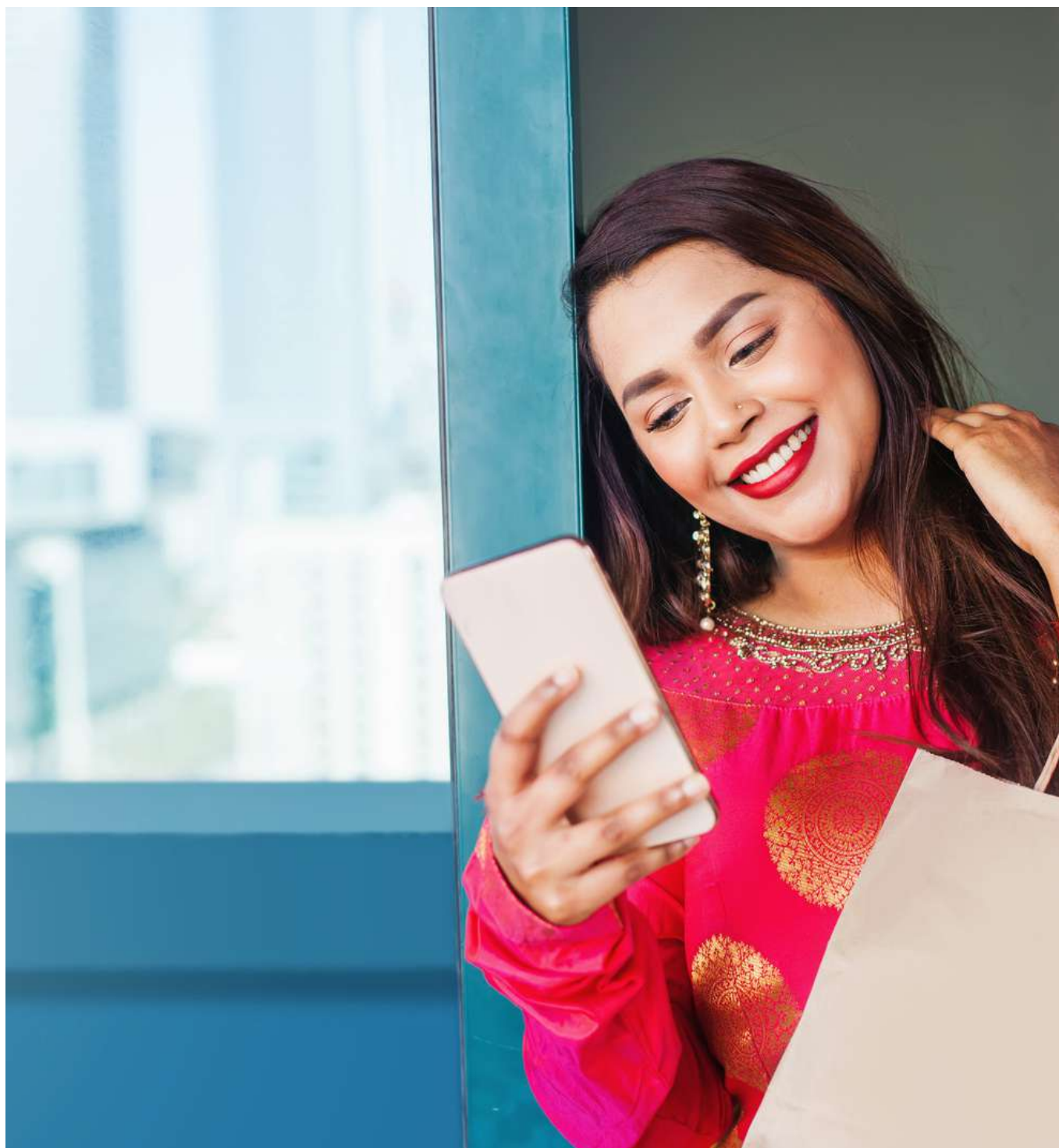


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A LENDING GAME-CHANGER



ONE SMALL TRANSACTION AT A TIME

TRACKING THE GROWING POPULARITY OF BUY NOW PAY LATER LOANS IN INDIA

The Covid-19 pandemic has fundamentally transformed consumer behaviour and spending patterns in two major ways.

One: job losses and paycuts due to the ensuing lockdowns have made it difficult for many people to spend money freely.

Two: an increasing number of people have turned online even for their essential expenses like groceries and bills in addition to their discretionary purchases.

Consumers, especially the millennials and Gen Z, are today looking for simplified micro credit solutions to better manage their recurring and occasional purchases which can be applied for easily and availed for seamlessly.

All these factors have led to the massive popularization of **Buy Now Pay Later** or **BNPL**

services in India in the last few years. With over 30 focused start-ups, a few e-commerce giants and even leading banks and NBFCs now joining the bandwagon, BNPL services in India are making rapid progress in customer onboarding, merchant partnerships and attracting investments.

What is BNPL?

For the unfamiliar, a BNPL service allows customers to make eligible purchases which can be split into easy instalments or repaid at a later date (within the repayment cycle) at zero-to-low interest charges. BNPL service providers offer customers short-term micro-loans for specific purchases usually starting at Rs.2,000 and going up to Rs.1 lakh in credit limits, with repayment cycles in the range of 14 days to 30 days (up to 90 days, in some cases) depending on the terms and conditions of the service provider.

However, late-payment penalties (and interest charges, in a few cases) could be levied for repayments beyond the due dates while BNPL



DARIA SHEVTSOVA/PEXELS



ANGELE J/PEXELS

providers can report about late payments to credit bureaus potentially hurting the credit scores of such users.

The BNPL service providers often use new-age mechanisms to evaluate the creditworthiness of customers and the entire process of customer onboarding and credit limit sanction is usually completed digitally in minutes with minimal documentation requirements. A few players also offer pre-approved BNPL credit limits to select customers.

BNPL services can currently be enjoyed at a growing number of e-commerce, food-ordering, ride-sharing, travel booking,

online groceries and services websites, and even on edu-tech portals among hundreds of other merchant platforms. The transactions can be made seamlessly during checkouts in a safe and secure one-tap manner without having to enter card details or OTPs.

Some BNPL service providers also offer extra incentives to customers in the form of additional discounts or cashback for availing of their facilities, making timely repayments or on specific transactions. These instant funds-offering platforms for consumer purchases generally make money through merchant commissions and late fees, not interest charges.

BNPLs can currently be enjoyed at a growing number of e-commerce, food-ordering, ride-sharing, travel booking, online groceries and services websites.

THE STORY SO FAR

THE RISE OF SMALL CREDIT, HASTENED BY THE PANDEMIC

In India, the gross gross merchandise value of BNPLs is expected to hit \$100 billion by 2025



KAROLINA GRABOWSKA/PEXELS

BNPL services have been a part of the global digital lending ecosystem for over 15 years now. But the pandemic has been a stimulant for its massive popularity in the recent past in conjunction with the rise of e-commerce, deepening mobile internet penetration and growing redundancy of cash transactions, especially in countries like China, U.S, Australia, and India.

Figures from various studies differ on growth projections for the BNPL market. But one thing is very clear: this lending segment is expected to grow rapidly, at a pace quicker than other forms of lending.

As per a Bernstein report from April 2021, the gross merchandise value of India's BNPL market was valued at \$15 billion. This is expected to grow over six-fold to \$100 billion by 2025.

Globally, the market valuation of BNPL platforms was valued at \$7.3 billion, according to a report by Coherent Marketing Insights. This number is expected to reach \$33.6 billion by 2027.

A Global Payments Report by Worldpay from FIS has also predicted BNPL to be the fastest growing e-commerce payment method in India growing from 3% in 2020 to 9% of the total ecommerce market share by 2024.



DEV ROY/PEXELS

Apart from fintechs, leading private banks have also entered the BNPL market

Bernstein expects BNPL solutions to go from around 4.1% to 6.6% of total digital merchant payments by 2025.

Ever since Klarna's 2005 launch in Sweden as the world's first BNPL fintech, the sector has seen the rise of a number of major service-providers like

US-based Affirm and Australia-based Afterpay, the latter purchased by Twitter CEO Jack Dorsey's Square Inc. in a \$29 billion deal earlier this year. Leading global companies like PayPal and Amazon have already started exploring the BNPL business with U.S. tech giant Apple reportedly working on a similar service for its Apple Pay users.

In India, BNPL has often been marketed as a new-age digital manifestation of the traditional 'khaata' system wherein grocers would maintain purchase records of customers throughout the month and the total bill would be cleared in a one-shot payment at the beginning of the next month.

Several lenders now offer BNPLs in India now. These include not just large private banks but also fintechs, e-commerce websites, and non-banking companies.



MISTER FOTOFREAK/PEXELS

HOW A BNPL WORKS

Although the associated terms and conditions could vary according to the BNPL provider, they usually work in the following manner:

Step 1: Sign up for your preferred BNPL provider after reading the terms and conditions (you may want to check about the credit limit offered, late payment penalties, interest charges on EMIs, partnering merchants, etc.). You can also download the mobile app for certain BNPL providers before signing up.

Step 2: Visit a partnering merchant website (or offline stores, in some cases), and add desired items in shopping cart.

Step 3: Select your BNPL provider's payment option at 'Check Out' and buy the selected items.

Step 4: Make payment to clear outstanding dues at a later date to your BNPL provider within the repayment cycle or split your purchases in zero-or-low interest EMIs according to the terms and conditions of your BNPL provider. You can make the payments via netbanking, UPI, credit cards, debit cards, etc.

HOW BNPL HELPS CONSUMERS

EASY ACCESS, NO SIGN-UP FEES, NO INTEREST.



MARIA ORLOVA/PEXELS

Hassle-free access to micro credit: BNPLs services offer easy access to micro loans for consumer purchases. The credit evaluation process is quick with minimal documentation requirements depending on the terms and conditions of the BNPL provider. These short-term loans can be availed of in minutes to make desired purchases seamlessly on the internet.

Helps in better managing your purchases: BNPL players allow their users to split their purchases into bite-size instalments seamlessly or make the payments at a later date; for example, a convenient option to repay the dues after the salary day. This allows users to better manage their purchases, especially in a cash crunch.

No interest charges in most cases: Late payments usually do not attract any cumulative interest charges but only a one-time penalty. However, some BNPL providers, especially ones offering the EMI options, could charge interest. Most importantly, users would be well-advised to repay the dues within the repayment cycle to avoid penalties and the possibility to hurt their credit scores.

Good option for customers not using credit cards: BNPLs are micro-loans for customers who do not want to use or are ineligible to own a credit card. The path to accessing BNPLs is often easier in comparison to obtaining non-pre-approved credit cards.

Growing partner network and incentives: Most BNPL service providers are adding new partnering merchants at a rapid pace and already have hundreds of online and offline merchants in their folds. This gives BNPL users a larger pool of purchase options. Many BNPL providers also offer benefits like cashback and special discounts, allowing users to get better value on their transactions.

WHAT TO KNOW BEFORE SIGNING UP FOR A BNPL

QUANTUM, COSTS, NETWORK, AND CREDIBILITY

Credit limit offered: Most BNPL providers offer credit in the range of Rs.2,000 to Rs.25,000 while a few offer up to Rs.60,000 or Rs.1 lakh. Some also offer incremental credit limits to regular, disciplined users. You must assess if the limit offered by your BNPL provider is enough to meet your spending requirements.

Partnering merchants: Most BNPL players are enrolling a growing number of merchants to their networks. You should ideally pick a provider linked to the merchants stores and websites you shop most frequently with.

Penalties: BNPL providers have different set of terms and conditions about late payments. You must get clarity on them before signing up. Most charge a non-cumulative penalty; others could charge interest on EMIs. Late payments could also adversely impact credit scores.

Credibility of the service provider: There's no dearth of reputed players entering the BNPL fray with cutting-edge safety mechanisms. But it still makes sense check the credibility of the service provider. Users can check for number of customers, media coverage, existing partnerships with reputed merchants, etc. to assess the credibility of a player. If your chosen service provider requires you to download a mobile application that requires permissions not proportional to the service being offered, you may want to rethink signing up.

Financial discipline: Most importantly, a BNPL service should ideally help you manage your expenses better. The easy access to credit and the absence of interest charges shouldn't encourage you to overspend or indulge in impulse purchases. As such, plan your expenses and stay within your budget even while using the BNPL services to avoid unnecessary pressure on your finances and an adverse impact on your credit score.



PORAPAK APICHODILOK/PEXELS

HOW DOES BNPL COMPARE WITH CREDIT CARDS?

In the consumer lending space, one is a fairly new entrant gaining rapid popularity while the other is a well-established player. Let's compare the two.



FACTOR	BNPL	CREDIT CARDS
Annual or joining fee	No	Zero to a few thousand. Waivers available
Credit limit	Starting from as low as Rs.2,000, with some going up to Rs.1 lakh.	Zero to no limit, depending on customer
Credit limit increase	Lenders may increase limit for disciplined borrowers	Yes, for customers with good credit history
Repayment cycle	14-30 days. Some lenders go up to 90 days	20-60 days depending on bank's T&Cs
Interest charges	Mostly no. Majority levy late payment penalties. EMIs attract zero to low interest.	2-4% per month on dues after interest-free period
Late payments reported to credit bureaus	Yes	Yes
Signing up	Usually takes minutes	Immediate for pre-approved cases; few days for others.
Collateral	Not required	Allowed
Acceptability	Acceptable with partnering merchants	Universal acceptability
Revolving credit	Yes	Yes
International usage	Typically not allowed	For international variants with advance permission
EMIs	Available with many providers	Eligible expenses convertible to EMIs
Core benefits	Instant short-term micro-credit for consumer purchases. EMIs, cashback, and discounts in some cases	Credit limit, EMI plans, cashback, redeemable reward points, promotional discounts, etc. depending on card variant
Additional perks and privileges	Mostly no	Free lounge access, complementary travel insurance, instant loans, etc. depending on card variant
Cash withdrawal	Not allowed	Allowed, with separate interest charges

HOW DOES BNPL COMPARE WITH PERSONAL LOANS?

A personal loan, on the other hand, is an unsecured loan that could be used for any purpose. Let's compare it with BNPL services.



FACTOR	BNPL	PERSONAL LOANS
Fees	No	Up to 2.5% of loan subject to capping, discounts or waivers according to lender's T&C
Credit limit/loan amount	Starting from as low as Rs.2,000, with some going up to Rs.1 lakh.	Typically up to 30 times borrower's monthly income (usually capped at Rs.25 lakh)
Application process	Usually takes minutes	Pre-approved loans can be availed in a day. Others take longer
Repayment cycle	14-30 days. Some go up to 90 days	1-5 years
Interest rate	Mostly no. Majority levy late payment penalties. EMI's attract zero to low interest	8.9-24% p.a. depending on borrower's credit and income profile
Credit usage	Loan can be used to purchase products and services from partnering merchants	No restrictions
Pre-payment charges	No charges for repayments within repayment period	Up to 5% of loan outstanding
EMIs	Available with many providers	Always converted to EMIs
Late payments reported to credit bureaus	Yes	Yes
Revolving credit	Yes	No, it's a one-time loan
Late payment charges	Late payment fee applicable in most cases	Additional interest charges typically up to 4% of outstanding according to lender's T&C

BNPL VS. CREDIT CARD VS. PERSONAL LOANS

IS THERE A CLEAR WINNER?



BNPL's huge popularity is a testament to its usefulness to people's micro-credit needs. Ease of application and use along with interest-free payments help millions manage daily purchases.

BNPL VS. CREDIT CARDS: WHERE EACH SCORES

Credit cards score over BNPL for universal acceptability as the latter is still limited to partnering merchants only, albeit the service providers are regularly adding hundreds of partners. Credit cards also provide perks and privileges, helping users save more and access higher lifestyles through their transactions. Cards could offer higher spending limits though they could be tougher to obtain in comparison due to the more stringent underwriting norms. BNPLs don't have annual, processing, or renewal fees, which cards sometimes do. The critical differentiator, however, is the interest charges that are usually not levied on BNPL services – users have to pay a non-cumulative fee for late payments unlike credit cards, albeit some cards also now offer zero-interest EMIs.

BNPL VS. PERSONAL LOANS: WHERE EACH SCORES

Personal loans are big-ticket and all-purpose, unsecured financing facilities with credit limits much higher than BNPL services. However, higher charges apply, unlike BNPL. Another critical differentiator is revolving credit – BNPLs offer this while personal loans do not, being one-time loans. In addition, a customer's age, income, credit score, occupation, etc. is scrutinised by lenders to ascertain loan eligibility, though the application process and loan disbursement are quick for pre-approved loans. BNPLs, on the other hand, often use new-age mechanisms to ascertain the borrower's creditworthiness, usually taking just a few minutes.

CONCLUSION

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Credit cards could come with a wider range of benefits, a higher credit limit, and universal acceptability but with cumulative interest charges for late payments. BNPL services are smaller but simpler credit facilities for consumer purchases from partnering merchants often in EMIs involving no interest charges but only a one-time fee in most cases. They might also be easier to sign up to compared to non-pre-approved credit cards.

These factors make them highly suitable for users looking for short-term micro credit facilities, especially those ineligible for credit cards.

Personal loans are for big-ticket financing needs, often during an emergency cash-crunch, and is not recommended for smaller discretionary purchases owing to the interest charges involved.

BNPLs, credit cards and personal loans are different types of loans, but all to be used in a highly disciplined manner. Users must not over-borrow and minimise using them to finance lifestyle and consumption. They must read the fine-print carefully, understand the charges, and ensure their dues are always paid on time.

Credit cards and personal loans charge interest for late payments. BNPLs charge a penalty. Reckless usage and late payments with any of these facilities can jeopardize the user's credit score, hurting their chances to get the best offers when they apply for other loans in the future.

As far as BNPLs are concerned, they are a game-changer in offering seamless micro-credit solutions to millions of customers.

However, informed usage and utmost financial discipline is key to maximising the lending value just like any other credit product.