

Affirm says recession would prove business model's strength

Article

The news: Affirm CEO Max Levchin reaffirmed his confidence in the company's underwriting process and overall business model, per the Wall Street Journal. Levchin believes that a recession would prove the company's resilience.

Key context: Affirm offers several payment plans that span six weeks to five years, but the average plan sits at five months. Some plans carry interest, but none have late fees. Affirm

uses credit reports, credit scores, and key shopping information—like where consumers are shopping and what they are purchasing—to underwrite customers.

Affirm has some guards in place to minimize risks: Customers who miss a payment, for example, can't be approved for another plan until they catch up. The firm also charges merchants a higher rate to accept riskier borrowers.

Zooming out: Buy now, pay later (BNPL) providers are contending with a challenging environment.

Economic uncertainty has cooled investor confidence. More cautious investors now prioritize profitable companies rather than the high-growth fintechs favored earlier in the pandemic. As a result, BNPL stock prices and valuations have plummeted: Affirm's stock price is down 77% from November, and Klarna's [valuation](#) is just one-seventh of last year's \$46 billion high. To mitigate losses, some providers have cut staff or [slowed](#) expansion efforts.

Payment giants and smaller upstarts are vying for BNPL market share. Mastercard, Visa, and a bevy of major banks have stepped in with their own installment lending solutions. And niche BNPL newcomers are also trying to sweep up market share as BNPL grows: **The number of US BNPL users is expected to hit 79 million in 2022**, up from 50.6 million last year, [per](#) Insider Intelligence forecasts. Consumers now have a much wider array of BNPL options to choose from than they did before the pandemic—making it harder for incumbents to stand out.

And BNPL regulation is taking shape in the background. The Consumer Financial Protection Bureau (CFPB) [launched](#) an inquiry into the five largest BNPL providers (including Affirm) late last year. While the watchdog has yet to issue any new BNPL guidelines, it's keeping a close eye on the space: Director Rohit Chopra [said](#) last month he was examining Big Tech's role in BNPL—specifically **Apple**, which plans to [introduce](#) Apple Pay Later. Other countries, like [the UK](#), have already taken steps to regulate the sector.

What this means: BNPL providers like Affirm can lean on their underwriting capabilities to strengthen their position in the challenging market. This can help minimize their operational risks during an economic downturn.

Providers may also build out their product suites: Klarna recently [extended](#) its shopping app to give UK customers a clearer view of their shopping histories and let them track their orders. BNPL providers can maintain customer appeal and increase engagement by adding new features and solutions.

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