

BNPL is the latest fraud target—and providers should act quickly to avoid losses

Article

What's been on our minds: We've been thinking about the [rise](#) of online fraud coupled with the [surge](#) of buy now, pay later (BNPL) activity—and how these two factors might affect

consumers this holiday season. Some of the industry's most popular BNPL players have seen a rise in fraud, according to fraud experts who spoke to CNBC.

BNPL fraud can occur in two common ways:

- **Account takeover** occurs when fraudsters gain access to an existing BNPL customer's account to make unauthorized purchases. Lax identity verification and checkout processes can facilitate this type of fraud.
- **Fake account opening** involves bad actors stealing personal information to open a BNPL account under the guise of someone else's identity. This can happen when the methods BNPL providers use to determine creditworthiness—like proprietary algorithms or soft credit checks—miss fraud indicators like an email address or phone number that doesn't match the applicant.

Why it's worth watching: The number of US BNPL users is expected to hit 45.1 million this year, per Insider Intelligence forecasts. And 30% of holiday shoppers say they expect to use a BNPL plan to stretch their budget, according to Deloitte.

To maximize sales potential this holiday season—which is projected to rack up **\$1.092 trillion in sales**, per eMarketer forecasts from Insider Intelligence—BNPL providers are introducing new offerings and forging deals.

- **Afterpay** recently launched a solution that lets consumers pay for recurring charges in installments, which can spur new growth as subscriptions become more popular: **Nearly three out of four consumers** have at least one active subscription, per ACI Worldwide.
- **Klarna** just brought its Pay Now option—which lets customers pay in full wherever Klarna is available—to the US. This can make the provider attractive to consumers regardless of whether they intend to use an installment plan.
- And earlier this month, **Splitit** partnered with ecommerce platform provider **Wix** so its merchants can offer a BNPL payment option at checkout.

The big takeaway: Rising BNPL activity gives fraudsters more opportunities to game the system—making it more important than ever for BNPL providers and merchants to strengthen consumer safeguards.

- BNPL providers can enable tighter identity verification—both during account opening and checkout. This could resemble partnerships with firms like **Jumio**, which use AI-based identity

verification and authentication to help providers reduce fraudulent purchasing activity.

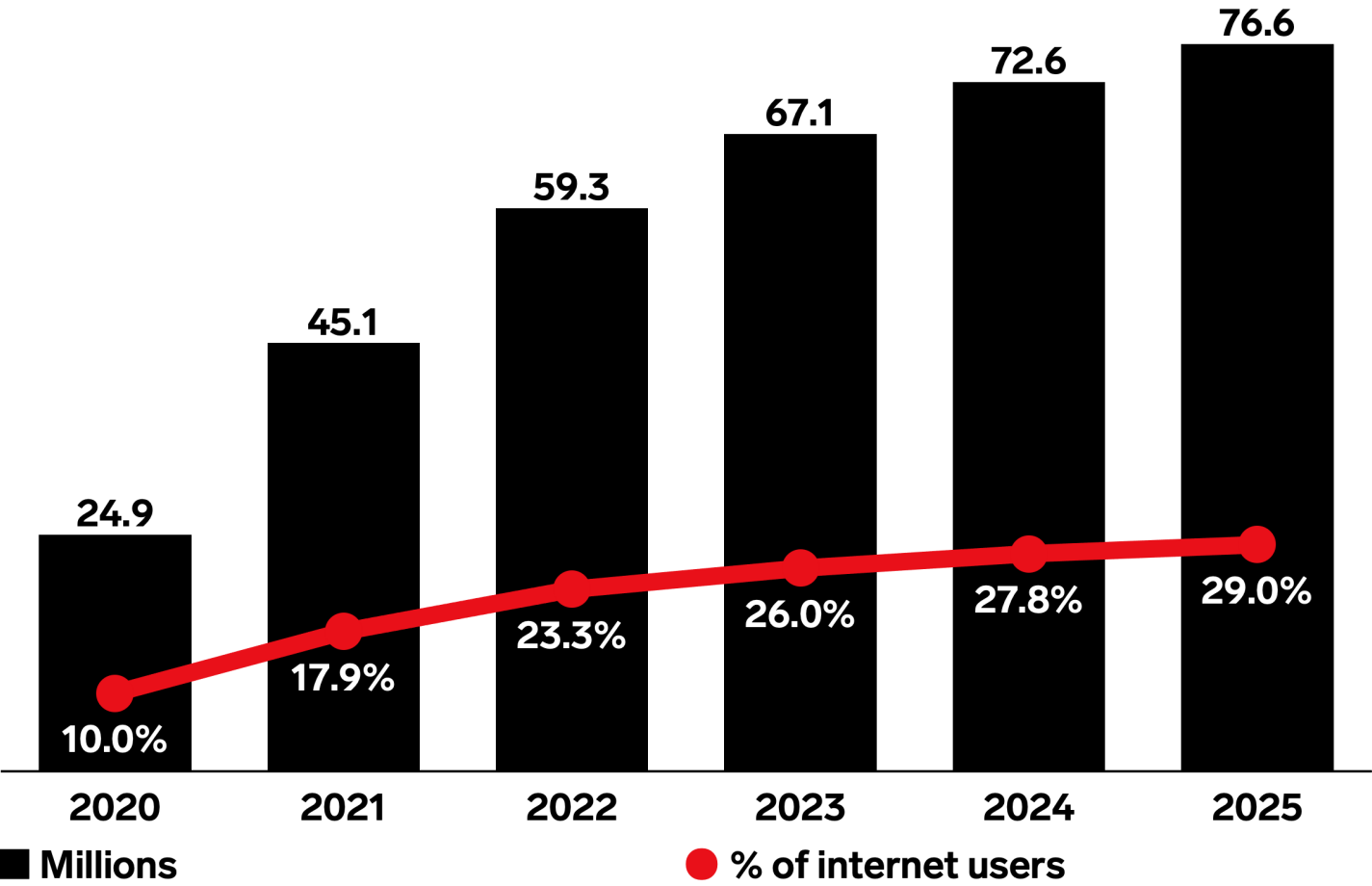
- Merchants can also work with fraud prevention specialists like **Vesta** that use machine learning technology to pick up on unusual purchasing activity that may be linked to fraud. Fraud mitigation helps merchants maintain customer loyalty and prevent financial losses.

Without fraud guards, BNPL providers run the risk of losing customers who might fall back on other payment methods—like credit cards, which may have higher fraud protections compared with BNPL—because of distrust.

Related content: Check out “[The Buy Now, Pay Later Report](#)” to understand how and why BNPL providers have risen to prominence and learn about some of the key players in the space.

Buy Now, Pay Later Service Users

US, 2020–2025



Note: Ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services. Buy now, pay later (BNPL) services are defined as interest-free solutions provided by third-party payment platforms that allow consumers to purchase and finance a product or service, and pay in scheduled installments; also known as digital installments, installment lending, and point-of-sale financing. Users are typically allowed to pay off balances in weekly, bi-weekly, or monthly installments. Failing to adhere to a predetermined payment plan will usually lead to late fees and interest charges. Consumers access these solutions at the point-of-sale (online or in-person), usually via a merchant's website or app, via the third-party provider's app or via proximity mobile payment apps like Google Pay and Apple Pay. Examples include Affirm, Afterpay, Klarna, Sezzle, and PayPal's BNPL service. Excludes services that provide a revolving line of credit, and retailer- and bank-branded financing options.

Source: eMarketer, May 2021

Methodology: Estimates are based on the analysis of survey and traffic data from research firms, historical consumer adoption and buying trends, payment adoption trends, reported company data, interviews, demographic and socioeconomic factors, and macro-economic conditions.

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