

Buy Now Pay Later

The Future of Credit

April 2022



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FOREWORD

Since the last decade, FinTech sector has been at the forefront of financial innovation and the new form of credit and payment option Buy Now Pay Later (BNPL) is the new evolution-changing dynamics in the payments ecosystem. Though the segment is at a nascent stage globally as well as in India, but early signs indicate a promising future where it could capture the largest market share among payments method.

Presently, European countries are leading the BNPL market share among domestic e-commerce payments method, with almost 7 times the global share in

developed countries. India is also rapidly catching up with the more mature markets. The country has witnessed remarkable growth in the BNPL share among other payment methods. By 2026, India's BNPL share in domestic e-commerce spending is expected to go up to 14%. Our research findings validate this and emphasise the factors bolstering the potential of BNPL services in India. With the ever-increasing e-commerce volume, strong consumer and merchant adoption, evolving FinTech ecosystem and other growth drivers coming together, the Indian BNPL market is poised for growth by 2026.



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EXECUTIVE SUMMARY

The new short-term credit service and payment solution, Buy Now Pay Later ("BNPL"), has quickly risen to prominence globally. With significant funding from private equity (PE) and venture capital (VC) firms, shifting consumer preferences towards alternative credit solution and a growing number of FinTech companies, this segment has experienced exponential growth over the past few years. Even e-commerce firms and technology giants have joined the bandwagon by including BNPL services in their range of offerings. Unlike credit cards, BNPL provides consumers with a frictionless short-term financing solution that allows them to purchase products without interest. The segment has largely caught the attention of millennials and Gen Z population because of convenience, flexibility and embedded lending components in e-commerce.

European countries such as Sweden, Germany, and Norway are leading the BNPL market race, followed by Australia and New Zealand. **The BNPL market share among domestic e-commerce payment methods in Sweden and Germany is almost 7 times the global share in developed countries (which was 3% in 2021).** US, UK, and India are also catching up to more mature markets, reporting similar trends in this credit offering segment.

In India, BNPL players like Simpl, LazyPay, and Zest Money, among others are gaining traction amongst the household. **According to our research, the BNPL market in India has been valued at \$3.5-4 billion in 2021. Emerging signs indicate a future where it could**

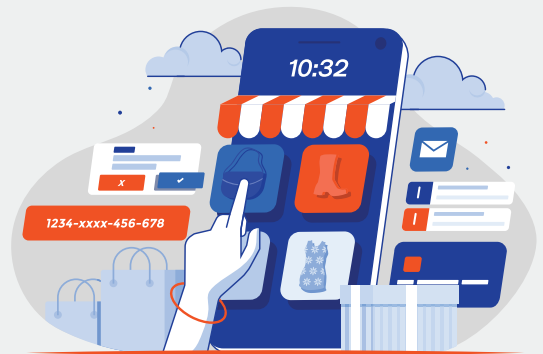
even become the largest BNPL market in the world, growing 10 times the current pace, over the next five years to reach \$35-40 billion by 2026. Such a high growth rate is driven particularly by an unprecedented level of a surge in e-commerce transactions and shifting consumer preference towards frictionless credit.

Over the last couple of years, as a combination of forced-digital and a move away from brick & mortar stores due to the pandemic, BNPL proposition has become a panacea for a large population of customers. This has led to explosive growth and multiple fintech companies and even incumbent banks are seizing the opportunity to capture their share of this large pie, replacing traditional financing options with more convenient payment methods. With its widespread adoption across the world and competition mounting among BNPL players, we prepared an overview of the global and Indian BNPL markets with key players and their growth potential.

To gather insights on BNPL usage, trends and patterns among consumers, Benori surveyed over 1,000 BNPL users. The survey explored top consumer preferences, categories that are driving BNPL demand, consumer frequency, spending statistics and more. Our survey not only dispels some common myths around millennials and credit but also offers a comprehensive picture of consumers' unique priorities and preferences in using BNPL. The survey was carried out between February and March 2022. Some of the key highlights are:

BENORI

Buy Now Pay Later (BNPL) Emerging as the preferred payment option when shopping



To contribute **14%** of e-commerce transaction value by 2026



9 out of 10 users more likely to pick a store that offers it



7 out of 10 use it when shopping online, to purchase



71%

Electronic products



67%

Fashion and lifestyle accessories



57%

Everyday shopping items

Yes to BNPL, no to credit card say

45%



Easy credit = more shopping

90%



BNPL is set to soar by 2026

10x
growth by 2026

\$40 bn
market size

100 mn
users

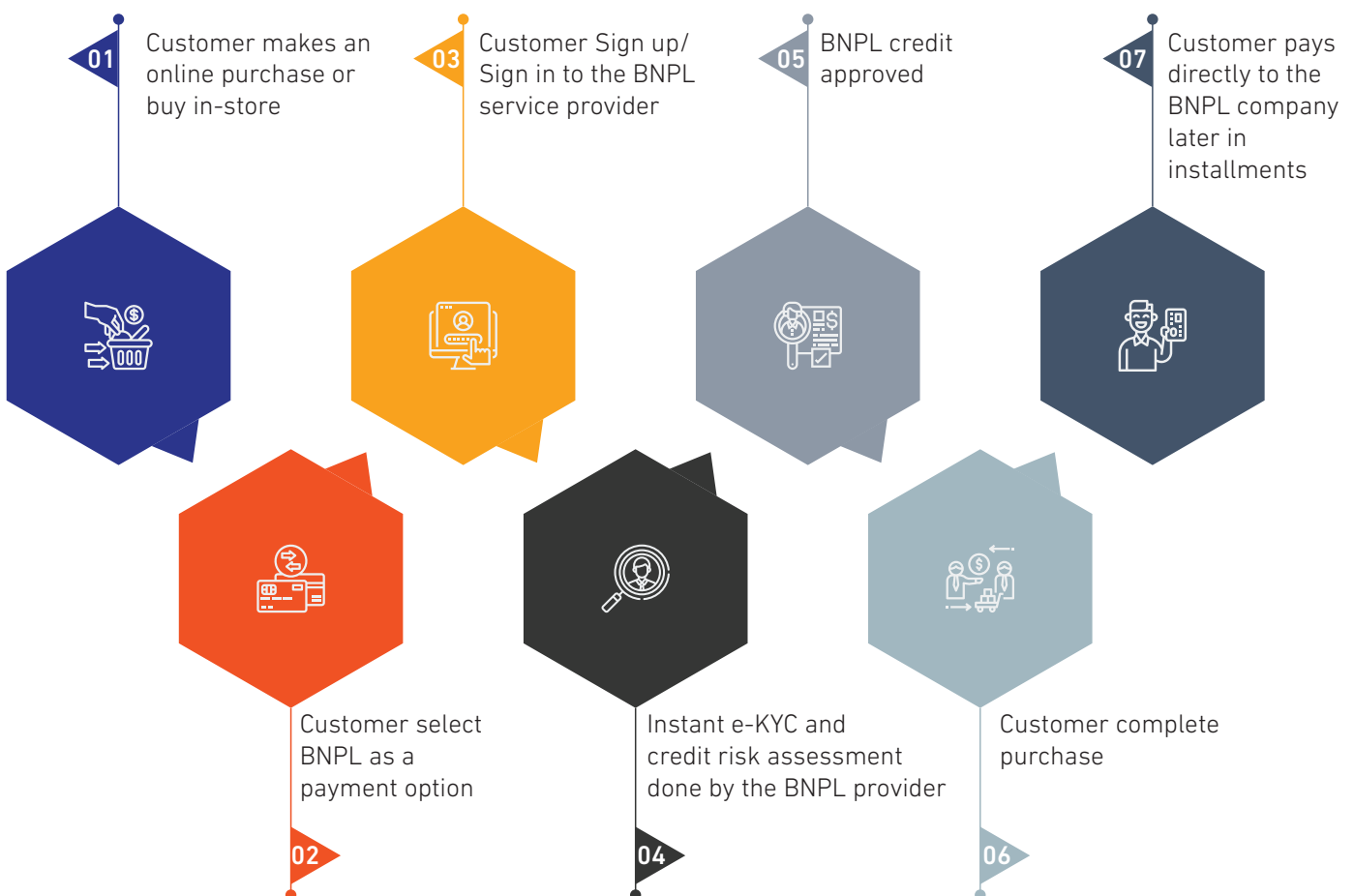
BUY NOW PAY LATER IS THE NEW NORMAL IN PERSONAL FINANCE

Easy Credit has a New Definition

BNPL is a short-term interest-free financing solution that allows customers to pay for their purchases at a future date rather than an upfront lump-sum payment — a new form of payment solution that allows consumers to purchase products and pay in installments without any additional cost (interest and

late fees) if payments are made on time. It stands at the cross-section of payment and lending product offerings and is often recognized as embedded lending because of the financial component within a larger channel such as e-commerce, cab aggregators, food aggregators, and brick & mortar stores. The figure below shows how BNPL works and provides easy credit to customers.

Figure 1: How BNPL Works



Source: Benori Research

While BNPL provides consumers with several key benefits, including consumption smoothing, budget support, and a fast, convenient, and frictionless credit-option alternative to traditional credit during check-out. Merchants, on the other hand, are attracted to the value proposition of higher sales, increased conversion, and improved cash flow. For payment companies and banks,

it is a new source of transaction flows and revenue in the form of customer interest, late payment charges, or merchant fees, bypassing traditional networks. Primarily, there are two dominant models of BNPL in the market, one is driven by convenience, and the other by enabling credit (see table 1).

Figure 2: Benefits of BNPL

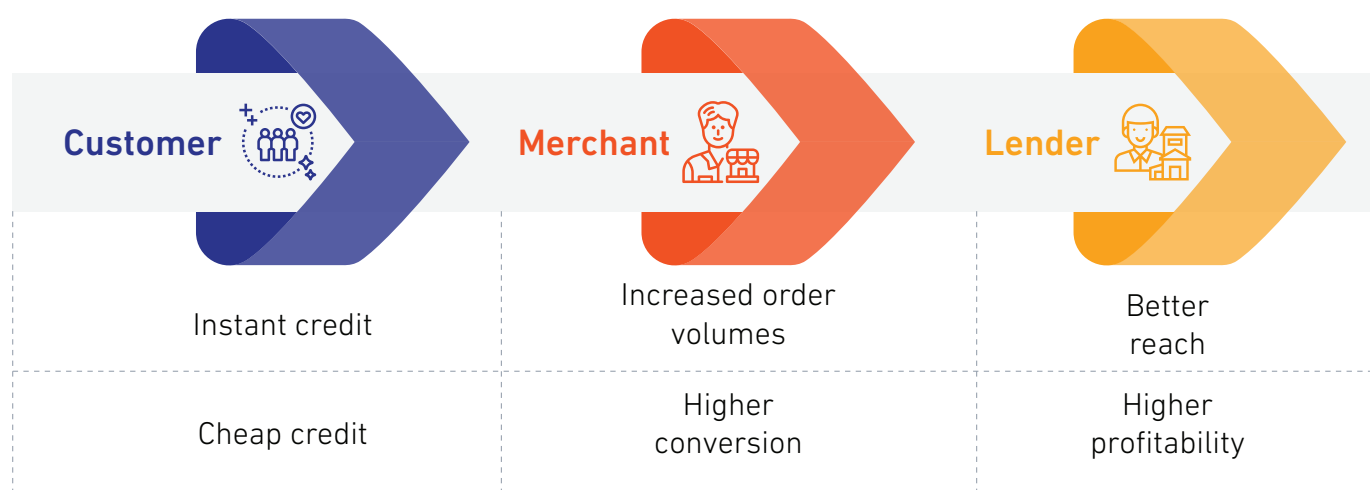







Table 1: Models of BNPL

Parameters	Convenience Model	Credit Model
 Focus Group	Consumer-focused	Merchant-focused
 Ticket Size or Loan Value	Small	Large
 Audience	Low-risk customers	Existing and New-to-credit customers
 Credit Period	15-30 days	3-12 months
 Merchant Fee	Pays a percentage to the BNPL provider	Zero-interest EMIs - Pays a percentage to the BNPL provider
		Interest EMIs - None (in case of interest EMIs, interest is charged to customer directly)

BNPL at Inflection Point: The way Consumer make Payments is Changing

Nowadays, the surge in e-commerce transaction volumes propelled by COVID-19 pandemic, BNPL players across the world such as Klarna, Afterpay, Affirm, LazyPay and Simpl have become household names, with new user growth and transaction volume exploding. Though BNPL reflects a small portion of the overall spending on payment cards, there is growing evidence that BNPL is at an inflection point. Some of the factors driving BNPL remarkable growth include:

- **E-commerce growth:** According to a Worldpay Global Payment Report (GPR) 2022 from FIS, an American multinational corporation, 2021 witnessed a robust global e-commerce growth with total transaction value exceeding \$5.3 trillion. The robust growth in online shopping also fueled a surge in short-term financing solutions due to COVID-19 led reduction in consumer purchasing power. In 2021, BNPL accounted for 3% of global e-commerce transactions value. The share is expected to grow to 5% by 2025 due to a shift in consumer preference for frictionless embedded lending to finance their purchases.
- **COVID-19:** The pandemic has adversely affected personal finance worldwide — causing a disruption in the global supply chain and economic activities that further increased inflation and reduced personal disposable income. This created demand for short-term consumer financing. This situation favored BNPL to emerge as an appealing credit alternative

for payment and purchases to consumers, leading to high adoption across the world. Furthermore, a seamless integration of BNPL payments within e-commerce platforms and providing short-term financing solutions during the pandemic accelerated purchasing decisions among consumers.

- **Seamless payment facilitation process:** BNPL allows more flexibility to pay for purchases over time without any accruing interest. According to a recent report from Fitch Ratings, BNPL is most popular with millennials and Gen Z consumers since it gives access to loans instantly without any documentation. It also appeals to people who have lower credit scores or scant credit history, which otherwise makes it difficult for them to qualify for traditional forms of credit.
- **Lower charges than credit card:** Even though BNPL, from a global standpoint, is still in a nascent stage, its growth has outpaced the credit card market worldwide. BNPL when compared to credit cards offers instant credit without any documentation and interest hassle. For instance, a consumer purchasing a smartphone from an e-commerce platform using a credit card has to pay interest between 14-24% on EMIs, whereas the BNPL allows purchasing the product with zero interest and easy EMIs, and sometimes without late penalties also. The segment is already posing a threat to credit cards. In Australia, the number of credit card users declined by 7% in 2019-2020, while BNPL revenues grew. The table below breaks down the major differences between credit cards and BNPL.

Table 2: What Differentiates BNPL from Credit Cards

Parameter	Credit Cards	BNPL Service	
		Small ticket size	Large ticket size
Interest rate	Up to 48% p.a	0%	Up to 24% p.a. (varies on a variety of factors)
Fees	Annual fees charged to cardholders, interest fees, late payment penalties and merchant fees	Merchant fees	Merchant fees, interest fees and late payment penalties
Documentation process	Always requires good credit history/score with proper documentation	Credit could be availed without any credit history – Zero documentation process	
Approvals	Getting approvals is slightly difficult	Easier approvals	
Interest-free period	Credit cards come with a standard interest-free period	Interest-free credit period can go up to 48 months	
Transparency	Less transparent in repayments	More transparent in repayments	
Reporting to credit bureaus	Yes	No	

How BNPL has Transformed the Global Payments Ecosystem

BNPL is revolutionizing the payments ecosystem, both online and offline. Though the BNPL services has been around from a decade, significant growth was witnessed since 2020. According to the GPR 2022, digital/mobile wallets (49%), followed by credit cards

(21%), debits cards (13%), bank transfers (7%) and cash on delivery (3%) were the most preferred payment method among global e-commerce consumers in 2021.

The BNPL segment represents a marginal portion at 3%. In recent times, Europe, North America, Asia-Pacific and Latin America have witnessed strong growth in BNPL and are expected to have their growth rates nearly doubled by 2025.

Table 3: BNPL Share amongst E-Commerce Payment Methods by Region

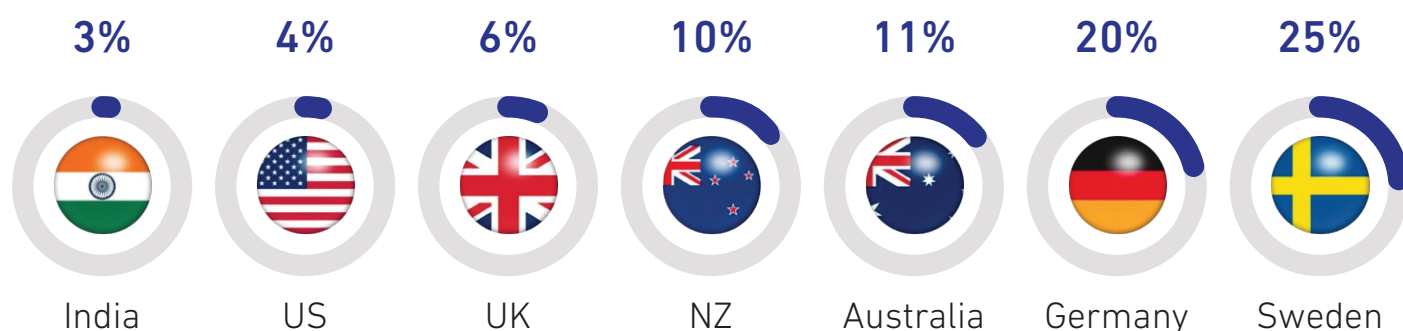
Regions	2021	2025E
Global	3%	5%
Europe	8%	12%
Asia-Pacific	1%	2%
Middle East and Africa	1%	1%
North America	4%	9%
Latin America	0%	2%

Source: GPR 2022

The popularity of BNPL service has been highest in Europe. In 2021, the top 10 global BNPL markets were in Northwest Europe with Sweden (25%) and Germany (20%) leading BNPL's market share for domestic e-commerce payment methods. The market share in Sweden and Germany is almost 7 times the global

share in developed countries (which was 3% in 2021). Though the UK (6%), US (4%), and India (3%) lack behind in overall online purchases via BNPL, these markets are rapidly catching up and absorbing share from bank transfers, credit cards and debit cards.

Figure 3: BNPL Share amongst E-Commerce Payment Methods by Country



Source: GPR 2022

The increase in adoption of BNPL solutions and the success of the incumbent FinTechs in the BNPL segment is motivating the entry and funding of new players. While BNPL is still in a nascent stage, competition is mounting. The segment has attracted millions in investment around the world, leading to the success of startups such as Afterpay, Affirm, Klarna, among others. Even FinTechs (e.g., PayPal and Paytm), e-commerce platforms (e.g., Amazon and Flipkart) and large technology giants (e.g., Apple), have joined the bandwagon with their BNPL offerings. Several financial

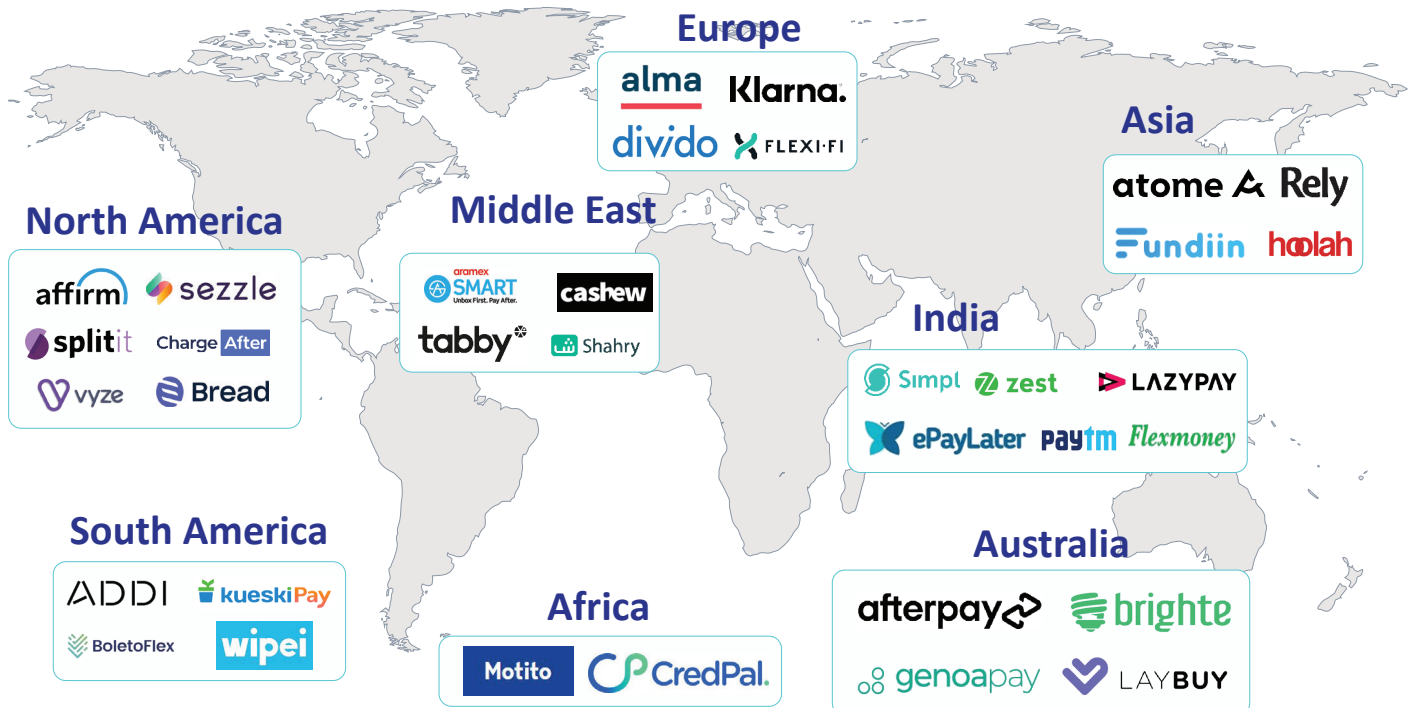


Globally, there are more than **170** startups competing in the evolving BNPL market with new solutions emerging every month.

institutions are now launching their own BNPL services, including Visa, Mastercard and American Express.

The figure below shows some of the prominent BNPL players across the world.

Figure 4: Leading BNPL Players across the Globe



According to Financial Conduct Authority (FCA) review, BNPL products in the UK nearly quadrupled in 2020 and were estimated at \$3.75 billion with 5 million people using these products since the beginning of the pandemic. Australia also reports similar trends. The unprecedented surge in online shopping and demand

for short-term credit has resulted in a significant increase in transaction volume and overall BNPL-generated company revenue. The could be well evident from the table below providing a brief overview of some of the prominent players in the global BNPL industry.

Table 4: How Top BNPL Companies are Performing

BNPL Players	Country	Valuation (\$, billion)	Revenue (\$ million)	Share of Revenue from Merchants	Active Customers (in million)	Merchant	Interest Rate*	Late Fees*
Klarna.	Sweden	46	1407	67%	90	2,50,000	0%	Up to \$7 (Per payment)
affirm	US	34	871	57%	7	29,000	Up to 30%	None
afterpay	Australia	29	925	84%	16	98,000	0%	Up to \$17 (Per payment)
zip	Australia	7.5	397	50%	7	51,000	0%	Up to \$10
sezzle	US	1	106	85%	3	44,000	0%	None

*The BNPL providers may offer multiple programs with different terms, and some terms may change depending on the amount of the purchase and the country it's made in

Source: Company's Annual Report, Media Report, Benori Research

These players have also adopted various strategies including product portfolio expansion, mergers & acquisitions, geographical expansion and partnerships to increase their market penetration and strengthen their foothold in the market. Few recent developments and partnerships in the BNPL segment that catch the eye include:

- Swedish furniture giant IKEA entered the BNPL market with the acquisition of Jifti
- Block, formerly known as Square, acquired Afterpay's BNPL service in a \$29 billion deal. The deal will bring AfterPay's merchant relationships into Block's seller ecosystem and help to convert AfterPay's existing customer base into Cash App users
- PayPal announced the acquisition of Japan's Paidy for \$2.7 billion
- Goldman Sachs acquired BNPL service GreenSky for €2.24 billion. It also launched MarcusPay, which allows users to divide big-ticket purchases into monthly payments
- FinTech company Upgrade announced that it is also entering the BNPL market
- Citi Australia launched a new offering with online retailer Kogan.com, which allowed Citi credit cardholders to opt for BNPL at checkout
- Apple has also announced a BNPL offering where Apple Pay users will be able to make interest-free BNPL purchases, choose any credit card to make the payments, and avoid late and processing fees with certain plans



WHY INDIA IS READY TO RIDE THE BNPL BOOM

Global Trends Playing out in India

With a handful of players in the BNPL segment, India is relatively a new entrant in comparison to its global counterparts. **According to our research, the BNPL market in India has been valued at \$3.5-4 billion in 2021. But early signs point to a future where it could become the largest BNPL market and grow 10 times over the next five years to become a \$35-40 billion industry by 2026.** India's large young population, with rising consumer spending, preference for online channels and electronic payment methods, exponential e-commerce growth and BNPL frictionless payment experience together offers a unique opportunity, fuelling BNPL market growth. Furthermore, the existing 69 million credit cards (2021), with overall penetration of nearly 5% of the country's population, are not enough to address consumer credit demand. This is where the

BNPL rapidly gaining traction in India. **According to our research, India has had approximately 22-25 million BNPL users in 2021, which are estimated to reach 90-100 million by 2026, indicating the untapped potential and prospects for BNPL in the Indian market.**

Below are a few key factors driving the BNPL segment in India:

- **E-commerce penetration in tier-2 & tier-3 cities:**

The robust growth of the Indian e-commerce sector is also a catalyst for the growth of the Indian BNPL market. In the last few years, India has seen a major uptick in the number of online shoppers in tier-2 and tier-3 cities such as Patna, Kanpur, Dehradun and more, owing to improving internet penetration, heightened demand and adoption of new short-term credit solutions.

- In 2021, LazyPay, a Mumbai-based BNPL startup, reported that around 60% of their demand comes from tier-2 and tier-3 cities, with the average age of consumers being 26-27 years.
- The 'Pay Later' service offered by Amazon has more than 2 million users in India and has already been used more than 10 million times since its launch in April 2020.





According to India Brand Equity Foundation (IBEF) Report on 'India E-Commerce Industry', India's e-commerce market is poised to reach a \$200 billion by 2026. Undoubtedly, such e-commerce growth also complemented the surge in the embedded lending solutions provided by BNPL players. **According to GPR 2022, BNPL has already captured 3% of the market share in the online e-commerce payments segment in the country.** In the future, owing to its value propositions, BNPL will rapidly emerge as a popular form of payment within the consumer market and will permanently shift the dynamics between e-commerce businesses and their customers.

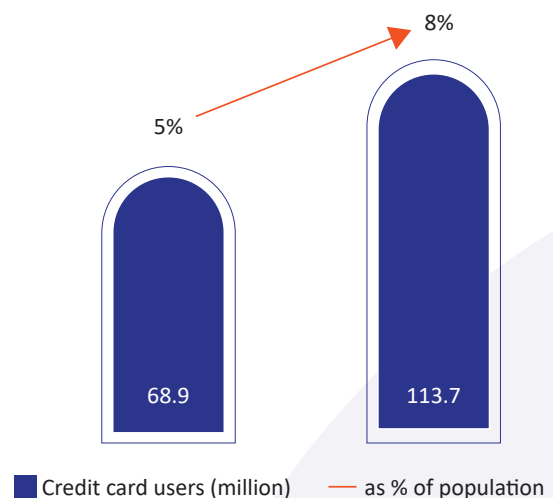
- **Low credit card penetration:** The credit card market in India is still under-penetrated. When compared to other countries such as US (75%), Australia (75%), UK (55%), Germany (35%), India's credit card penetration percentage stands lowest at approximately 5% with only 69 million credit card users. Further, since the outbreak of the pandemic, there has been a massive shift in Indian consumers' preferences towards online buying. People in India find BNPL an attractive alternative credit tool

because of its flexibility to pay at later dates with low or no interest and instant, easier access than a credit card with no onboarding fees.



According to our estimates, domestic e-commerce spending via BNPL could go up to **14%** by 2026.

Figure 5: India's Credit Card Penetration



Source: RBI, Benori Research

- **Large adoption among Gen Z and millennials:**

Indians across all age groups use BNPL services, but the BNPL adoption is primarily led by Gen Z and millennials. The shopping preferences of the Gen Z population are the driving factor for the BNPL market as they constantly look toward personal finance options. This demographic group is significantly contributing to the exponential use of smartphones & electronic products and prefers seamless digital payments. The younger generations look at BNPL as a budgeting tool with convenient and interest-free shopping options. Most millennials and Gen Z do not have any credit history, but they are always looking for short-term credits. Hence, powered by the needs of the digital-native generation, BNPL is set to play a key role in driving the evolution of the credit and payments space.



According to Zest Money report 2021, BNPL emerged as the preferred option for people of all ages, with the youngest customer being 18 years old and the oldest being 66 years old. Their Gen Zs customer base using BNPL services reported a 232% increase in numbers while the millennial's customer segment grew 2x by 102% in 2021.

Additionally, flexible repayment options, no hidden charges, and zero documentation required are the main advantages offered by BNPL, which drive the interest of Gen Z and millennials towards BNPL services.

- **COVID-19 led growth:** The growth of BNPL has been propelled in India after the pandemic. Owing to lockdown, job losses, salary cuts, and uncertain income, the flexible BNPL model helped customers break down their expenses into smaller, interest-free EMIs, rather than having to dig deep into their savings. Increasingly, people are becoming more comfortable with making online purchases which are also fueling the demand for BNPL services in the country. For instance, LazyPay alone is currently serving over 30 million users in India while Simpl witnessed a 40% increase in transactions for daily essentials from hyper-local merchants after the pandemic in the country.
- **Banks are adopting BNPL services:** In addition to new BNPL startups entering the Indian market, banks have also entered the BNPL segment. Indians' banks have realized that credit cards and BNPL can co-exist and complement each other. Banks are focused on attracting new customers that have so far stayed away from credit cards (as depicted in figure 6)

Figure 6: Recent Initiatives by Incumbent Banks



In 2021, KMB announced its plans to invest more in the BNPL segment by looking at the potential in the area



In 2021, Axis bank launched a BNPL product known as Freecharge Buy Now Pay Later for payments on the Freecharge platform, with 30 days credit repayment cycle











In 2020, ICICI bank partnered with payments giant Pine Labs to offer In-store Pay-later facilities, with payments split over monthly installments

How the Indian Payments Landscape is Evolving

The Indian payments landscape is evolving at a rapid pace. BNPL is an interest-free alternative credit that is gaining prominence rapidly with the presence of several startups and FinTech platforms. According to industry tracker Tracxn, there are 41 BNPL-focused startups in India, as of December 2021. Some of the prominent players include LazyPay, ePayLater, Simpl, and Zest Money. Fintech and payment companies such as Mobikwik and Paytm have also ventured into the segment.

Even leading e-commerce marketplaces such as Amazon and Flipkart (Phonepe) have joined the bandwagon and are offering their BNPL solutions. In April 2020, Amazon India launched its 'Amazon Pay Later' solution. These solutions have gained popularity among online shoppers and are reported to have boosted sales on their respective platforms, especially in the festive season sales. Even Indian taxi-hailing aggregator Ola also recognized the potential of BNPL and started offering Ola Postpaid, which also offers a pay-later option for 300+ third-party platforms.

Table 5: Snapshot of Some Prominent Indian BNPL Players

BNPL Players	Location	Founded Year	Company Stage	Total Funding (\$ million)	Repayment Cycle* (days)	User-Base (in million)	Credit Limit Offered*
Pure-play Players							
 Simpl	Mumbai	2015	Series B	83	20	7	20,000
 ePayLater	Mumbai	2015	Unknown	16	14	NA	20,000
 LAZYPAY	Gurgaon	2015	Series A	7	15	3.5	20,000
 zest	Bengaluru	2015	Series C	125	90	15	NA
Other Players (e.g., NBFCs, payment companies, e-commerce platforms)							
 paytm POSTPAID	Noida	2019	Unknown	NA	30	7	1,00,000
 OLAMONEY POSTPAID	Bengaluru	2018	Series A	47	15/30	NA	25,000
 PAY LATER	Bengaluru	2020	Unknown	NA	30	2.8	70,000
 CAPITAL FLOAT	Bengaluru	2013	Series D	204	30	2.5	20,000

* The BNPL providers may offer multiple programs with different terms and some terms may change depending on the amount of the purchase

Source: Company Websites, Media Reports, Benori Research



WHAT BENORI'S BNPL CONSUMER SURVEY REVEALED

To gather insights on BNPL usage, trends and patterns among consumers, Benori surveyed over 1,000 BNPL users. The survey explored top consumer preferences, categories that are driving BNPL demand, consumer frequency, spending statistics and many more. Our survey not only dispels some common myths around millennials and credit but also offers a comprehensive picture of consumers' unique priorities and

preferences in using BNPL services. The survey was carried out between February and March 2022.

Our survey results backed up what we have already anticipated. BNPL as a credit option is more prevalent among younger consumers (especially digital-savvy consumers) and our survey results indicate that BNPL is growing across all age cohorts. Close to 60% of millennials preferred to use BNPL services than other generations.

Figure 7: Growing Use of BNPL

Demographic breakup of the respondents (n > 1000) (in %)

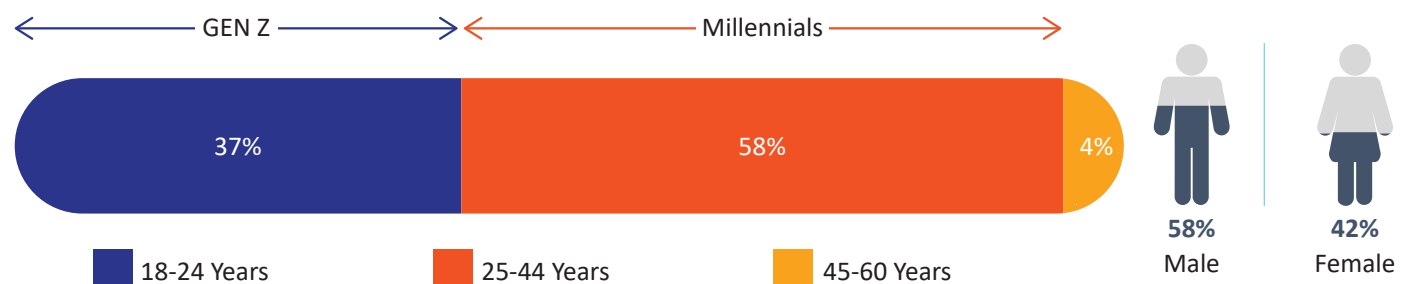
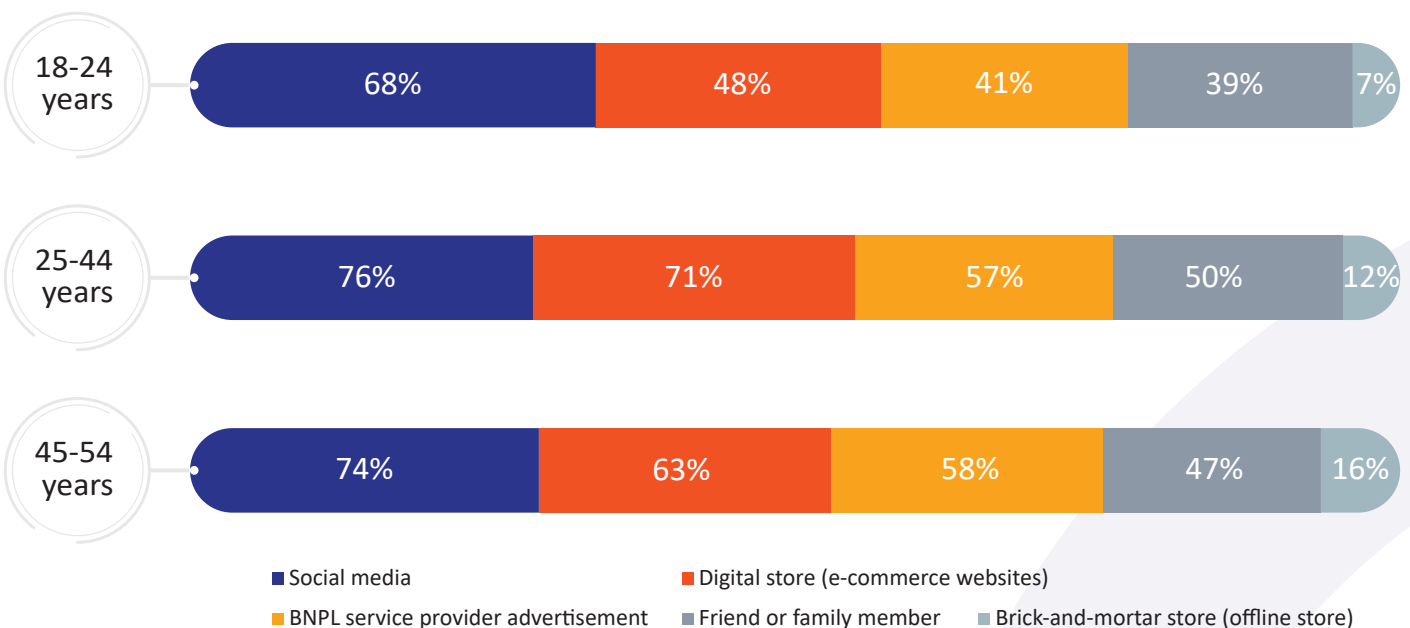


Figure 8: BNPL Awareness and Knowledge

Respondents indicating their source of knowledge for BNPL service (in %)



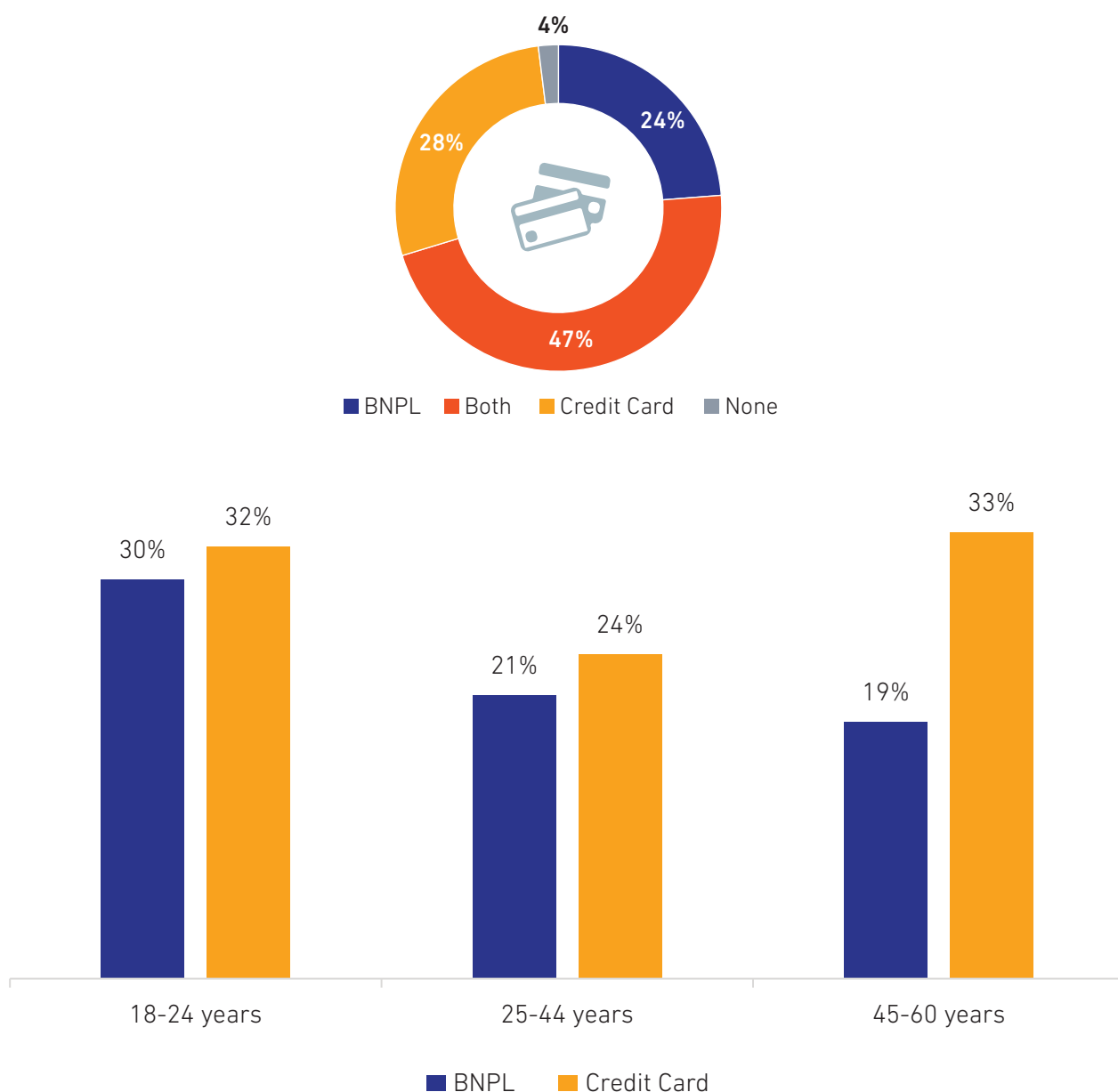
Approximately, 50% of the Gen Z and millennial population have heard about the BNPL mode of payment (credit option), either through an e-commerce website (where BNPL is an embedded component) or via social media. This propagation can be attributed to the increasing internet and smartphone penetration, resulting in subsequent online engagement, as the Indian population is rapidly embracing digital solutions.



Gen Z and millennials are the early adopters of BNPL across all age groups, and their usage of it has grown substantially.

Figure 9: Credit Preference

Respondents indicating their preferred mode of payments (in %)



When asked about credit options that consumers are currently using, nearly 50% of the respondents claimed to be using both BNPL and credit cards for payments. It is interesting to note that the number of consumers solely using BNPL is closing the gap to the number of users using credit card services. The figures speak for themselves. It indicates the threat that BNPL is posing to credit cards. The increasing desire from credit card users of leveraging BNPL in the future exhibits a sense of awareness and understanding about the benefits of the BNPL service. It also shows the changing trend and shift in the mindset of customers to switch to new-age payment options. The finding reinforces that BNPL has emerged as a direct competitor to credit cards; the latter still dwarfs the former, but this is a trend to



45% of the respondents indicated their preference of purchasing from BNPL even if they have credit cards.

keep an eye on moving forward. It is also interesting to note that the notion Gen Z's are averse to having and using credit cards is a myth — our research proves that the opposite is true. Our research has shown that these consumers (Gen Z and millennials) have financial resources but are looking for a responsible way to finance purchases without incurring any fees and debt.



55%

of survey respondents listed following credit card benefits as the main attraction for using credit cards



Cashbacks
and Rewards



Higher
Credit Limit



Trust
and Security

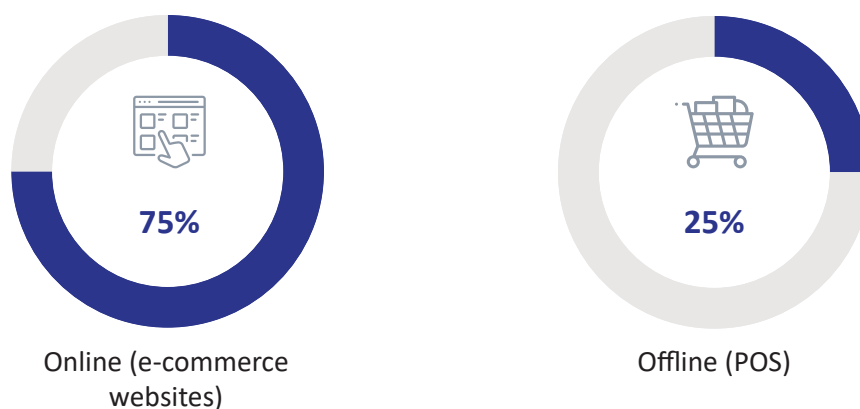


Around two-thirds of the respondents (75%) have used BNPL services through e-commerce websites (Amazon, Flipkart, BigBasket). BNPL service providers offer their services as an embedded payment option at most e-commerce websites, helping customers with easy check-outs and hassle-free purchases. Merchants, on

the other hand, are attracted to the value proposition of higher sales and high conversion rates. High digital penetration and online shopping during the pandemic primarily contributed to the use of BNPL through e-commerce websites rather than at offline (point-of-sale) stores.

Figure 10: Usage of BNPL

Respondents indicating preferred channel for BNPL services (in %)

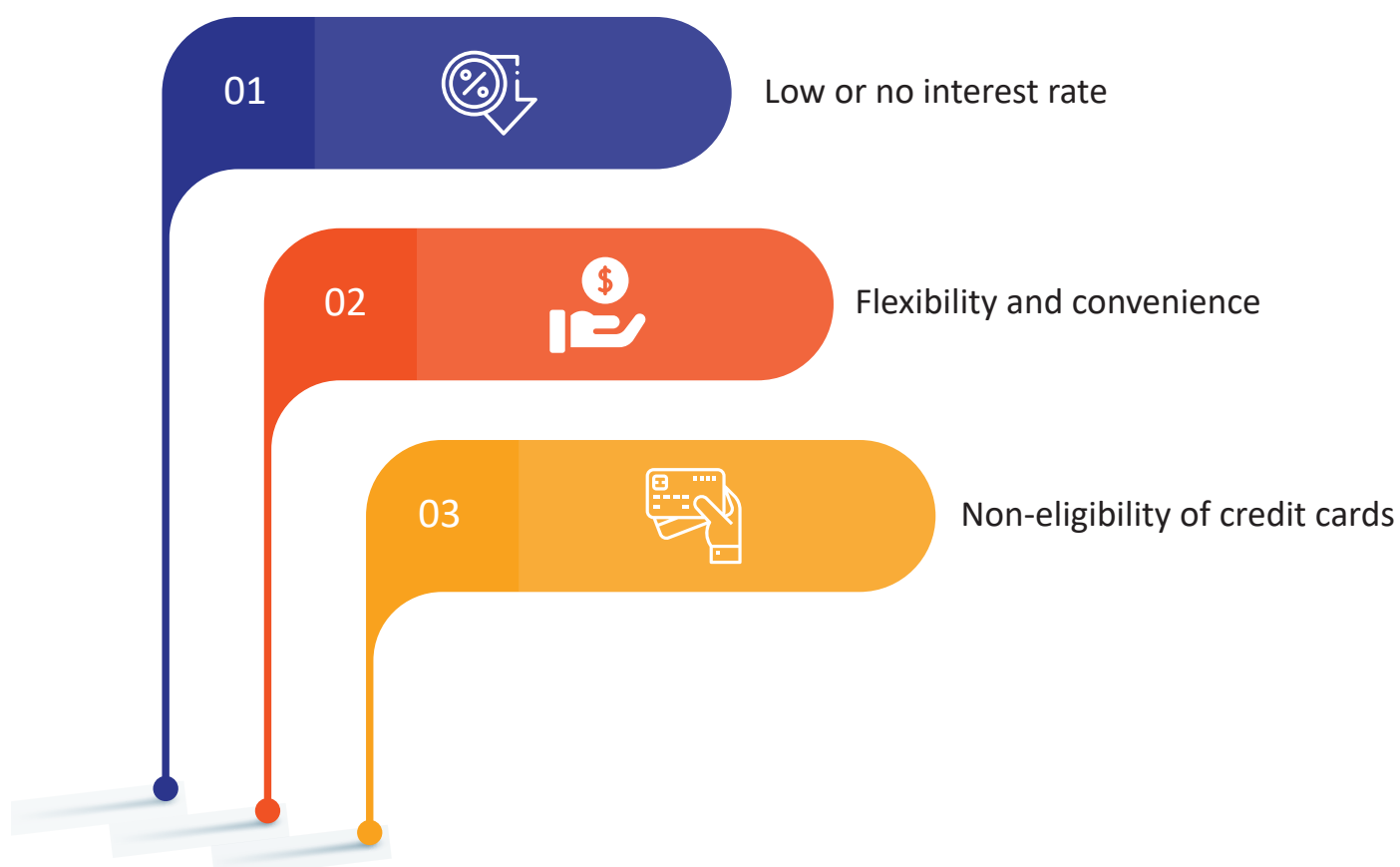


Furthermore, 90% of respondents revealed that they prefer or are more likely to shop from stores, both offline and online, that offer BNPL options during check-out. The finding reinforces that the availability of a 'pay later' option has a positive impact on online shopping, boosting consumer confidence. Consumers can choose from several payment methods when making

an online purchase and have certain motivators for using one payment method versus another. Our survey indicates BNPL users focused on low or no interest rates, followed by flexibility and convenience, and non-eligibility of credit cards as the major value proposition for them to use BNPL services (see figure 11).

Figure 11: Major Value Proposition for BNPL

Respondents ranking their most preferred value proposition



Regarding the frequency of usage, nearly 40% of the respondents indicated that they leverage BNPL credit to the limit while only 20% of the respondents make use of BNPL services once a month. BNPL as an alternative mode of payment has added to the spending capacity of customers. Nearly 40% of the respondents revealed that the use of BNPL service has led to an increase of 30% in their monthly spending, while 33%

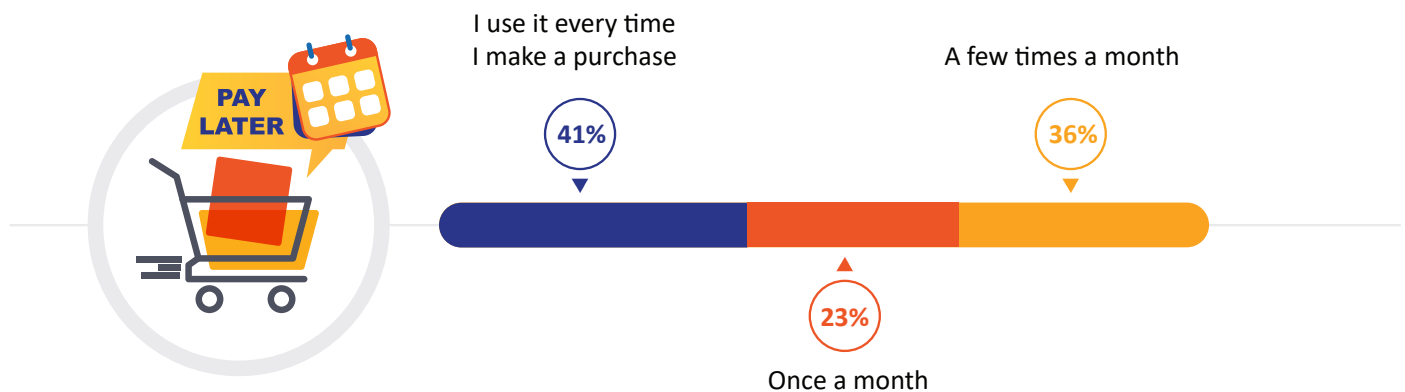


90% of the respondents indicated overspending because of BNPL.

revealed an increase of 50% in their spending than they would have if they had not used it. This trend has been prevalent across tier-2 and tier-3 cities as well.

Figure 12: Frequency of BNPL Services Usage

Respondents indicating their frequency of BNPL service usage (in %)



Economic disruptions caused by the pandemic had significantly reduced consumer purchasing power and thus permanently led to a change in consumer purchasing patterns. In the last two years, BNPL's proposition as a short-term credit solution has become a panacea for a large population of customers. Most of the respondents indicated a preference for a high credit limit of over INR 50,000 (more than what is offered by most of the BNPL providers) and a repayment period of around 30 days. Interestingly, in terms of purchases, electronic products (71%), followed by fashion & lifestyle products (67%) and everyday basic shopping (57%) are the most preferred purchase items by the BNPL users. However, BNPL services were used to

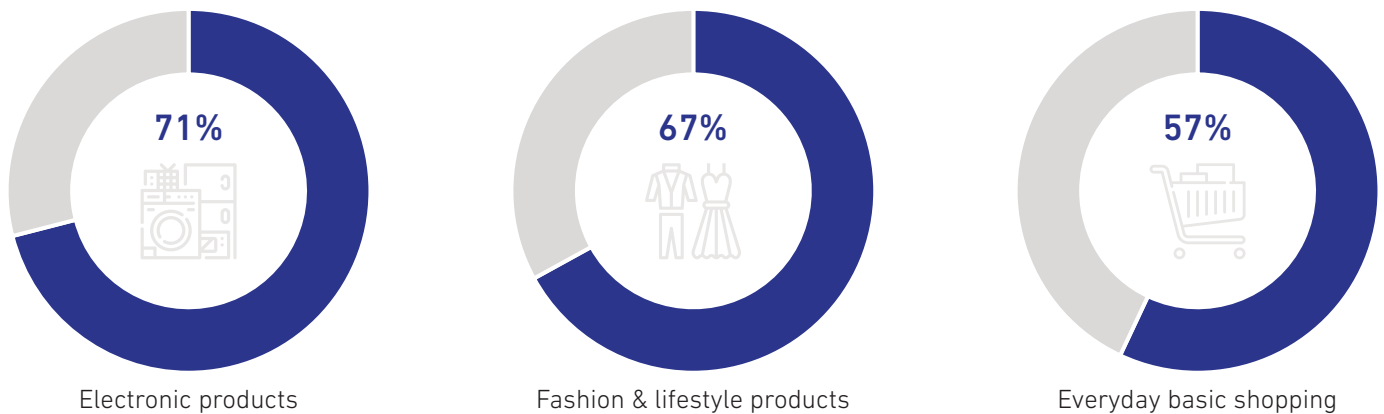
purchase a broad range of products and services (see figure 14). We also found out that men spent heavily on fashion and lifestyle products. They also upgraded their electronic products/smartphones. While women, on the other hand, also showed a similar trend upgrading their electronics and indulging in fashion and lifestyle products, they spent more on travel as compared to men using BNPL.



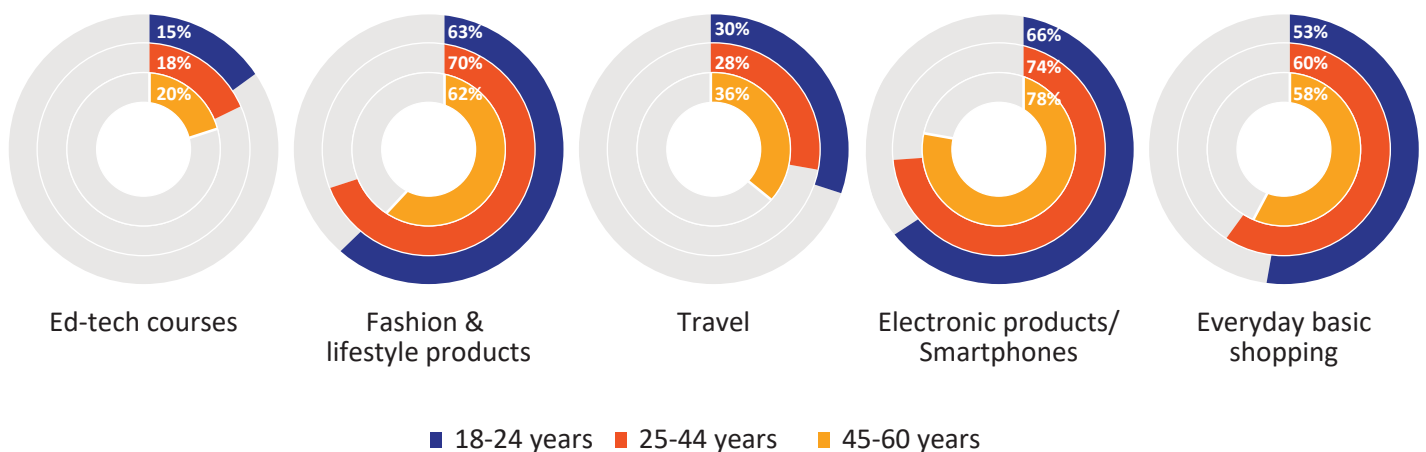
On average, **female users spend more** monthly using BNPL than males.

Figure 13: Most Preferred Purchase Items

Respondents indicating their preferred purchased items via BNPL (in %)

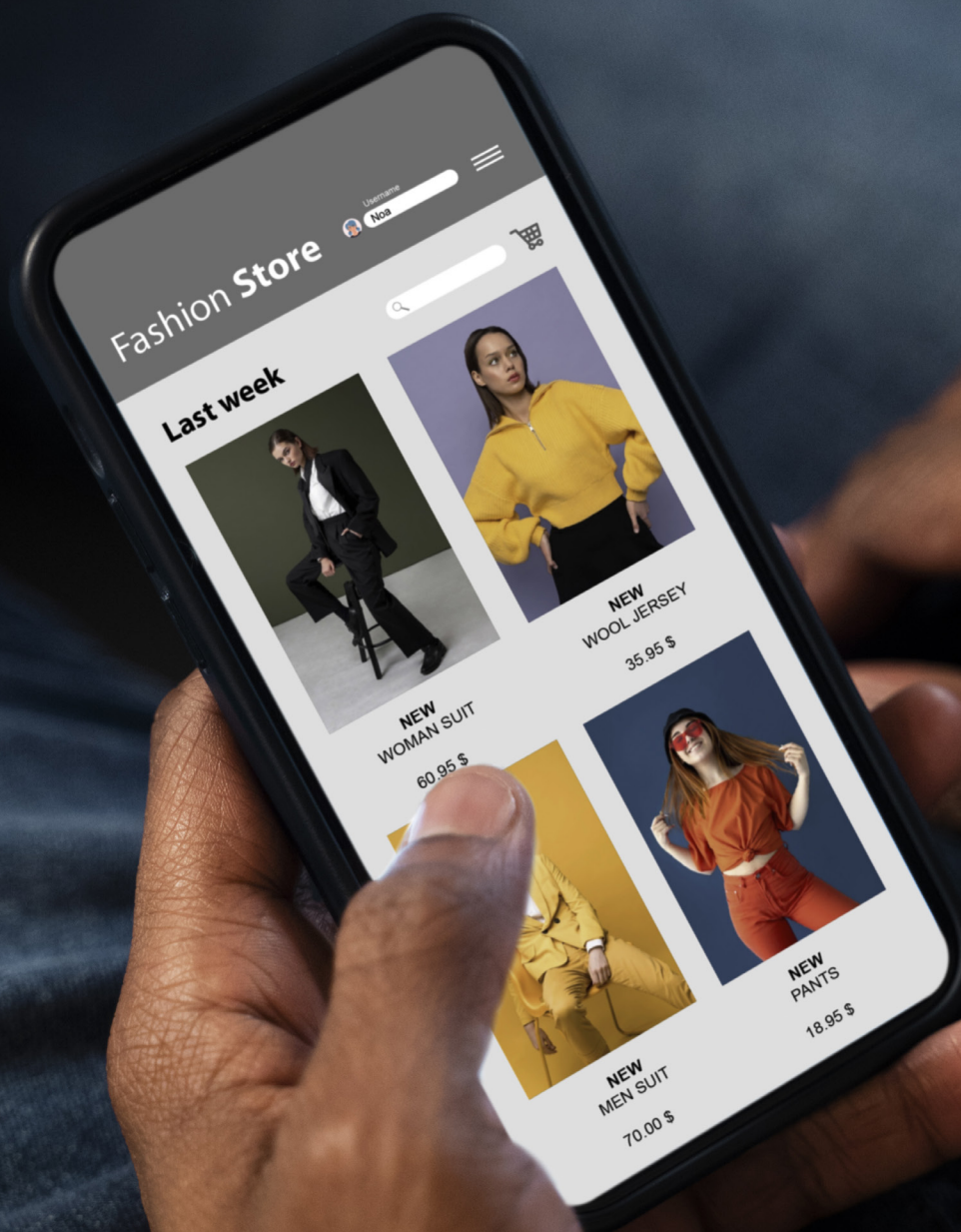
**Figure 14: Purchase Preference across Age Groups**

Respondents across age groups indicating their most preferred purchased items via BNPL (in %)



BNPL services in India are rapidly evolving. Over the last few years, India has witnessed a rapid surge in BNPL transactions and the number of users. Our survey indicates that a sense of approval and reliability is building slowly towards BNPL as an alternative mode of payment to credit cards. Owing to high e-commerce growth, higher adoption by Gen Z and millennial, low credit card penetration (nearly 5%), and shift in

customer purchasing behavior, BNPL numbers are expected to break records in subsequent years. In the coming years, it is predicted that India's BNPL market will replicate what we had already witnessed in more mature European markets leveraging the untapped potential, especially by serving consumers with weak or no credit history, lack of financial documents and low-ticket credit requirements.



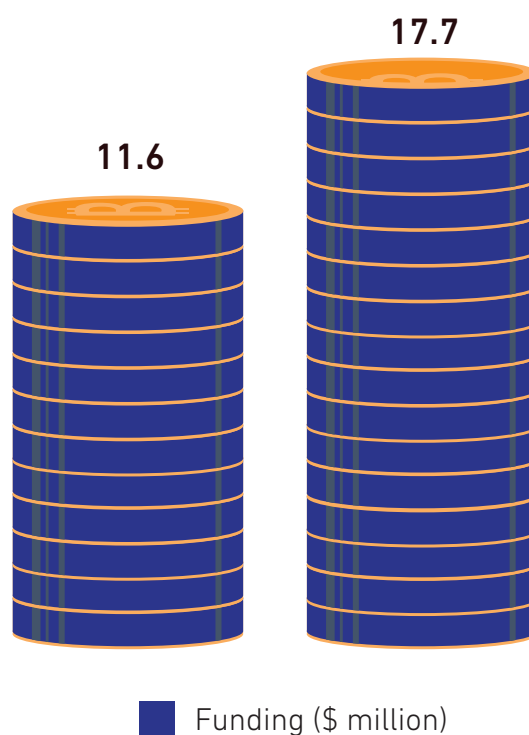
BNPL IS POISED FOR EXTRAORDINARY LONG-TERM GROWTH

Outlook for the Market in 2022 and Beyond

India's BNPL industry is expected to grow at least ten-fold within the next 4 years as millions of online shoppers get lured by interest-free credit with fewer hassles. Over the years, BNPL has experienced accelerated growth based on widespread adoption. Many players have reported over 100% growth in disbursements during Diwali 2021, compared to the year before. For instance, LazyPay, the BNPL product owned by PayU accounted for a credit demand increase of 300% over the last festive season in India. The huge demand has been reported in segments such as food and beverages, travel and entertainment have facilitated 5 million transactions every month through 2021.

With the market expected to record strong demand over the coming years, BNPL firms are raising funds to expand on the high-growth potential market. **As per Tracxn data, the BNPL segment in India had seen a total funding inflow of around \$17.7 million in H1 of 2021, against \$11.6 million worth of total funding in 2020.** Various global players are also entering the market through strategic investment in local firms. Some of the recent deals and partnerships in the Indian BNPL segment are:

Figure 15: Funding of BNPL Players in India



Source: Tracxn, Benori Research

- In September 2021, Australian BNPL firm Zip announced that they are investing \$50 million to acquire a minority stake in local BNPL brand Zest Money. This strategic investment from Zip in Zest Money is part of the company's expansion plan in new markets. Further, Zest Money plans to utilize this funding for expansion of its product portfolio, and launch new business lines, including savings and insurance.

- In November 2021, Slice had raised \$220 million in a Series B funding round led by investment giant Tiger Global and private equity firm Insight Partners valued the company at more than \$1 billion.
- In December 2021, Simpl had raised US\$40 million in its Series B funding round. They are planning to infuse this new capital in the expansion of its BNPL offering across the country to further accelerate its growth.
- In December 2021, Uni had raised \$70 million in a Series A round led by General Catalyst, making this one of the largest Series A rounds in the Indian fintech space.
- In January 2022, Mastercard-backed Indian merchant commerce platform Pine Labs had raised a \$20 million investment from the country's largest commercial bank, the State Bank of India (SBI).

Regulation poised to Challenge the Status Quo bringing more Transparency and Efficiency in the Coming Years

Currently, BNPL is at a nascent stage compared to other payments methods, globally. Unlike credit cards, there is no independent regulation, suggesting that there are no standards for disclosures on fees, amounts owed, credit reporting, and payments. This has given rise to concerns over customer protection and better business practices. Hence, regulators around the world are deliberating and examining the potential of this new short-term credit solution, amid apprehensions over excessive and unregulated lending, and no credit reporting.

Globally, several countries are also taking significant steps to bring about radical changes in the BNPL market. They are reviewing and analyzing the

BNPL market to come up with a suitable regulatory framework. Last year, the Reserve Bank of India (RBI), in its report on '*Digital Lending including Lending through Online Platforms and Mobile Apps*', clarified its stance on BNPL. **The report has recommended categorizing BNPL under balance sheet lending (BSL), which should be allowed only to banks and non-banking financial companies (NBFCs), and classifying BNPL as a credit product.** While some FinTech companies offer BNPL as a credit option, ensuring proper credit reporting, some of them provide BNPL as a payment option/product for enhanced customer engagement and seamless user experience. These BNPL service providers position it as a potential replacement for credit cards but not a credit product, and thus do not report transactions to credit bureaus. These companies claim that since no interest is being charged to the consumer, they do not fall under the definition of credit. Hence, they are not required to book the loan on NBFC or report it to a credit bureau. Many FinTechs are thus taking the exposure on their balance sheet and treating them as deferred payments. This creates a blind spot in lending and a lack of transparency where a regulated credit provider never gets a complete picture of a customer's financial position while assessing affordability.

This practice creates a gap when evaluating a customer for other loans, thereby resulting in asymmetric information, sometimes causing the customer to be over-leveraged, by other potential lenders. Consequently, this results in customers taking more loans and falling into a debt trap. From a BNPL providers' point of view, it is important since a FinTech company might be offering credit to someone who has a bad credit record. Moreover, when the customer stops paying, the RBI's code of conduct for collections needs to be followed. However, companies not treating it as a credit product may not follow the code of conduct,

sometimes leading to customer harassment due to a lack of monitoring. **Therefore, the RBI highlights the need for regulatory purview on BNPL companies. It recommends eliminating the regulatory arbitrage that BNPL businesses enjoy, by not sharing the information about transactions, customer payment behavior, and credit profile with the credit bureau.**

The regulations, if it comes into effect, will increase the operational cost of BNPL service providers. The companies will have to do a full-fledged KYC process

as well as credit bureau reporting. They are also required to set up a self-regulatory organization (SRO) as a nodal agency to verify transactions and repayment. These changes are expected to bring transparency and accountability to businesses, as well as customer-oriented guidelines for better interaction and exchange between the lender and borrower. The recommendations reflect a cautious approach to approving the current system of self-regulation, particularly considering the rapid growth of the BNPL industry.



CONCLUSION

The demand for BNPL services shows no sign of slowing down. By 2025 the BNPL share in e-commerce transaction value is expected to reach nearly 5%. BNPL companies have taken over the world and there are clear signs that there is still plenty of room for BNPL companies in most markets. In African, Middle Eastern, Asian, and Latin American markets, BNPL is still evolving, and experts believe that an alternative model may be poised to challenge the status quo.

In India, BNPL's ability to serve segments of urban and semi-urban consumers with weak or no credit history, lack of financial documents, and low-ticket credit requirements will play a major role in volume growth in the coming years. With the ever-increasing e-commerce volume, FinTech ecosystem, and other growth drivers coming together, the Indian BNPL market is expected to witness extraordinary growth by 2025, emerging as a win-win situation for all stakeholders in the BNPL segment.



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