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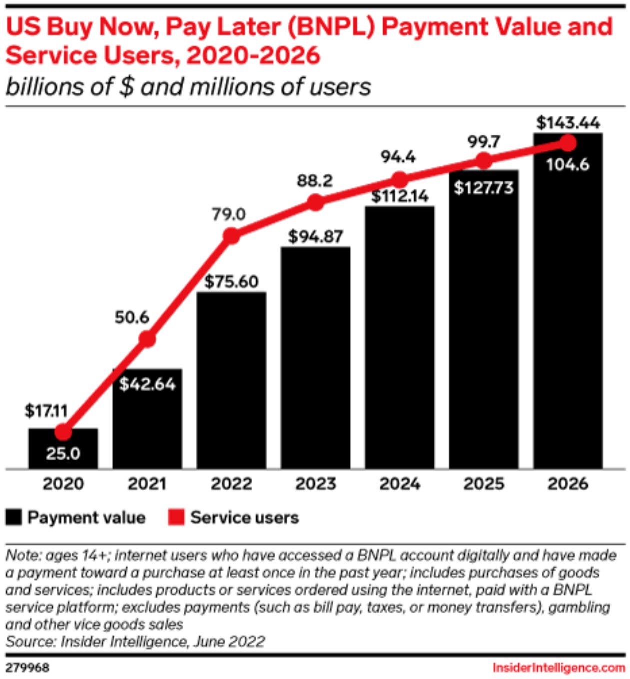
Key trends we're watching in BNPL

Article

Buy now, pay later (BNPL) has thrived because it combines the flexibility of credit with short repayment terms, app-based shopping, and a simple user experience.

It will continue its upward climb in the US this year, though growth rates will slow as the sector matures, according to our forecast. User penetration will exceed 40% of digital buyers for the first time in 2023, with growth coming predominantly from younger users. And spending will reach $94.87 billion, up 25.5% year over year—a sharp deceleration from 2022, but more than double user growth.



Key trends we're watching

Consumers and merchants both drive BNPL gains

- **Users are turning to BNPL more often as they struggle to make ends meet.** This may come in part from everyday expenses, where use has been growing, per the Consumer Financial Protection Bureau (CFPB).
- **Rising merchant acceptance gives users more opportunity to spend.** BNPL is moving into new sectors, with grocery, healthcare, legal services, and travel ripe for gains. Major retail partners like Amazon are also embracing the tech. And in-store penetration is on the rise thanks to physical and virtual card growth.
- **New entrants could improve accessibility.** Apple and Walmart will reportedly enter the space this year.

BNPL threatens credit cards

Forty-four percent of US credit card customers would consider other financing methods—most notably BNPL—for high-ticket purchases, per the J.D. Power study. And five of the top seven reasons US adults used BNPL were directly related to concerns about credit cards, per June 2022 polling by The Ascent.

While credit cards boast much wider adoption than BNPL overall, the latter's popularity could make it harder for issuers to attract younger customers. And it might accelerate development of issuers' own payment flexibility initiatives. These could take hold: 70.2% of US BNPL users said they would be more interested in using bank-backed BNPL products than fintech alternatives, per a PYMNTS.com study published in January 2022.

Increased risk ramps up regulatory pressure

Since most BNPL payments aren't reported to credit bureaus, consumers can take out multiple loans across providers. Users might also be overextending: 42% of those in the US said they have made a late payment on a BNPL loan, per March 2022 polling by LendingTree. While increased credit reporting is lowering the risk temperature, the CFPB is gearing up to require BNPL providers to comply with congressional and Federal Trade Commission rules governing other financial services providers.

While regulation might sting now, it should ultimately make BNPL feel safer. Regulation could add steps to the checkout process that make lenders stricter and BNPL harder to use. But transparency could increase consumer trust in the payment method, generating long-term gains.

BNPL fintechs shift their business model to dig out of a profit hole

Affirm and Klarna have yet to turn a profit, and sinking valuations further hurt performance. Zip made extensive cost cuts last year to stay afloat, including exiting markets and closing its money management app.

BNPL providers will make two changes as the industry transitions to "BNPL 2.0":

1. **Leading BNPL providers will try to build super apps.** They are leaning into non-BNPL services, including rewards programs, physical cards, noninstallment payment options, and price trackers. Becoming a destination for shopping and financial management can increase engagement and introduce new revenue streams.
2. **Providers may accelerate consolidation efforts.** Combining offerings can expand their reach and improve service suites. For example, Affirm and Splitit are on the hunt for tech assets. Struggling firms might also put themselves up for sale to larger corporations.

Read the full report.

Report by Jaime Toplin Feb 28, 2023

The State of Payment Methods