BNPL India Deep Dive

Presenter — Approach Note — Host

BNPL - Buy Now Pay Later has come out as one of the most disruptive phenomenon in this decade starting from 2020. It is being described as a phenomenon with its impact already widely visible & likely to intensify in the coming years further, with top line revenue (GMV) to notch up to USD 3 trillion* from a current estimated base of USD 226 billion in year 2021.**

What is BNPL?

BNPL in its narrowest sense is a payment method like so many established one, such as Visa, MasterCard, Amex, PayPal, NPCI's Rupay or UnionPay, NETS or UPI like rails, so many payment choice options at checkout points, both in store or online. But unlike the brands as above it is variously mentioned at check-out point as EMI or pay later or some other forms which signifies that by using that particular payment option the buyer is looking to spread over its purchase in installments, of various types, by various BNPL providers.

BNPL - A Unique Short-term Financing Payment Model

What's so Unique and Disruptive about BNPL became clearer during the pandemic surge in 2020 & throughout 2021, this moderately used payment method suddenly saw huge uptake , first in Australia, then sweeping the US and Europe in a grandiose scale and intensity that have not been seen during the last 6 -7 decades since the advent of the Credit Card in the US in late 50s and 60s. From the charts & statistics below it is evident that in the last two years alone in Australia, the US, UK & other European cities the customers have lined up and adopted BNPL options increasingly and in some segments more than 50-60 % of the population have used BNPL methods, even forsaking the normal CC usage and /or normal bank, FIs credit linkage. The predominant users have been the millennial & the Gen Zs, but gradually, all the age-group.

Why So ? What led to trigger this uptake?

The answer in simple terms is that from a simple yet different payment method It has become such a phenomenon because it has become a vehicle by itself of a combination of payment method, purchasing options with facilitation with the biggest brands at a discount, with short term loan provisioning at almost zero cost to the customer & with door step delivery or store pick-up, ALL IN A SINGLE PLATFORM. And the Merchants have gleefully embraced because of better conversion volume.

- **BNPL providers like Klarna, AfterPay, Affirm and other traditional payment processing companies** which had been present in its offerings since 2015-16 & even earlier, capitalised on the pandemic induced digital process using platforms for ordering online and getting home delivery, made the user experience unique from an App mostly, as a Super-App , which provided an end to end seamless ordering of merchandise and services to the favourite shops or stores **with a bundled offer to a Pay Later at Zero Cost with options topay in 1+3 fortnightly installments, without any processing fees, without any interest if full payment is made within the agreed fixed tenure of the installments. The Buyers never had this choice before & also have the options of paying with interest at a longer time interval too like traditional POS or consumer durable loans financing. These offers are loaded with usual deep discount, return policy & all other standard sops to lure customers to a particular brand. So these combinations of so many advantages, particularly split payments in 1+2/3 have pulled youngand old alike to BNPL like nothing before.**

- It started as headline stories when the numbers grew astronomically high, first in Australia & then in the UK & USA and spread rapidly in Europe, China & Asia- Pacific , Latin America and India.
- **Klarna, AfterPay, Affirm, ZIP** and many more clocked huge transactions & GMV catapulting them all into multibillion dollar enterprise in practically 2 years.
- The first rocking headlines came after **McKinsey in its BNPL paper** said that Banks in the US had during 2020 **lost close to $8-10 billion in revenue** to these BNPL providers.
- The BNPL providers not only acquired record millions of customers & transaction volume, their valuation & ability to raise money from investors and stock market (Affirm) rose phenomenally too.
- Soon it transcended boundaries and spread like wild fire across the continents and in India too it has now become a pulsating trend.

Global Trends & Numbers

Current Global GMV to Projected 2028-30	The Indian BNPL Current & projected Market
Current: 2020-21 USD 226 bn	Current: 2021 USD 3.5-5 bn
Projected: 2028-30 USD 1-3 trn	Projected: 2026-28 USD 45-50 bn

The Quest for the Deep Dive

There are tonnes of reports globally as also from Indian newswire and fintech news. FFIFS and its associates are making this deep dive in order to understand the deep impact BNPL has already ushered in amid the euphoria with a fair amount of skepticism that BNPL is not going to sustain itself with these crazy upsurge in numbers, both as a business case as also because of its unbridled lure to snare gullible near- prime or subprime customers, thereby making a mountain of debts amongst the most vulnerable community.

The buzzwords say that Regulation is coming & the freewheeling overdrive of BNPL days will be over andsoon it will fade away like many a lost buzz over the years. The reasons as per skeptics ascribed are:

- *The business model is unsustainable*
- *Regulators will prune its wings and restrict its offerings which will pull the wind out of its tail*
- *The banks, which reacted slowly and are now rearing and making a move into this sector will provide afierce competition and would ultimately gobble up BNPL into the banking system*

Indian Context & FFIFS views

FFIFS has a somewhat contrarian view & predicts and says with conviction that in India BNPL in its revamped form is going to last & probably be a game changer by ushering in a revolutionary changes in the transaction eco-system as BNPL is not merely a payment method any more, it becomes a way of life. From a very narrow use case It will surge next years to scale unprecedented heights because of it all pervasive transaction empowerment. **How so?**

- The Credit access gap in India is so huge that despite probable leveling of the paying field, despite fierce competition leading to consolidation and likely fewer players operating in India, the innovation & digital process will lead to democratising and broadening the market with financial deepening if BNPL providers adjust and apply to local conditions& varied offerings judiciously.

- Currently, Indian BNPL players are attacking the urban subsets with digital on-boarding, KYC & alternative scoring models, thereby empowering the Millennial& Gen Zs and a whole lot of NTCs-New to Credit. But soon they will find routes to cater t o Tier 2 -3 cities, town and once the rails of phygital as also the innovative ways to transfer traditional KiranaKhata book into AI/ML driven Loan Origination uptake, a upsurge is there in the realm of a reality.

- In a way India stands at a cusp to upsurge this as a market driven intervention, as sheer credit need is so un-satiated, with bankstrying to find ways to offer creditand the pandemic effect is likely take a long time for economy to return to normal, which in India, was pretty down in the pre- pandemic period. Clever well designed BNPL can play a huge boost to the choked credit marketto revive consumption economy which is very vital for India's roadto USD 5 trillion economy.

- All the signs are telling , with the digital payment rails like UPI, the E Comm boom, even as McKinsey comes out with another telling report on Grocery Market in India ,there are 4-5 key elements that is waiting to be tapped and cultivated by BNPL providers.
- Opening up Insurance and other subscription models into its lure

- Access to Credit provisioning with a general stratum of Rs 30-40 thousand household income at the entry level. It could be a meshed model with SMB to Individual financing, transforming the age old Kirana Khata model. There are players already working in this space.
- De-risking or low-risking debt-recovery models by using the proven community groups as long as identity, mobility and household tracts are well covered in risk mitigation metrics.

- Broadening up the merchandise and services mix by combining B2B financing in a manner where the bottom to lower-middle pyramid is drawn into the vortex, balancing with urban fringes and rurban echo of consumption of lifestyle, fashion etc is fused & well-balanced with daily needs with adding Education, Healthcare & career pathways.

- **Is It really possible?** FFIFS believes so and so do the Make in India brigade as also the huge interest by the Investors reposing their trust as the trend suggests where Indian start-ups continue to garner record millions of 4 investment funds. Are all of them in a lurch for a mis-guided splurge? Perhaps not.
- **Come join us and let us make another grand foray into an Inclusive Financial system deep dive. Be apart of the journey, engage, deliberate & debate and let us help find out more about BNPL.**

FOR WHOM THE BNPL DEEP-DIVE TOLLS

ALL financial service providers, Fintech, Regulators, Insuretech, Pos financers, Embedded Financers, AI/ML driven Loan origination providers, eCommerce Players, Logistics providers, Merchants of all shades - Online or Brick and Mortar, Travel & Tours, Hotels Entertainment, Food, Mom & Pop stores, Kirana stores, Healthcare & Medicine and, Foremost of all, large stratum of ever growing Customers.