

Buy Now Pay Later. What's now and what's later?

Buy now, pay later is a method of payment with instalments at a small or interest-free rate. The payment method sky-rocketed in 2020. But why? The COVID-19 pandemic. The global crisis created job insecurity, with people seeking alternative means to sourcing income. However, the paradox lies in the fact that people flooded to shopping online and relying on ecommerce because of closed brick and mortar establishments.

According to UN trade and UNCTAD, in 2020 the e-commerce sector saw a dramatic rise in its share of all retail sales from 16% to 19%. In addition to limited shopping, people faced quarantine and alternative means of socialising, which brought the change in consumer behaviour with *people switching to online* shopping, even for essential products such as groceries and personal care.

Compared to personal loans and other instalment schemes, BNPL offers consumers a better UX. Firstly, it is commonly integrated into the checkout page, offering a seamless checkout experience for the end-user and no

additional contracts with banks are required. But most importantly, BNPL has small or even interest-free rates.

Simply put, BNPL became a no-fuss alternative to credit cards and loans.

Considering the above no wonder why BNPL quickly became especially popular among youth. For example, in the US almost 75% percent of BNPL users are GenZ and millennials, and according to the 2021 Motley Fool survey the 18-34 years age group are three times more likely to use BNPL regularly than 55+ years.

Almost half of BNPL users prefer to use the method to make purchases that surpass their budget. And for merchants, the revenue opportunities make the addition of BNPL incredibly attractive. Adding BNPL as a payment option to their website can increase not only conversion rates and reduce cart abandonment, but increase the average spend per purchase too.

How the boom became a fizzle

As the popularity of BNPL was growing the concerns were raising too.

The simplicity that lies in the core of this method has been viewed as a trap that lures customers into a false sense of security. Clicking on confirm checkout, numerous people commit to the contract without reading the T&Cs and understanding the commitment. According to the recent J.D Pover study, 38% of consumers aged 18-44 say they only partially understand the payment methods associated with the services and 5% say they do not understand them at all. And while this particular method is that popular among younger generations, it can make it easier for them to make poorer financial choices.

Young people are also more vulnerable to aggressive marketing campaigns urging them to buy more while paying less. The Shop Now Stress Later report by Money.co.uk revealed that 13% of 18-24 year-olds highlighted social media influencers in their decision to shop now and pay later. What's alarming in all of these is that the enticing marketing tactics together with accessibility of BNPL can cause developing of unhealthy spending habits among young people.

In response to the growing public concern around BNPL, the UK government has recently introduced plans to regulate the BNPL market. Big players such as Klarna, Clearpay and Laybuy will now have to launch features that would limit consumers' spendings, strengthen their "affordability checks" and even ensure their advertisement is not misleading. Nevertheless, there are still lots of grey areas and the industry is in need of regulation globally. In Australia for instance, BNPL is not yet considered a form of credit, making the providers exempt from regulatory laws that protect users of credit cards and loans.

Rise or fall

Since the start of 2022, some of *the biggest BNPL providers lost significant value in the stock market*. In May 2022 Klarna *announced* to lay off 10% of its workforce due to the rising rates of inflation, cost of living crisis and political affairs. Despite the dip we've seen three global corporations announced rolling out their own BNPL solution in the last two months. *Apple* launched their Apple Pay Later feature; *Amazon* has begun offering BNPL in Egypt and *Revolut* rolled out a buy now, pay later scheme in Ireland.

The BNPL providers who were already in a challenging position will now have to compete with much bigger fish. However, with the rising inflation and all the uncertainty of the economy, it's hard to say now whether these launches will become a true disrupt-the-industry moment or whether they will jeopardise the state of existing leaders of the BNPL market.

To sum it up, BNPL is more likely here to stay, despite the challenges of slowing economic growth and control from regulators. Numerous *BNPL providers have shown flexibility* and willingness to adapt to the new measures.

But in order for the BNPL boom to avoid dissipating, the industry needs to be developing in a sustainable way for all its participants. First and foremost, it all comes down to education and governments should be taking care of raising financial literacy among populations to ensure they are knowledgeable. Additionally, regulatory bodies are essential to protecting the interest of consumers while introducing adequate regulations for businesses. And last but not least, the BNPL providers themselves should be more conscious of the way they provide and promote their services.

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