SEP 29
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Mastercard makes its BNPL debut—and could shake up the industry at a critical inflection point

Article

The news: Mastercard announced a proprietary buy now, pay later (BNPL) offering set to debut in early 2022 in the US, the UK, and Australia. The network plans to use the program to

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increase payment choice.

How it works: Mastercard Installments will be heavily reliant on technology the company gained access to when it acquired **Finicity** and **Aiia**. It lets all of Mastercard's merchants offer installments through a direct integration into their own platforms by updating their acquiring software.

- Customers can apply with banks, lenders, and other financial institutions—or directly at the point-of-sale (POS)— and receive installment options powered by partners like **Barclays US**, **FIS**, **Marqeta**, and **Synchrony**.
- If approved, customers will be presented with an installment option from a partner lender—often four interest-free payments.
- Eventually, customers will be able to store their preapproved installment plans in digital wallets or on merchant sites and use them later.

The bigger picture: BNPL use is skyrocketing. In the US, the number of users will grow from **45.1 million this year to 76.6 million in 2025**—a large threat to card volume that has been an impetus for payments titans to get involved.

- Digital players like **Affirm**, **Afterpay**, **Klarna**, and **PayPal** lead the BNPL space. And even though Mastercard's program could let these players use its rails, pressure from giants like Mastercard could squeeze them and make the space even more competitive, especially in the face of increasing consolidation. These giants might also have an edge in attracting older demographics, where BNPL has far less penetration, by relying on its brand and familiarity to ease consumer concerns.
- Mounting threats may be why so many digital-first BNPL providers have recently pivoted hard into merchant services. Introducing new features and making acquisitions might help them shore up merchant relationships ahead of entrances from giants that could undercut existing players with their reach.

Quotable: "Everything we do from a product perspective is driven by consumer choice. It's not to say they don't like BNPL as it is today, but they want greater acceptance and they want more choice and more flexibility from who they work with, including the financial institutions they already have relationships with. Our goal was to network-size BNPL and leverage the power of our network to bring scale," **Mastercard EVP Chiro Aikat** told Insider Intelligence.

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Why it might change the game: Mastercard is a latecomer, which always creates challenges, but its program has a few unique features that could help it get off the ground easily.

- **Reach.** Mastercard counts **78 million merchants**, per PYMNTS, giving it a massive base from the jump. That could make the technology extremely accessible, especially with its simple integration, which might appeal to merchants who want to decrease time to market and cut down on partnerships, Aikat noted.
- **Underwriting. One-third of BNPL users** in the US have fallen behind on their payments, per Credit Karma. Besides deterring users, this risk has kept banks from pursuing the tech. Mastercard uses cash flow insights and other information to determine repayment terms and lets its lending partners decide interest rates and whether customers can use credit cards to finance loans. This might give FIs a safer way to enter the space.
- **Regulation.** With government pressure looming across markets, Mastercard's decision to work with established banks and acquiring partners could help it stay abreast of future regulations more effectively and avoid feeling the impending squeeze.

Go deeper: *Our "Buy Now, Pay Later Report" examines what's driving popularity in the industry, the threats BNPL poses to incumbents, and how they can avoid disintermediation.*

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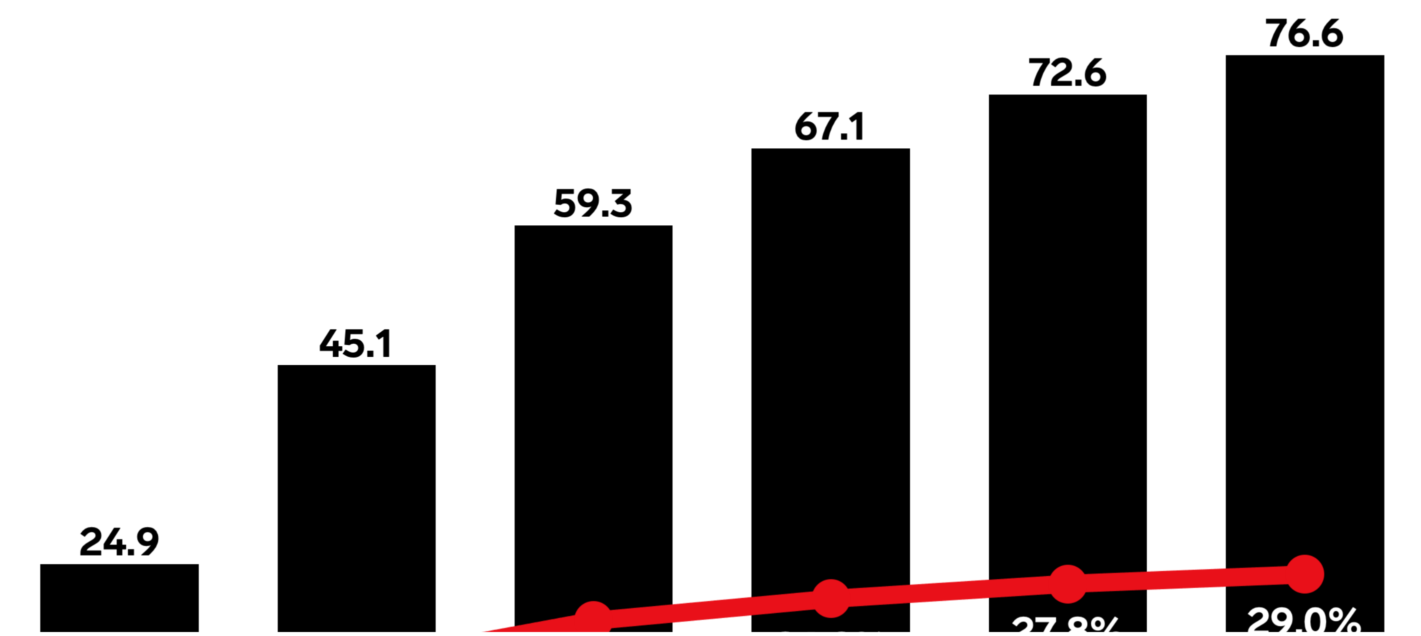
Buy Now, Pay Later Service Users

US, 2020–2025



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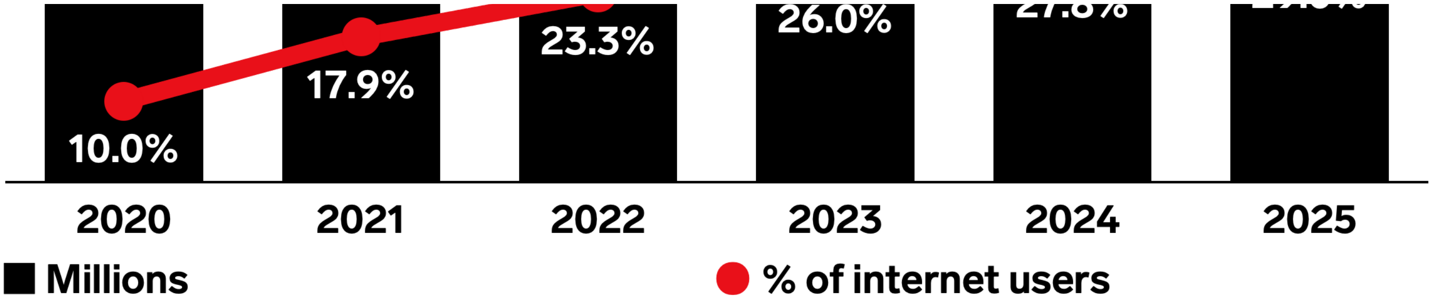

Note: Ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services. Buy now, pay later (BNPL) services are defined as interest-free solutions provided by third-party 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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