



Bocconi Students Fintech Society

BNPL - Buy Now Pay Later

Generalist Desk

www.bsfinfintechsociety.com

Buy Now, Pay Later

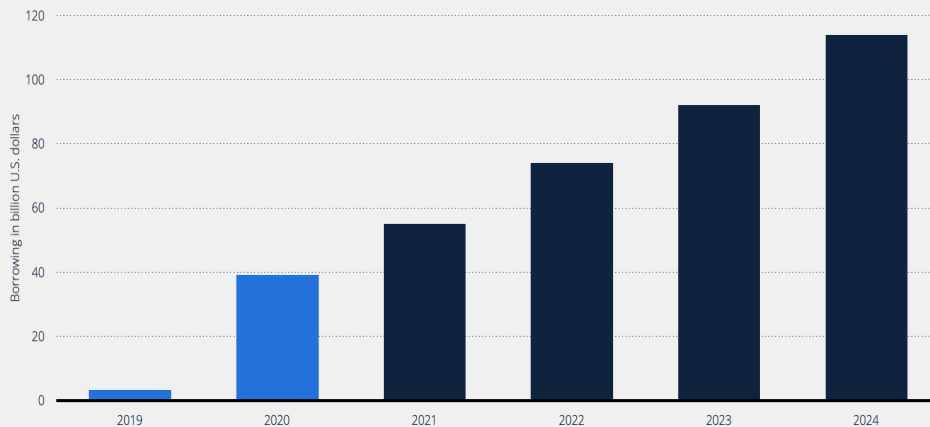


BNPL is quickly gaining popularity as an online payment option

BNPL gives consumers the opportunity to spread their cost of purchases by **splitting their payments** into shorter instalments, often **free-of-charge** and sometimes even without any late fee.

Estimate of buy now, pay later (BNPL) lending in the United States in 2019 and 2020, with forecasts from 2021 to 2024 (in billion U.S. dollars)

Buy now, pay later (BNPL) market size in the U.S. 2019-2020, with forecasts to 2024



Transaction volume
forecast (2025)

\$680 billion

Revenue forecast (2028)

\$20.40 billion

This trend first emerged in **Europe** through rapid growing Fintechs such as Swedish-based **Klarna**, who launched its BNPL checkout option in 2012. It then quickly gained prominence around the world with the rise of many new players.

BNPL transactions are thought to reach close to **\$680 billion** worldwide by **2025**, making it the fastest-growing form of digital payments. It encourages sales which normally would not happen; however, the risks of default cannot be ignored.

Sources: Spglobal, Grandview research, Penser, Forbes, Insider

Buy Now, Pay Later: Main Players



Direct Merchant Suppliers

Offer merchants consumer facing technology

Klarna.

Revenues: **\$1.23mld**
Operates in: Europe, US, Australia

paidy

Paypal acquired Paidy for: **\$2.7bn**
Revenues: **\$28.9mld**
Operates in: Europe, North America, South America, Asia, Oceania and Africa.

afterpay

Square announced it reached a deal to buy Afterpay for **\$29bn**
Revenues: **\$699mil**
Operates in: Australia, US, Canada, the UK and EU (where it is called Clearpay) and New Zealand.

affirm

Market cap: **\$28.9bn**
Revenues: **\$781mil**
Entered a partnership with Amazon in August
Operates in: US

Challenger Banks

Also offer BNPL services



monzo

Revenues: **\$92mil**
London-headquartered challenger bank

Revolut

Revenues: **298mil**
Operates in: Europe, UK and US, Australia, Singapore, Switzerland, Japan

LUNAR°

Market value: **\$1bn**
Operates in: Denmark, Sweden, Norway

ZOPA

Revenues: **\$31mil**
Operates in: UK

Buy Now, Pay Later: Main Players



Multi-lenders Network

Connect merchants and lenders from their network

VISA Charge **After** Total funding: **\$9.5M**



Total funding: **\$42.2M**

Credit card issuer

Charge cardholders instead of merchants for instalments

Marcus:
by Goldman Sachs™

Operates in: US, UK



Operates in: AUS



Operates in: US

China Super apps



Valuation: **\$174bn**



WeChat Valuation: **\$67.9bn**

White-label Providers

Allow merchants to offer their own BNPL solution



Revenues: **\$4.46mil**
Total funding: **\$610M**
Operates in: US



Total funding: **\$20.9M**
Operates in: Australia



Total funding: **\$35M**
Operates in: Europe

BNPL Potential «Killers»



Revenues: **\$21.5mld**
Operates in: Europe, Americas, Asia, Oceania, Africa



Revenues: **\$9.5mld**
Operates in: North America, UK, IRL, Australia



Revenues: **\$1.36mld**
Operates in: Europe, North America, Australia, NZ, HK

These companies are currently expanding in the BNPL space also through acquisitions and partnerships.¹⁾

¹⁾Stripe agreed a strategic partnership with Klarna to offer BNPL to its merchants; Paypal expanded its BNPL space by acquiring Paidy for **\$2.7bn**; Square is acquiring Afterpay for a **\$29bn** buyout.

How do BNPL providers operate?



Although each provider has its own terms and conditions, in most cases they operate in this way:



- The BNPL service provider and merchant **determine a fee percentage** that the latter will pay for each BNPL associated sale ¹⁾
- The **BNPL platform** is then integrated into the merchant's website at the POS



- Consumers can select their BNPL service provider at the **checkout**, filling in their details and choosing a preferred payment plan



- The BNPL service provider runs a quick **credit-check** and may approve the transaction



- Upon approval, the provider displays to the customer the **repayment schedule**
- Consumers can finally **check out**

ADVANTAGES

DISADVANTAGES

Consumers

- **Convenient:** often zero-interest or overall lower than credit cards
- **Fast** approval
- High credit score **not necessary** to qualify

- Missing or late payments result in **late fees**
- **No rewards** or cash back earned on purchases
- Payments can be **hard to track**

Merchants

- **More** buyers and **bigger** transactions
- Receiving the full payment **upfront** from FinTech companies after deducting their fee

- Usually pay the BNPL provider **a percentage of the purchase amount**, and in some cases a small per-transaction fee

BNPL service provider

- Receives a **percentage** of the merchant's revenue
- Also receive interest and other fee income as the **late payment fee**

- Bear **risk of non-payment** by the consumer

¹⁾ (usually from 2% to 8% of the purchase amount)

Who is entering the BNPL Market?

Some large companies are trying to adapt BNPL systems in order to have a portion of the market.



New incumbent companies are putting great effort to enter the BNPL space. Unlike Klarna or Affirm, they have a **greater customer base**. As it can be seen from PayPal's acquisition, new incumbents want to distribute that concept to all over the world in different geographical markets, such as Japan, UK, Australia and the US. According to a report from Worldpay, **BNPL accounted for 2.1%** (\$97 billion) from a total of \$4.6 trillion in **e-commerce transactions**. However, with those new incumbents entering the market, it is estimated to be 4.2% of all e-commerce transactions by 2024.

Sources: Businesswire, Financial Times, CNBC

Banks: what are they doing?



How BNPL services differ from credit cards

VISA

Visa is working on a number of projects to allow card issuing banks to offer instalment-style options directly at the POS, instead of 'after the fact' like Amex's current approaches.

**AMERICAN
EXPRESS**

American Express is working for a program called "Pay It, Plan It": after a consumer has made a purchase above a certain amount, allowing them to select and convert it into a sort of instalment loan, whereby a specific part of their monthly payment goes toward that transaction.

- Unlike the traditional **POS financing methods**, **BNPL** allows buyers to have **full ownership** of the purchased item
- **0%** interest rate
- The model **focuses more on facilitating sales** rather than "a customer's ability to repay their loan" which is what the traditional credit model focuses on
- BNPL payment method is typically used for smaller purchases
- It is not foreseen **credit check/traditional underwriting**

Sources: Financial Times, Finextra, Fintech Ruminations, Fintech Business Weekly, Substack

Banks: what are they doing?



Bank's competitive advantage

- 1 Banks can diversify their operations and maintain favourable profitability.
- 2 In local marketplaces, they can compete more successfully.
- 3 This is a huge growth area for banks, considering that consumers have historically been underserved.
- 4 Affirm and Klarna have a very high frequency of lending out and being paid back, implying that BNPL providers reuse capital quickly: the cycle of lending out and getting paid back is significantly longer for banks. This means that the transaction margin that we saw earlier must be multiplied many times every year, resulting in a highly efficient capital allocation and a significantly larger return on investment.

Marcus:
by Goldman Sachs™

Goldman Sachs is using this competitive advantage to offer a true Point Of Sale lending option under its Marcus brand

Sources: Financial Times, Finextra, Fintech Ruminations, Fintech Business Weekly

The future of BNPL



What can banks do?

There are **multiple business models** that banks can adopt to enter the BNPL space.



RENT OUT THEIR BALANCE SHEET TO BNPL FIRMS

- Banks can **partner with established POS financing players** to **originate loans**.
- This strategy offers only **limited and indirect access to consumers** but nonetheless permits entry to the market with minimal investment.



BECOME AN END-TO-END SOLUTION PROVIDER

With a greater **up-front investment** and **market development** effort, banks can **construct their own end-to-end POS financing operations** and engage the Fintechs head-on.



INNOVATE AROUND THE CARD PLATFORM

- Banks can enhance their card offerings with **installment loans within existing credit card accounts**.
- Goal is to capture a **larger share of consumer borrowing** and **monetize unutilized credit lines**.



RENT A TECHNOLOGY PLATFORM

Banks can **rent existing POS financing technology platforms** to monetize their merchant relationships and balance sheet without needing to invest in building a POS lending infrastructure in-house.



INTEGRATE INSTALMENTS INTO CREDIT CARDS

Banks are already **offering instalment plans** to their customers.



ACQUIRE A BNPL COMPANY

Banks can **acquire** a BNPL company.

Sources: Financial Times, Finextra, Fintech Ruminations

Ethical considerations



BNPL could cause consumer debt and credit card balances to spike

Main threat to unpaid debt:



Inability to verify consumers' **credit history** could lead to lenders underestimating borrowers' debt levels when assessing new loan applications



Many providers in the BNPL sector do not report **debt performance** to credit bureaus

- BNPL debt is not visible on the credit file
- Borrowers can try to get BNPL credit from multiple providers

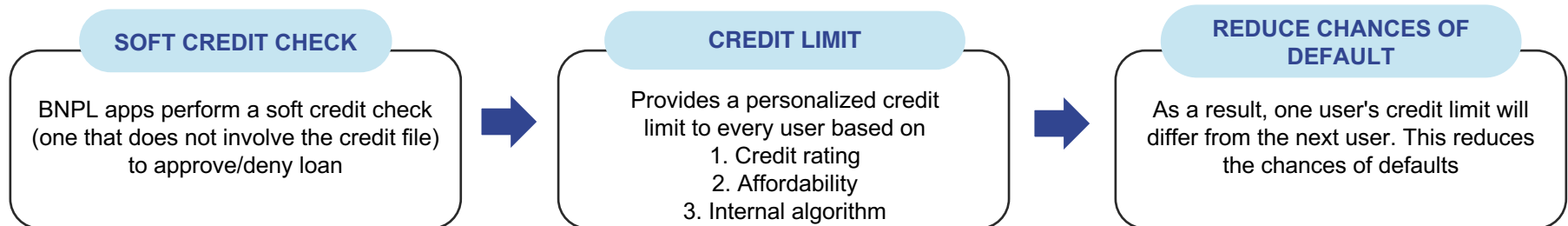


In comparison, credit cards have “**safety**” **features** built-in, including cutting off access to the card and rigorous credit checks before getting a card



However, users should be aware that many BNPL providers reserve the right to **report missed payments** to the credit reference agencies. Therefore, a late payment could impact their credit score and hence future ability to borrow.

BNPL loan process:



Sources: Financial Times, Finextra, Fintech Ruminations

Regulatory risks



Regulation has not kept up with innovation and changes in consumer behaviour

ALTERING BNPL MAIN BUSINESS MODEL

- Countries are imposing rules where **BNPL firms can no longer prohibit merchants from passing on surcharges for their services**
- A step in **levelling the playing field** with banks and credit card providers, who cannot ban merchants from passing on their fees to customers
- The BNPL sector will have to **charge customers interest on loans to comply with credit and responsible lending laws**

SECTION 75

- **Section 75**: a law where credit card providers must protect purchases over **£100** for free
- **Adopting Section 75**, ensures customers are covered against problems such as faulty or non-delivered goods
- Would **make BNPL more trustable and accountable**

FIXED-RATE INSTALLMENT LOANS

- Fintech startup **Upgrade** is introducing a credit card that uses BNPL technology to **turn purchases into fixed-rate instalment loans**
- Consumers **benefit from all the convenience of a credit card without being pushed further into debt**
- This innovative form of consumer lending could become the most **sustainable form of debt**, combining the regulatory jurisdiction of credit cards with the lower fees associated with BNPL services

Sources: Financial Times, Finextra, Fintech Ruminations

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