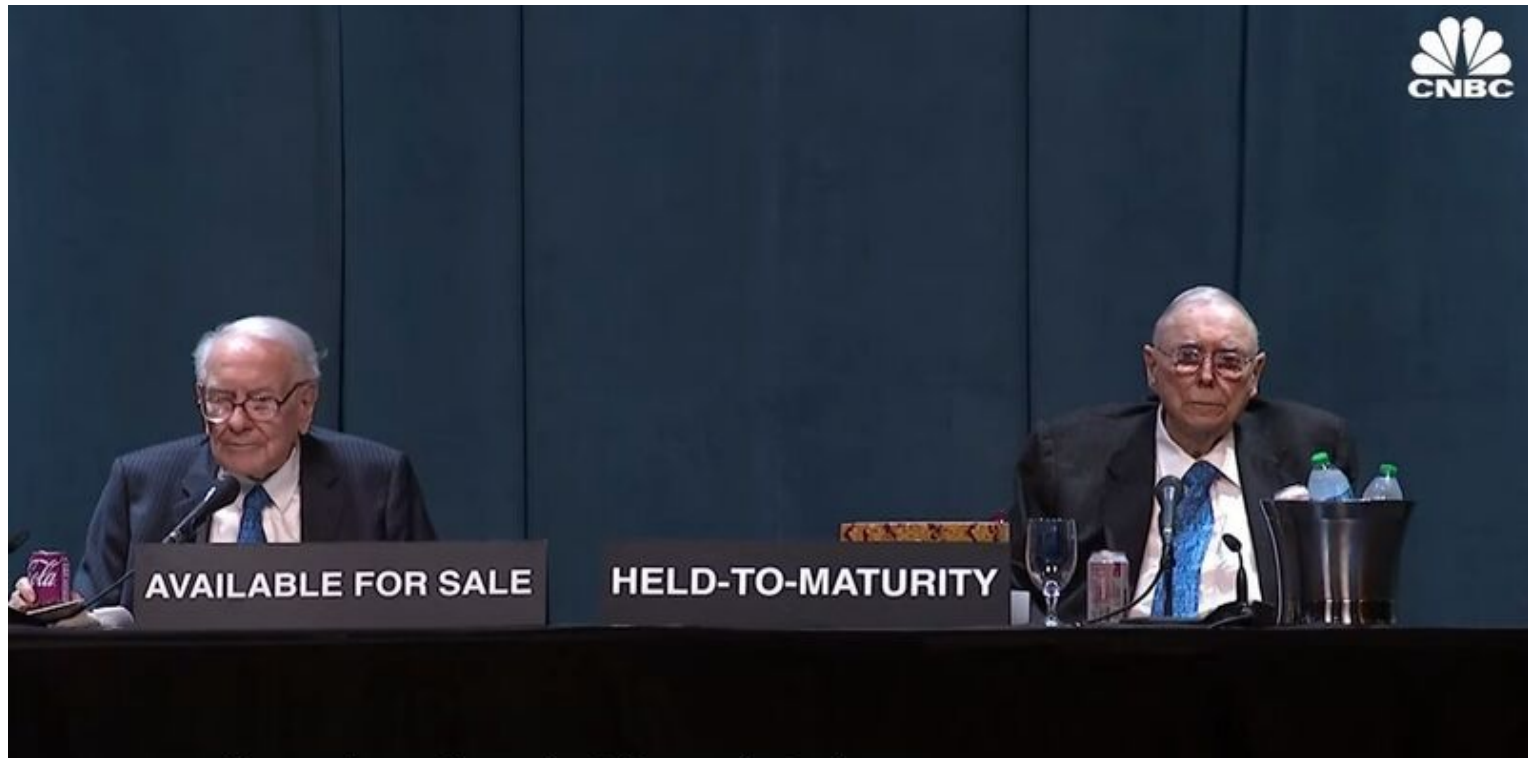


Image source: CNBC, Youtube.

“Banking can have all kinds of new inventions,
but it needs to have old values.”

Warren Buffett, May 2023, Omaha.

Thank You

Free consumer credit resources:

risk-school.thinkific.com