Buy Now Pay Later

Wayfinder

Where consumers want BNPL to take them

03.05.2022

Content table

Introduction:
BNPL disruption 04

BNPL helps with financial inclusion 06

BNPL challengers 07

Consumer views of BNPL
new research in Western Europe 10

Making BNPL clear and fair:
six issues and our recommendations 14

BNPL customer experience 19

Building BNPL solutions with FintechOS 23

BNPL: speed, convenience and ease

Traditional lending journey	Radically simpler BNPL CX	New value drivers in BNPL
Discovery, education	Discovery, education	
Provider, comparison	Provider, comparison	
Choices, calculator, affordability	Choices, calculator, affordability	Smarter offers
Product criteria, application flow	Product criteria, application flow	
Identity	Identity	Smarter credit profile
Documents	Documents	
Approval, support	Approval, support	
Time to cash	Time to cash	
Pay	Buy	Purchase empowerment
Manage loan	Manage purchases	Smarter cashflow

Introduction: BNPL disruption

The biggest myth about Buy Now Pay Later (BNPL) is that it's nothing new, which has led some incumbent banks, lenders, and industry analysts to dismiss the phenomenon.

Traditional financial institutions have argued that store credit and point-of-sale finance have been common in many markets for far longer than the digital era, and that credit cards and digital wallets such as PayPal have been streamlining checkout conversion rates since ecommerce began.

Additionally, the regulatory definition of BNPL in some geographies, such as in the UK, has been based on an exclusion of what is not considered regulated consumer lending – i.e. deferred payments and short-term credit with no interest – and these principles have been established for decades.

While these points are technically correct, what most incumbents fail to consider is that BNPL is not simply about optimizing what came before, but about adding new dimensions of value to the customer experience, as distilled by three major forces.

01 Radical simplification: convenience is the main driver of growth

To attract and maintain customers, financial institutions need to make their services convenient and attractive to customers. They must be simple to adopt, quick to use, and require almost zero effort to maintain.

According to PwC, almost 80% of American consumers put speed, good customer service, and convenience as the top factors of a positive experience with a digital service. Additionally, consumers are ready to walk away if they don't get what they want, regardless of how much they like a product or a brand - 59% will move on to something else after several bad experiences and 17% will drop a brand after just one.

Rather than cutting edge technology or innovative design, what consumers actually prioritize above all else is a simplified experience that works all of the time. When service providers meet or exceed these parameters, consumers will keep coming back, driving better business growth.

02 Market growth: new customer types drive adoption and trends with the new solution

In BNPL, customers are encouraged to focus on the "buy" aspect of a transaction, and on the acquisition of products and services, rather than on the "pay", which they can deal with at their convenience instead of it being felt as a barrier to completing a purchase. The focus is on what the customer wants and how they can get it in the simplest, most convenient way. Consequently, there is an opportunity to redefine the loan paradigm from the perspective of the consumer, making it more customer-centric.

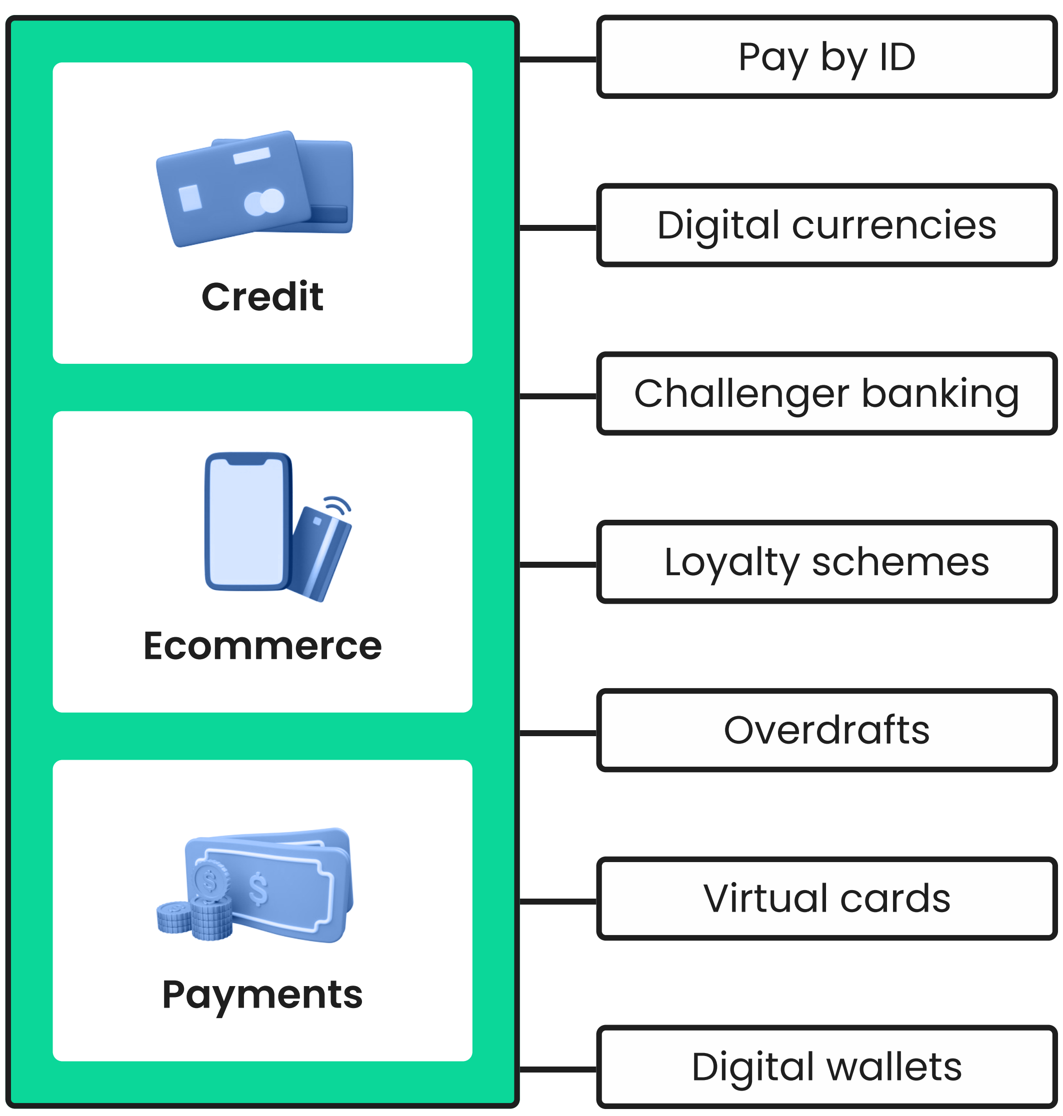
Additionally, the psychological recategorization of BNPL as payment by installments, making it more like a monthly subscription bill rather than as a full-on loan, also addresses younger demographics' distaste for debt.

Lastly, there is a huge potential for BNPL and BNPL-adjacent services to address not just savvy Gen-Z who may be dealing with economic pressures, but also the needs of a far broader range of consumers who have historically been marginalized or at least inefficiently served by traditional cards and lending.

03 A new playing field: Emergence of new sources of value and differentiation

Importantly, BNPL is not viewed by users as a direct equivalent of credit cards, loans, or overdrafts, but as something distinct in their personal financial tactics – and it is expected to co-exist with traditional payment and credit products.

What BNPL disrupts



Attempting to look at BNPL as the same as traditional lending, or a weaker version of traditional lending, completely misses the point of the disruption. For many consumers, BNPL is a means to stagger payments via installments, and not a loan. Traditional lenders and card providers cannot compete with the new BNPL value proposition by simply optimizing their old products and user experiences.

When BNPL first came to the fore, there was a general sense among incumbents that disruption would revolve around credit card providers – consumers could now eschew credit cards, the acquisition of which could be tedious, as well as have negative impacts on a user's credit rating.

Conversations then moved on to the payments industry as a whole, where BNPL, as a method of payment, was beginning to show very high rates of growth. While this was welcomed, especially as it could expand new lines of credit to people who perhaps otherwise would have either paid for purchases without borrowing, or not even made the purchase in the first place, there were also fears that BNPL could ultimately cannibalize some other forms of consumer lending.

As adoption of BNPL grew, the ecommerce market took note. A mostly digital-native solution, BNPL lends itself to integration in the online checkout experience very well, resulting in high adoption rates.

As BNPL becomes even more ubiquitous, major BNPL players will naturally seek to expand their sphere of influence. Klarna's expansion into providing open banking solutions across Europe is just one example. Other areas that are likely to be affected include overdrafts, loyalty schemes, challenger banking, digital wallets, and more.

BNPL helps with financial inclusion

Unbanked

Never-trad-banked

Building credit

Digital nomads

BNPL disruption is not, however, limited to the perspective of incumbents. As pointed out earlier, BNPL is a viable credit entry point for people who may not have had dealings with the lending industry in any kind of sustained way.

Simplistically, this market can be divided into two groups: the first being those who have not had cause to engage with the traditional banking or lending industries, and the second those who have not had means.

In the first category, we include both people who have never used traditional banking services before and people who are actively turning away from traditional credit providers: young people who are possibly only just joining the workforce, consumers whose economies have transitioned to digital payments almost entirely, or people actively turning away from credit cards and the notion of "debt".

These customers may not want to bank traditionally at all, and in such cases, BNPL is a logical credit extension of a mostly digital consumer lifestyle. On the other hand, for people who are trying to minimize or do away with credit cards entirely, the proposition of paying for something in instalments, rather than taking on debt, is a psychological framework that may allow them to ease back into a credit line that they may find necessary, but in a more manageable way.

In the second category, we find those consumers who have been excluded from these financial services through circumstance: the unbanked, the digital nomads, those building credit, and people in care.

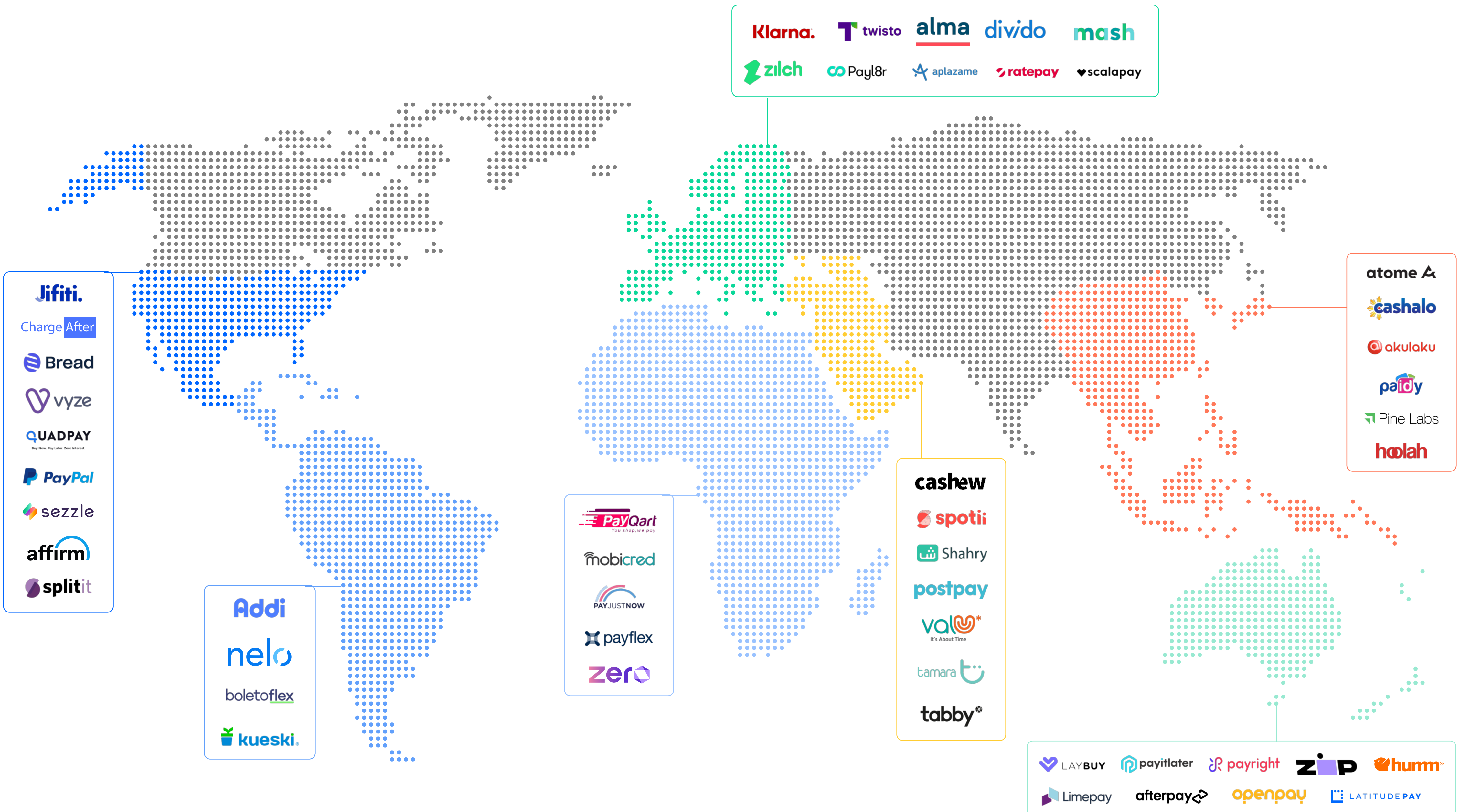
For migrants, for instance, opening a bank account can be a difficult experience. The lack of identification history in a new country, as well as the possible absence of basic support, often contribute to the unbanked state of foreign residents, particularly those whose personal circumstances may already be at a disadvantage. Prior to BNPL, this community may have had to rely solely on exploitative solutions to their financial needs.

The same may also be true of people in care. With their accessibility and mobility issues, and with a social framework that is mostly geared towards able-bodied workers, people in care are not well-served by traditional credit mechanisms. The elderly residing in care homes, for instance, may be living on a fixed income without viable access to traditional credit. Should the need for a purchase come up, they could benefit greatly from a way to stagger payments to align with their monthly pension.

It's obvious that BNPL has the potential to address these and similar segments in a way that hasn't been done before.

BNPL challengers

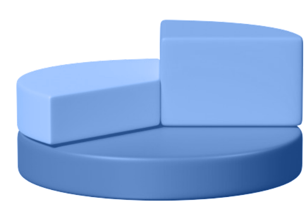
digitally-native startups have experienced rapid growth in every global market



BNPL challengers are continuing to stake their claims all over the globe. The race to be the next Klarna, the current king of BNPL services, is a very real one. With Klarna valued at $45.6 billion in November 2021, which is more than the combined annual revenue of credit card powerhouses Mastercard and Visa, the potential payout will undoubtedly attract even more would-be usurpers. In fact, current analyses show that BNPL challengers are set to double their market share annually.

£4 in every £100 currently spent in the UK is through BNPL. In Germany, BNPL accounts for 19% of ecommerce spend. The BNPL market in France posted an annual growth of 82.6% between 2019-2020, reaching $4.1 billion GMV.

BNPL has already diverted $8-10 billion in annual revenues away from traditional interchange, and

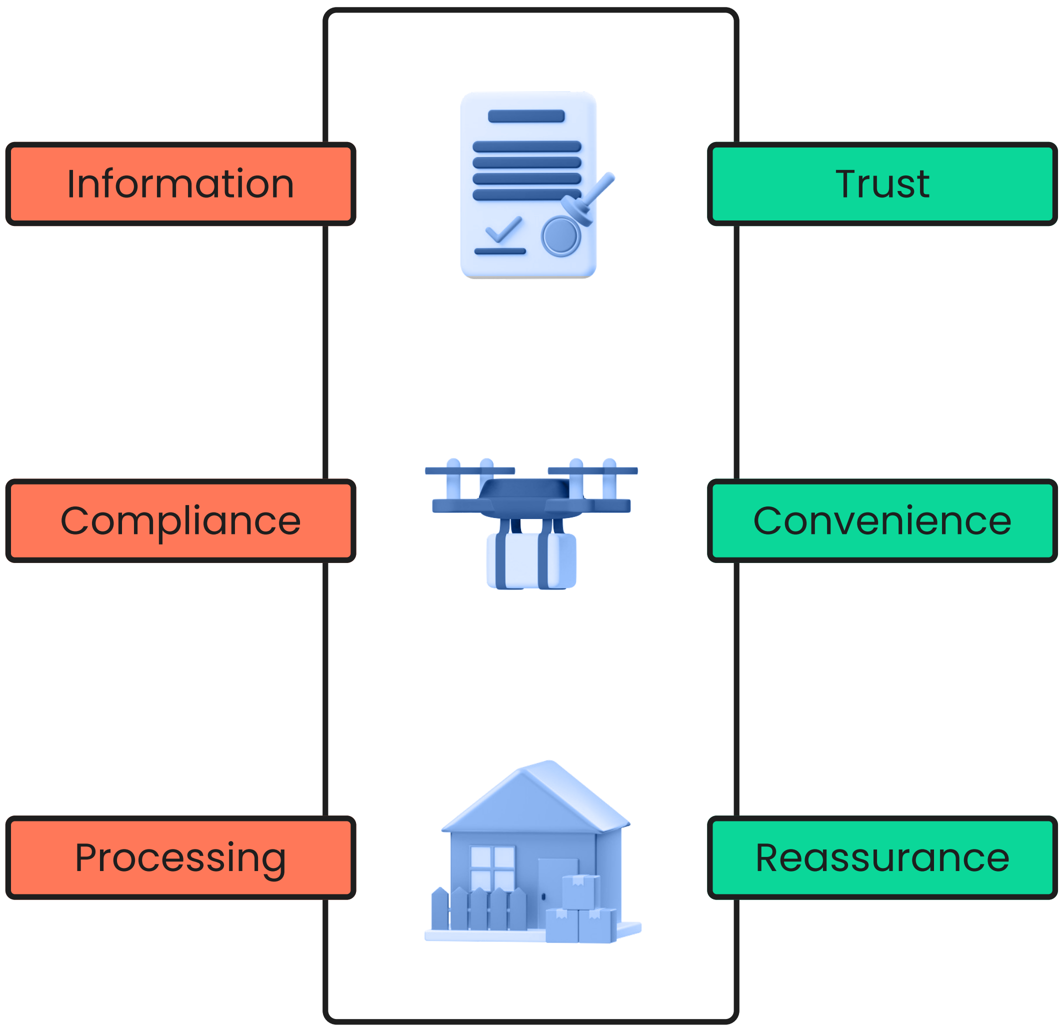


~75%

of current BNPL users are Gen-Zs and Millennials, the same cohorts who are set to inherit the bulk of the world's purchasing power.

Win-wins at checkout

CX design goals: old vs new



Digitally native challengers often gravitate towards what we may term a trifecta of conversion boosters: raising user trust, designing for convenience, and focusing on jobs to be done that are defined by the user's real life goals.

Despite often being viewed as technology-driven startups, the thing BNPL challengers really base their strategy on is customer-centricity. While that may sound like a truism, it is genuinely a contrast to the trap that longer-established financial enterprises commonly find themselves in, trying to innovate from within product-centric organizational siloes and attempting to adapt workflows originally built for pre-digital situations such as branch or phone banking into digital equivalents.

The resulting user experience pushes forward excessive volumes of information, filled with small print and checkboxes for compliance, and conveys a sense of being boxed into a bureaucratic process. In contrast, digital challengers have looked at BNPL as a clean slate.

They build their user experience with an insistence on simplicity in customer options and outcomes, and build trust through convenience. The “less is more” approach gives space back for challenger brands to add a dimension of emotional positivity in design and user interactions, which traditional brands often struggle to convey.

BNPL lifts ecommerce conversion rates

The embedded nature of true BNPL means retailers can minimize consumer pain points in the checkout process, while also enabling access to consumer financing.

For example, for Splitit partners, the results have been immediate: with BNPL in place Virgin Pure increased checkout conversion by 78% and cart abandonment has gone down 10%.[1]

Klarna also reports remarkable numbers. According to a blog post on their website, with their BNPL offering. 44% of shoppers on average decide to make purchases they might have otherwise delayed.

Affirm also has data to back this up. In a recent study of its users, 29% said they would not have completed the purchase if Affirm wasn’t an option.[2]

Average order value goes up

As if that wasn't enough, the decrease in drop-offs is also often accompanied by an increase in average order value.

In the same blog post, Klarna asserts that, when retailers offer BNPL options at checkout, whether this is online or in-store, they tend to see a 45% increase in average order value. Affirm's self-reported uplift is even higher at 85%.[3]

Lifetime value of customers goes up

Online purchases made through a BNPL platform are growing 39% annually.[4] It's not just that more people are using BNPL, it's also that people are using BNPL more frequently.

In a study by Ascent

researchers found that about

36%

of customers use BNPL at least once a month,

and nearly

9%

used BNPL more than once a week.[5]

In fact, 90% of shoppers who use the Afterpay platform are repeat customers, with 65% saying they had used BNPL to pay for purchases at least twice in the past six months.[6]

References

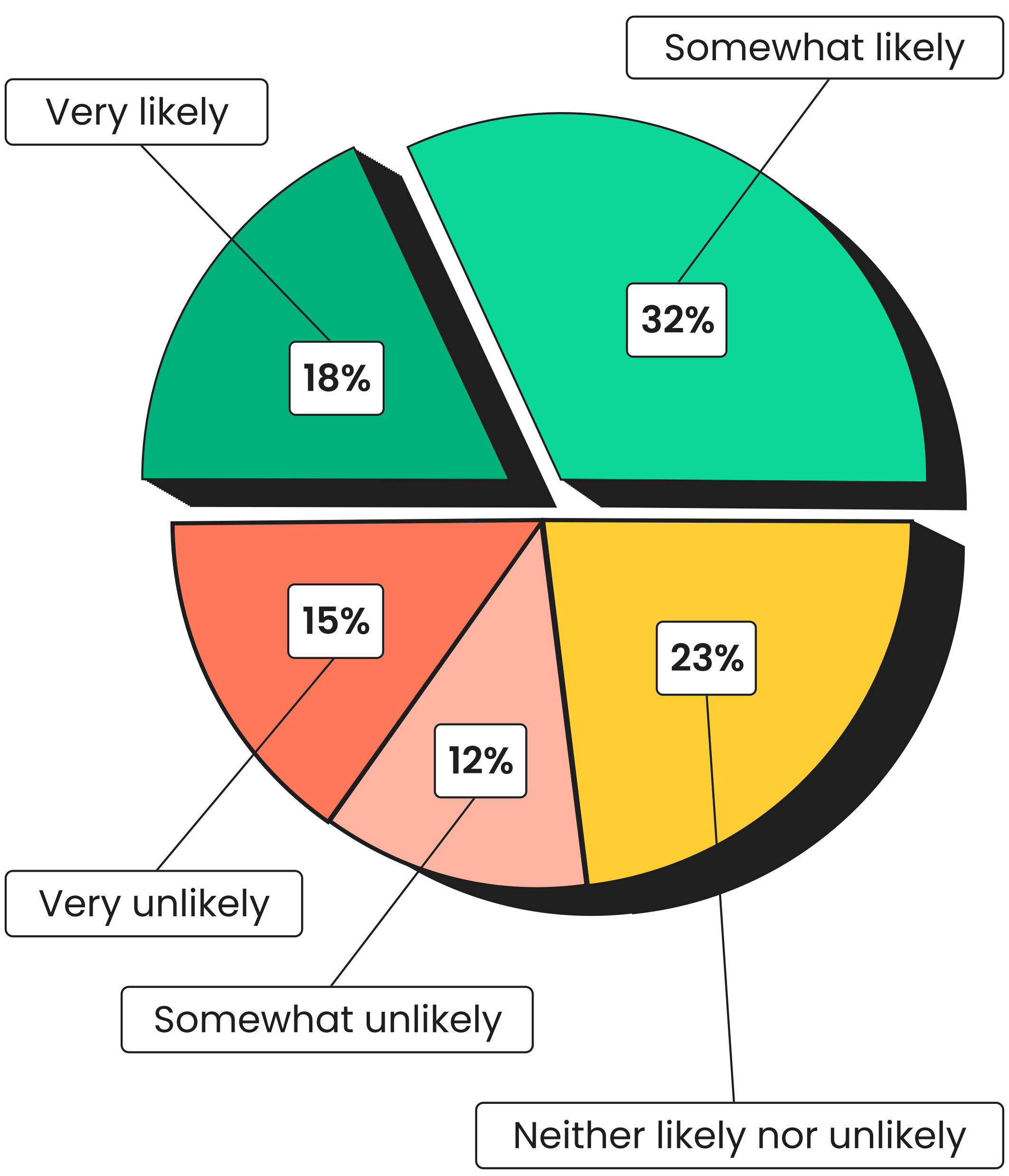
1. How BNPL can help reduce cart abandonment
2. 5 ways to reduce shopping cart abandonment
3. Drive consideration when you increase your customers' purchasing power
4. Buy now pay later (BNPL) statistics (finder.com)
5. 18 Buy Now, Pay Later (BNPL) Statistics for Businesses in 2022 (fitsmallbusiness.com)
6. PYMNTS-Tracker-Buy-Now-Pay-Later-April-May-2020

Consumer views of BNPL

new research in Western Europe

With the success of BNPL in digital retail, and the numbers of users rising steadily, it's important to understand the customers driving the trend: who are they, how do they use BNPL, and what do they most value? The industry has developed some common assumptions, but those may not actually be accurate - or at least, may not be the full picture.

Half of respondents say they are likely to use BNPL



Current accepted knowledge tells us that the BNPL phenomenon is being driven by a younger cohort of consumers: Gen-Z. However, we should not limit our view to the stereotype of fast fashion twenty-somethings who can't afford to "pay now" but want instant gratification.

Our survey, in partnership with Censuswide, spoke to consumers of all ages in France, Germany, and Spain. Here are some of our initial findings.

Survey method

Respondents, adult consumers in France, Germany, and Spain (surveyed in local language), segmented by generation (based on current age) and household income.

3,033

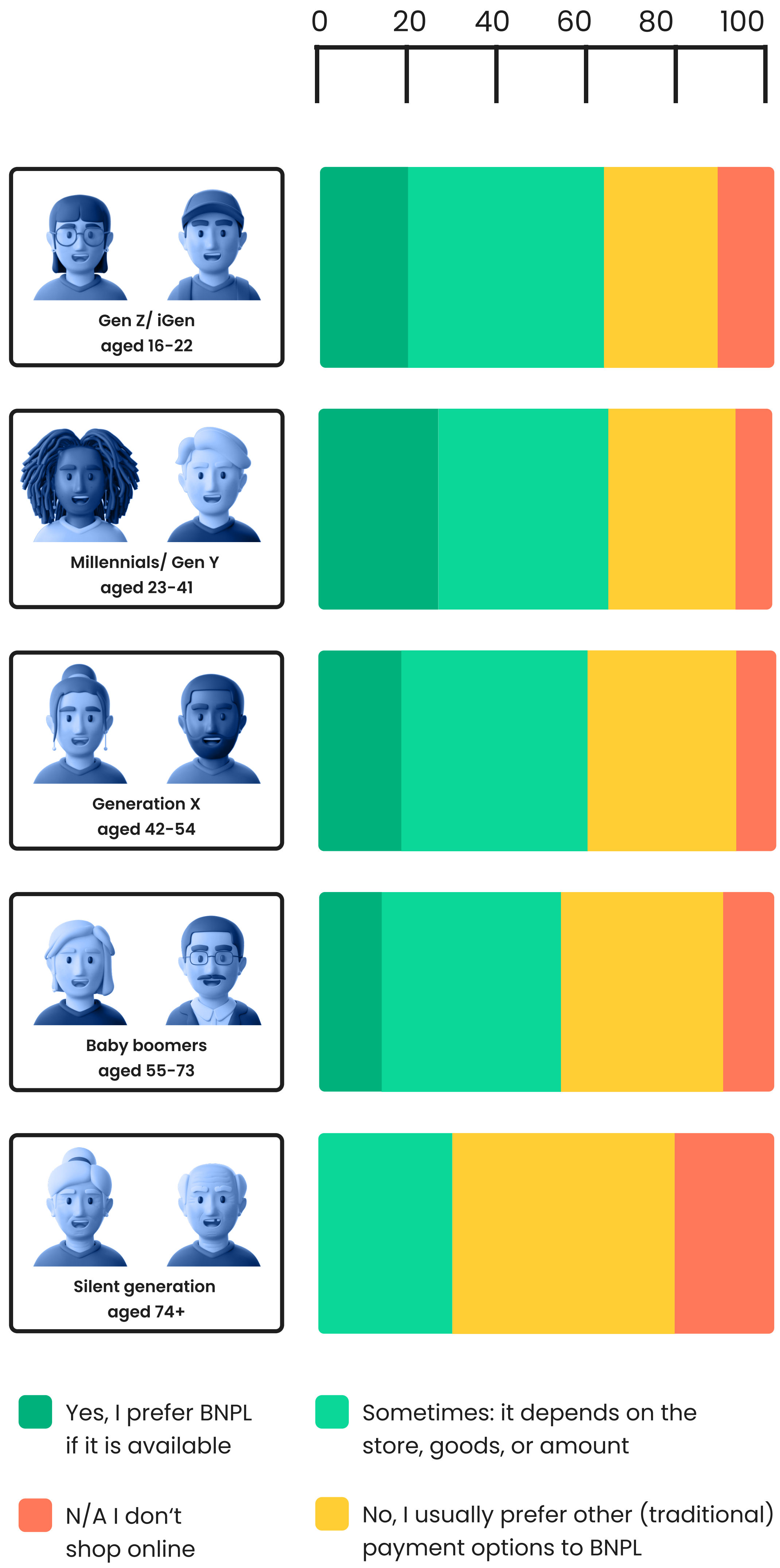
Total respondents. Run by Censuswide, March 2022 on behalf of FintechOS

BNPL is attracting users from all generational cohorts

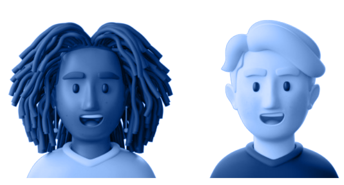
Our survey numbers clearly show that BNPL has potential for all age demographics. While it's true that data shows it is weighted to the younger generations, even the Boomers are not all negative.

Yes, Gen-Z and Millennials are 1.5x more likely to use BNPL than Boomers. Yes, there are twice as many people who are very unlikely to use BNPL among Boomers compared to younger generations. However, **over a third of Boomers would still consider using BNPL.**

So, while the drop-off is certainly there, the ongoing mainstreaming of BNPL is clearly reaching every age group, even to the point that a growing percentage of shoppers would take BNPL not just as an option, but as their first choice.



BNPL is first choice for



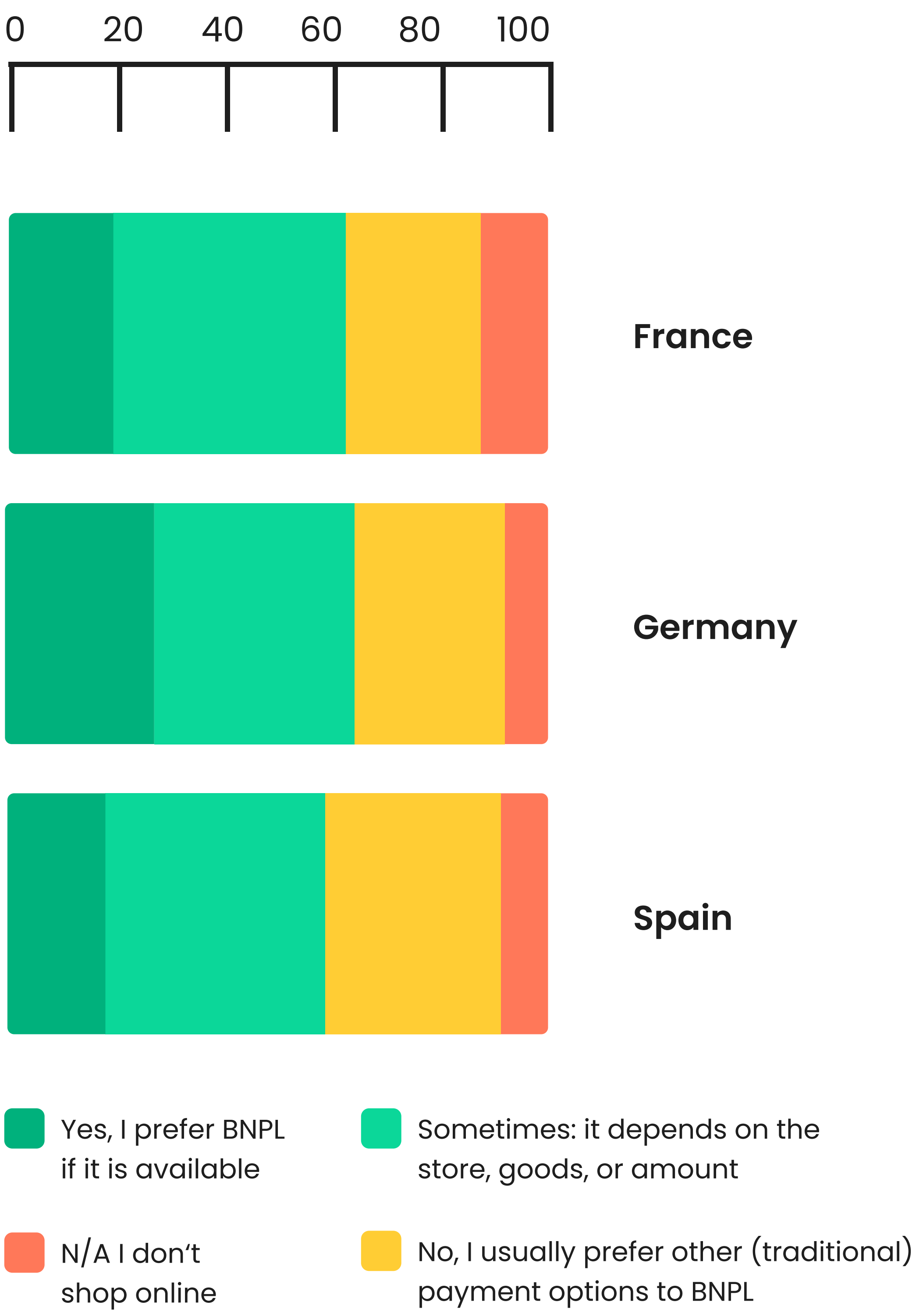
19%

of Millennial respondents

Younger generation shoppers tend to be more open to using BNPL in a wider variety of contexts, and less concerned by perceived risks than older generations. As BNPL becomes even more mainstream across all demographics, consumer persona analysis and targeting will become more important for teams building new propositions.

Demand for BNPL is strong in Western Europe

Our survey shows strong demand in these three markets:



While consumers in Germany (18%) are the mostly likely to take BNPL as their first payment option over traditional alternatives, overall, Spain has the highest net likelihood (57%) of choosing BNPL to pay for goods and services.

BNPL is used by high-income brackets

58% of higher income shoppers are net favorable

Contrary to popular belief, it is not just those who are strapped for cash who use BNPL on a regular basis. The highest rates of preference for BNPL came from the two highest household income brackets of our respondents. In addition, according to our survey, 58% of high-income shoppers favor BNPL, often choosing it as their first payment method option.

Retail categories with BNPL potential

Our survey showed that consumer electronics was the top category for BNPL purchases, with 35% of respondents indicating that they would use BNPL to fund the acquisition of these items.

Percentage of respondents who like to use BNPL to buy ...

- **35%** Phones, computers, electronics
- **30%** Furniture, home white goods
- **27%** Travel, flights, hotels
- **25%** Clothes, shoes, fashion
- **20%** Digital purchases, games, music
- **19%** Luxury goods

Shoppers would consider BNPL as a way to pay local businesses and tradespeople, if the option were available. In fact, close to three quarters of all our respondents would consider using BNPL for at least one category of small business purchase, including such things as hotels (31% of respondents), local shops, restaurants, and trade services.

Percentage of respondents who like to use BNPL to pay for ...

- **31%** Hotels, BnBs
- **25%** Local shops
- **23%** Restaurants, takeaway food
- **20%** Plumbers, builders, electricians
- **18%** Sports, clubs
- **16%** Training, tutoring

Making BNPL clear and fair:

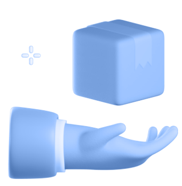
six issues and our recommendations

We've looked at the benefits available to consumers picking BNPL as a payment option, and seen how, kickstarted by younger digital-native early adopters, the trend is reaching all demographics and verticals. But the response to BNPL has not all been positive: a number of key concerns recur in negative press and regulatory consultations. We've grouped these into six issues as seen from the consumer point of view and lay out some suggestions about how digital teams can address the concerns proactively when building new BNPL solutions.

Debt growth

Hidden/ unclear fees

CX vs understanding



Choice vs simplicity

Consumer trust

Vulnerable customers

Debt growth

Debt in most economies is highly regulated, with industry practices, including around how it's sold to consumers, facing intense scrutiny. While BNPL may not legally be debt, it can turn into conventional debt very quickly.

There is legitimate concern about how BNPL can affect consumer debt growth. Does it create new debt problems for people who didn't have this problem previously? Will it exacerbate problems for people who already have too much debt? Simply put, is BNPL exploitative?

Recommendation

With the advent of open banking and the influx of increasingly more mature data technologies, a smart and empathetic implementation of BNPL is quite possible. BNPL providers must utilize the tools at their disposal. Sophisticated applications designed to give a holistic view of both creditworthiness and affordability, not only at the point of sale, but also in terms of helping consumers see and manage their overall commitments, will be crucial to ensure consumers continue to see BNPL as a viable and credible funding source. Providers who succeed in this regard are those who will prioritize longevity over mere short-sighted gains.

Hidden/ unclear fees

Hidden fees are an issue for consumers in general, but it is a particular problem in financial services, because consumers struggle to understand complex products where pricing is so often intentionally obscure. As with the debt aspect, BNPL contracts may lock consumers into fees or penalties that they don't fully understand.

Recommendation

Access to the correct information is crucial, but it must be presented in an easily digestible way, without distracting from primary usability. This is where user research comes in. Conduct your own analysis of how challengers get this right, and study the preferences of your own customers. Remember, it's not just one channel or one piece of wording; it's about making clarity and understanding part of the holistic CX design.

CX vs understanding

Like hidden fees, this problem is regularly encountered in financial services, where complex products are sold through brokers and advisors in order to make it possible for average consumers to buy (often to comply with regulation).

With ultra-automated and ultra-seamless payments, where processes are almost invisible as they run in the background, there is a substantial risk of failing to properly notify consumers of the potential to fall into high-interest debt or possible impact to credit scores.

Recommendation

Again, the focus should be on communicating in easily digestible, digitally native ways. Don't just transpose an analog process into a pseudo-digital framework, trading paper forms for PDFs, or face-to-face interactions for video chat. Challenge your business to think in a more customer-centric, user-first way. The overall ease and clarity of the CX are key parts of the overall solution design. If the product requires too much explanation, the solution isn't automatically to explain things better. Rather, simplify the product, so you can minimize the need for explanations in the first place.

Choice vs simplicity

At first glance, choice seems like it can only be a good thing. In reality, however, it's simplicity that wins in consumer situations. The problem is borrowing can be a complex thing, where a "one size fits all" approach may not work.

BNPL has the potential to exacerbate this issue because lending offers have to be totally automatic and logical, and too much choice will break the seamless CX.

How do we balance the need to differentiate a lending product to resonate with individual consumer needs, while keeping things simple enough to be automated and seamless?

Recommendation

Look for simple sets of variables to offer as choices, such as varying number/frequency of sliced payments. Use smart data contexts, so you can factor in different consumer circumstances into lending offerings, and exploit the potential of automatic personalization opportunities.

Consumer trust

The financial industry has had a mixed record of earning, and sometimes losing, consumer trust. As it becomes more accepted by mainstream consumers, BNPL players must be careful about how they collectively manage the credibility of the product they offer. Careless implementation by a few brands could tarnish the entire space.

Recommendation

Work like the challengers do: put cultural values of openness, clarity, fairness, easy access to support right at the start of every new business initiative, and weave this into all your product design. Don’t treat trust just as a reactive PR issue. Also, be aware that taking a clumsy “educational” approach to trust can backfire. Trust is not equivalent to consumers viewing your brand as an authority figure.

Vulnerable people

Regulatory definitions around high-risk products already exist. As do requirements and best practices for accessibility. However, implementation can often be nebulous. Third-party (embedded) contexts make it more “remote” – even more difficult to cater to customers who could be considered vulnerable or need special assistance.

Recommendation

Build in support and fallback paths. Always test consumer-facing solutions thoroughly and regularly with diverse user groups. Bring specific digital accessibility experts into all your projects. Also talk to financial experts in vulnerable customer care. These are both examples of skillsets every financial institution should loop into their digital maker teams.

Industry expert view

BNPL is forcing banks to think differently, and in many cases this is to consumers' benefit, particularly in the US. Citi, BofA, JPM, and Wells Fargo have all made changes to their overdraft products recently, taking measures such as eliminating or reducing fees.

In the UK, where overdraft fees underwent an overhaul in April 2020, a change in existing products has been less marked, but what we have seen is increased interest in launching installment payment options. Essentially consumers are getting more choice in how and when they pay, and more choice is generally a positive thing. However, any provider launching a new credit-based payment option needs to have consumers' welfare front and centre, and make any potential fees or credit score impact limited, and obvious.

One of the biggest risks for consumers is not understanding the payment mechanism they are using, and the fact that many different types of offering are lumped under BNPL doesn't help. Monzo Flex requires a hard credit check, for example, which can ding a credit score whereas Klarna's installment payment-and-pay in 30 days offerings don't.

The other big risk is consumers not being able to keep track of what they owe, to who and when — which is even more of an issue if people are using multiple BNPL providers. That means they are more likely to miss a payment, and end up with a damaged credit score or owing money in fees.

Sarah Kocianski
Fintech Strategist

Essential reading:

The Pay Off

Live now, pay later: the allure of invisibility

Klarna's model is different from that of the credit card companies. Consumers sign up to the service and, when they reach the checkout at any of Klarna's 200,000 participating merchants, they leave their email and shipping address. They then select how they want to pay from various options: these will generally include paying in four instalments spread out over two months at no interest; deferring payment for 30 days. Again at no interest; or engaging in a financing plan for up to thirty-six months (for which Klarna will charge an interest rate of up to 20 per cent per year). Klarna pays the merchant directly after the purchase and takes on the risk of the customer not paying.

...

The business model is clearly popular, despite concerns being raised about whether it encourages younger customers in particular to rack up debts they can't afford to pay off.

Making payments easier for individuals creates business opportunities and drives commerce, the engine of our societies. But is the art of making payments smooth, effortless, frictionless, however you want to label it, only a force for good?

The reviews from the academic side – behavioural economists, psychologists and anthropologists – are mixed, despite a good number of them being in the employ of the providers. Overspending and fraud are two of their biggest concerns.

While temporarily taking away the pain from payments helps fuel modern economies, there is indeed a dark side. In the movie The Joneses, marketeers pose as a suburban family with a goal of enticing their neighbours to consume to the hilt. Frighteningly it works a treat.

Gottfried Leibbrandt and Natasha de Terán in **The Pay Off**

Leibbrandt, Gottfried., de Teran, Natasha. The Pay Off: How Changing the Way We Pay Changes Everything. United Kingdom: Elliott & Thompson, Limited, 2021.

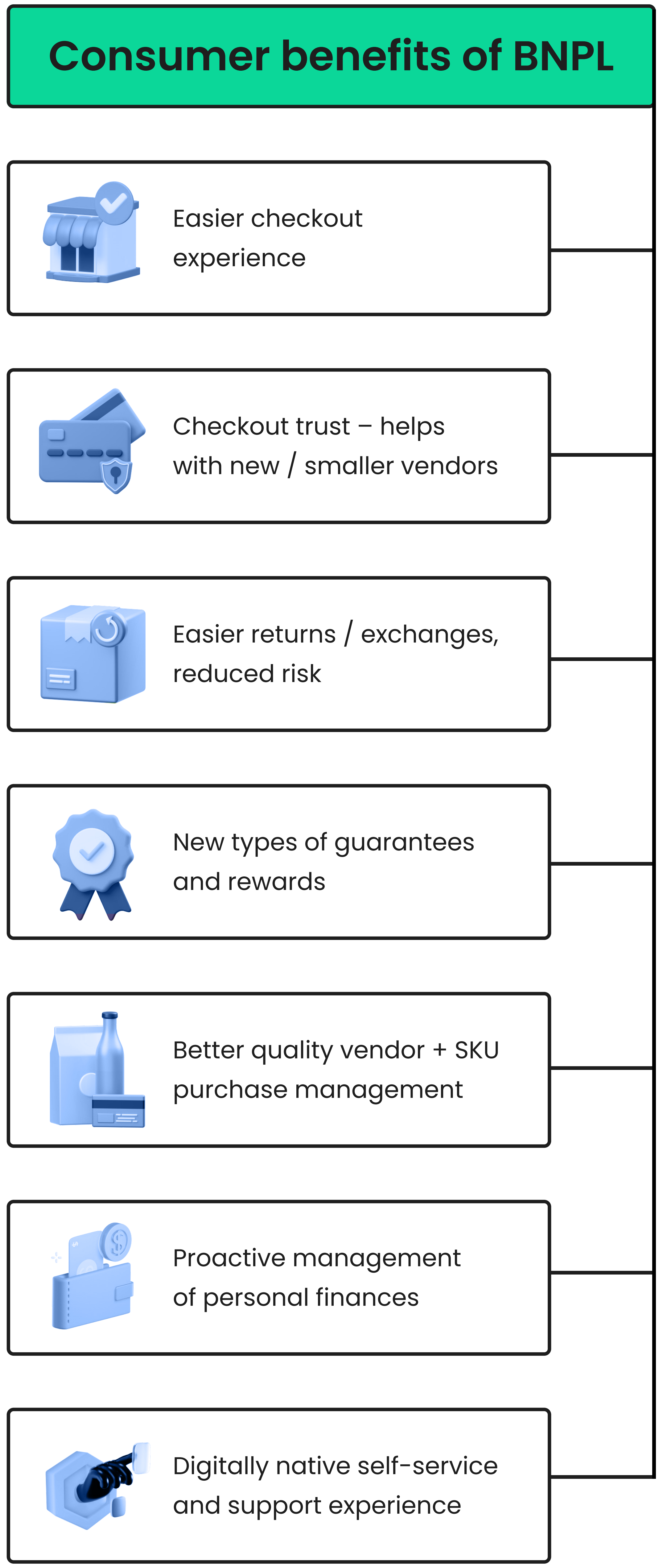
ISBN 9781783966066

BNPL customer experience

At the fundamental level, BNPL solutions need to satisfy the baseline customer experience that has been set by the challenger innovators in this space. That means the BNPL experience must feel innovative, but familiar, the platform must be easy to use (and preferably embedded into the checkout), and completion must be simple and swift.

Beyond this, good BNPL solution design cannot be superficial; it has to be more than skin deep. There is plenty of research about what might work well for consumers beyond the basic initial user journeys and success paths, and these best practices must be incorporated whenever feasible.

Finally, merely copying existing providers is not enough to win customer engagement. Because most new BNPL solutions will not be the first mover in their particular markets, it's important to look at the areas most valued by shoppers and look at how to innovate and evolve standards in these key areas.



BNPL CX:

the playbook

As more financial brands move into embedded finance, there will be a race to create new and competitive BNPL offers. Digital innovators need to move away from traditional lending paradigms but also avoid simply becoming Klarna copycats. When FintechOS holds Design Thinking workshops on BNPL, the following four steps are used to seek out distinctive and customer-centric ideas.

Step 1

Simplify or outright avoid things that characterize traditional personal lending:

- Lack of self-service
- Friction, breaks
- Successful process, unsuccessful application

Step 2

Deliver a great customer experience via:

- Prioritizing ease of use
- Using embedded context smartly to prioritize acceptance
- Well-defined post-sales self-service jobs-to-be-done

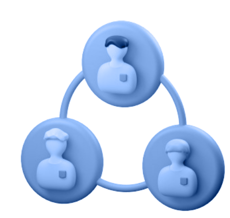
Step 3

Ensure customers are treated fairly:

- Prioritize clear and transparent information at every stage of the CX
- If the product is confusing, instead of explaining/advising “harder”, make the product easier
- Use personalization for empowerment and access rather than aiming to exclude customers

Step 4

Build differentiation via BNPL value-adds:

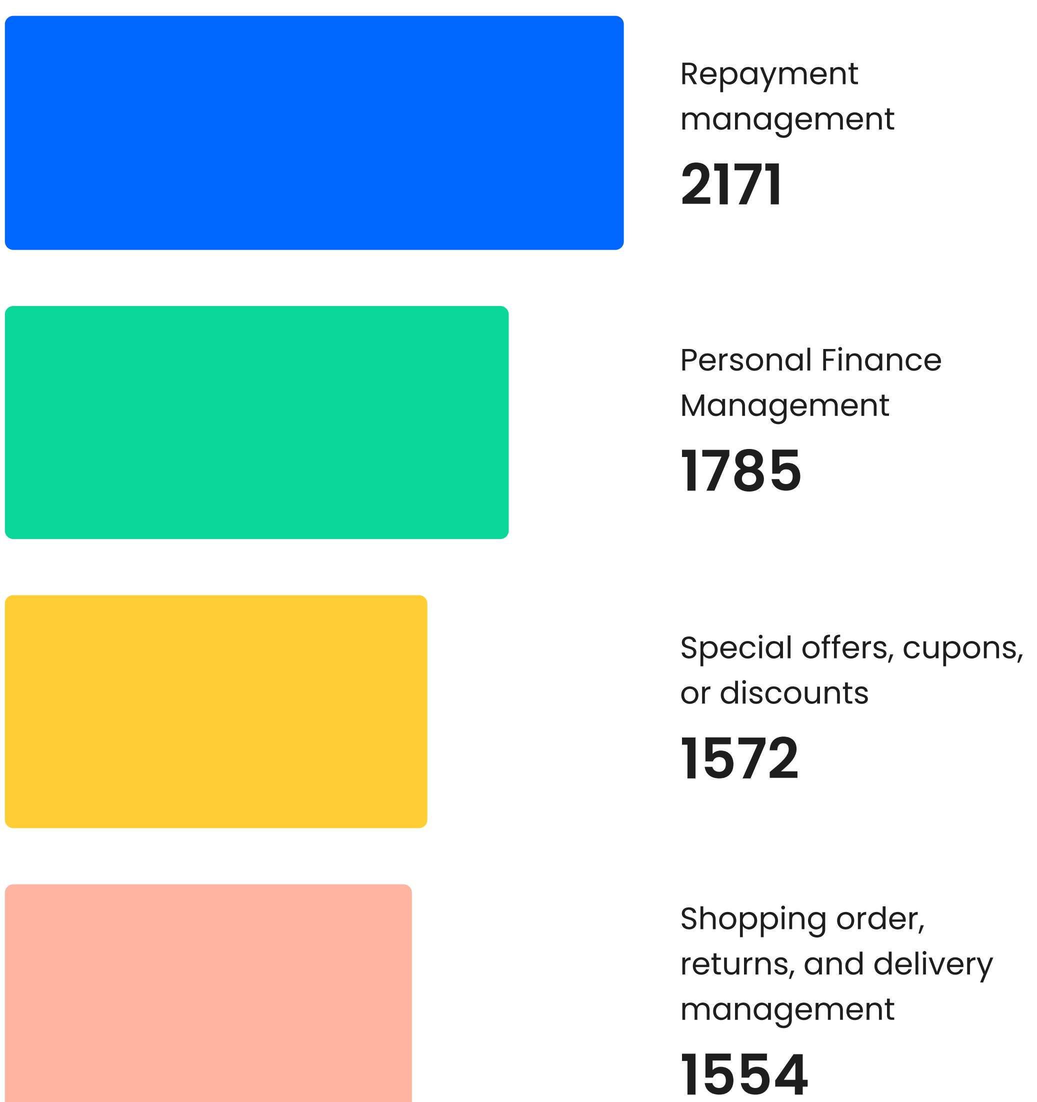


- Help shoppers with receipts, order tracking, and returns
- Provide shoppers with insights and suggestions on cash management
- Partner with merchants to offer exclusive loyalty and shopping offers

Value-adding features in a BNPL app

In our consumer survey, we asked people what features they would find most useful if offered by a BNPL provider in their app or portal. Responses covered order and returns management, repayment management, Personal Finance Management, and offers such as coupons or discounts. Different generations express different priorities, again demonstrating the importance to BNPL innovators of identifying target users and researching their needs and expectations.

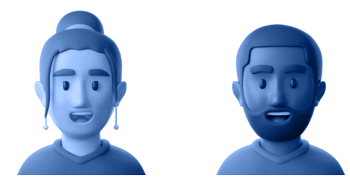
Categories of BNPL app features "voted up" by survey respondents



Help me manage returns and refunds

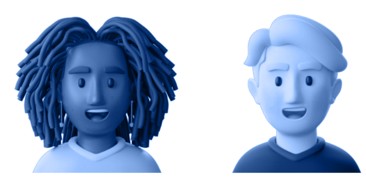
Top overall at 26% of respondents

Get special offers or coupon codes



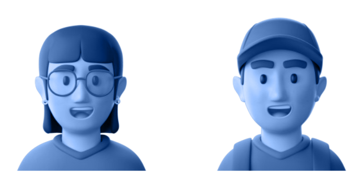
Top value for Generation X
aged 42-54

Track orders and delivery status



Top value for Millennials
aged 23-41

Reminders about payment instalments



Top value for Gen Z
aged 16-22

Taking action

Will consumers try a BNPL option from an established bank or lender?

The simple answer is yes.

According to our research

people are significantly in favor of bank-provided BNPL.

54%

of people more likely to choose a BNPL option if it's provided by a bank,

with

34%

being neutral

and only

12%

saying a bank brand on a BNPL offer would preclude them from choosing it.

This applies to two of the most coveted of demographics: younger and wealthier consumers.

58%

of Gen-Z and Millennials would be more likely to choose a BNPL option if it came from a bank,

and

85%

of respondents with household incomes over £75,000 said they were much more likely to choose a BNPL provided by a bank.

While the reasons for this may be diverse, in our research, two were consistent: trust and security.

Incumbent banks and lenders are sitting on reputations that have been built through years of reliability and strength. That is a legacy new challengers cannot replicate. When dealing with financial services, consumers can understandably be less prone to taking risks. Availing of a new payment option that is backed by a brand that has thrived for decades is a much easier thing to do than going with someone they have never of heard before. This trust factor is even more important for older generations.

In our survey

25%

of respondents said a BNPL offer would be more attractive if it came "from a payments or banking brand I trust"

with

27%

saying they would be less likely to choose BNPL if it came from an unknown or untrusted brand.

Not surprisingly, consumers – particularly those of older generations -- also want to know that their data is being handled in a secure way. 27% of our respondents said concerns about use of their data could make them less likely to avail of a BNPL option. This number rose to 33% for boomer respondents (55+).

Similarly, 25% of our respondents could see themselves being put off by requirements to share identification and personal details – which is something an existing bank account with a provider bank could potentially mitigate.

Building BNPL solutions

with FintechOS

BNPL is growing very rapidly and is set to be a revolutionary force for innovation across consumer lending and payments . So far this has been led by digital-native B2C challengers. There is plenty of scope for growth and innovation internationally, and it would be a lost opportunity if established banks and lenders do not lean in to the new paradigm.

Despite uncertainty about the exact shape and timing of regulations on BNPL, we expect to see the impact being net positive in terms of defining a safe space for innovation and differentiation among a new breed of PoS-embedded lenders and shopping super-app B2C brands .

FintechOS provides a lean full stack banking and lending solution with low-code innovation studio that speeds up the creation and iteration of innovative digital-first financial products and services.

The API-enabled architecture of FintechOS makes products and customer journeys built with the platform natively capable of being run "headlessly" into omnichannel and embedded channels.

FintechOS supports global financial institutions at varying sizes of digital ambition and capability: we can take on much of the burden of solution development, including via solution partners, and our open platform is also ideal for larger financial institutions that want their own digital maker teams to be hands-on with their embedded finance roadmap.

Calling bold BNPL innovators

> The current business BNPL model is a rapid feedback loop: as consumers drive innovators to build new requirements, they also have their baseline expectations shifted by leading challengers.

Michael Pierce,
Commercial Director – Western Europe
FintechOS

As BNPL rapidly goes mainstream across all developed markets, several early myths about its target customers have unraveled.

We now know that BNPL is not just for young shoppers or cash-strapped fast-spenders, and that it's not limited to one model or any one region. Nor is it restricted to certain categories of goods (e.g. fashion/apparel).

Instead, BNPL as a payment option is valued by both merchants and consumers in the full range of retail and leisure purchases, already offering substantial expansion possibilities from where BNPL started out.

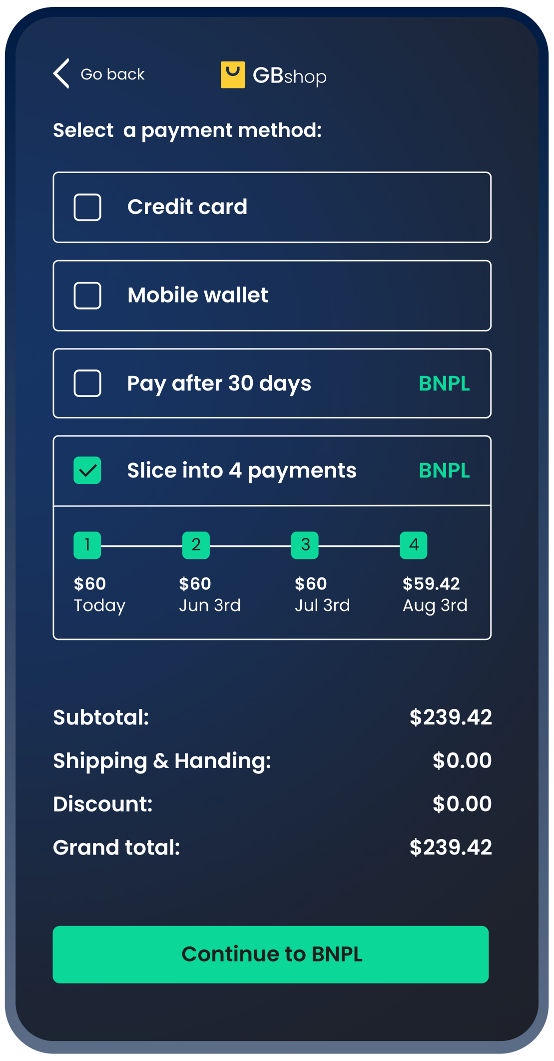
To fully understand and take advantage of these possibilities, we need to understand the nature of the disruption.

In our view, BNPL disrupts three major incumbent spaces:

- payments
- consumer credit
- PoS including ecommerce checkouts.

Incumbents operating solely in one of these spaces will struggle to grasp the significance of BNPL as it affects all spaces at the same time. In other words, trying to understand BNPL through one lens in isolation, as in simply comparing it to traditional credit cards, will miss the full picture and lead that incumbent or analyst to underestimate the market significance of both BNPL competition and the opportunity.

As an example, our research reveals that BNPL is not viewed by users as a replacement to credit cards, loans, or overdrafts, but as a new and distinct financial tool – one they expect to co-exist with traditional payment and credit products. This challenges simplified views of consumer choices around payment methods, and this divergence between the viewpoint of established finance providers from the consumer is something they must seek to address. They must ensure they have a clear understanding of the implications of BNPL: they cannot afford to be myopic, especially with BNPL's potential for global brand spread, and the diversity of business models it can potentially produce.



The current business BNPL model is a rapid feedback loop: as consumers drive innovators to build new requirements, they also have their baseline expectations shifted by leading challengers. It is this moving of the baseline that established banks need to take notice of, especially if they have yet to complete a digital transformation. Soon, we predict that BNPL will not just be for ecommerce, but will see rapid adoption everywhere payments are found, including local/SME purchases and bricks and mortar points of sale.

We know that regulatory uncertainty will put off risk-averse incumbents from investing in BNPL innovation. On the other hand, this will increase the opportunity for those who are able to build confidence in their own interpretations and implement early solutions that have a good chance of remaining compliant as regulations become clearer. It is incredibly important, therefore, that we work to understand who the customers of BNPL are, how they use it and why they value it. As the landscape continues to change, this knowledge will be essential for any would-be BNPL solution builders.

Stay tuned for the next parts of our BNPL Wayfinder

Part 2

Making your way up the embedded lending stack

- BNPL consumer product personas and expectations
- CX branding decisions
- Special credit/risk design considerations for BNPL
- Why traditional lending systems can't solve BNPL
- Defining BNPL solution-building zones and skillsets

Part 3

BNPL roadmap for established banks and lenders

- The opportunity cost of inaction on BNPL
- Advantages and tradeoffs of different BNPL business models
- Solution architecture for feature planning and differentiation
- BNPL strategy recommendations from industry leaders
- The embedded finance innovation path beyond BNPL

Our technology supports more than 50 clients across the globe

We enable financial institutions of all sizes to offer innovative digital financial products with hyper-personalized customer experiences

Book a demo

Raiffeisen Bank, Erste, Societe Generale, Nationale Nederlanden, OTP Bank, First Bank, Vodafone, Orange Money, TBI Bank, Howden, VIG Vienna Insurance Group, Reliance Bank, Kasikornbank, Idea Bank, Banca Transilvania, Scotiabank

Scan the code below or visit **fintechos.com** to learn more about us.

For any other inquiries, please reach us by email at: **contact@fintechos.com**

fintechOS

Introducing FintechOS, the high-productivity financial infrastructure. Our nimble, modular platform empowers existing systems, builds differentiated financial services, and radically transforms the customer experience.
Currently, more than 50 financial institutions of all sizes, across the globe are powered by FintechOS technology.

London	119 Marylebone Rd, North West House, Marylebone, NW1 5PU, London
New York	12 East 49th Street NY 10017, New York, United States
Amsterdam	Weesperstraat 61-105 1018 VN Amsterdam
Bucharest	Oregon Park, Building C, 2nd Floor, 46-48 Pipera Road, 2nd District, Bucharest, Romania