

# Why the next wave of BNPL may be closer than you think

Article

**What went down:** At an invitation-only dinner on day two of Money20/20, **Dan Van Dyke, VP of financial services content at Insider Intelligence**, talked about all things buy now, pay later (BNPL) with a group of executive attendees. More specifically, he posed the pertinent question: Where's BNPL headed?

**The environment:** It's no secret that players in the BNPL space and the wider fintech industry find themselves "in the eye of the perfect storm," as Van Dyke put it. BNPL providers are contending with factors that include:

- **Incoming regulation.** The Consumer Financial Protection Bureau (CFPB) issued plans to regulate BNPL firms much as it does credit card companies. These plans follow its release of an 80-page report last month, after a nearly yearlong investigation, that highlighted BNPL's growth and consumer risks—like debt accumulation and overextension.
- **Rising delinquencies.** Q2 earnings from industry heavyweights like **Affirm** showed rising delinquencies as consumers felt the weight of economic conditions. This is casting doubt on BNPL's financial resilience.
- **A potential recession.** The Fed's aggressive interest rate hikes to combat inflation are increasing concerns that the US may be headed toward a downturn. A recession could dampen growth for BNPL players and lengthen their path toward profitability.
- **Slashed valuations.** In July, **Klarna** secured an \$800 million funding round at a \$6.7 billion valuation—a major drop from the \$46 billion valuation it achieved in June 2021. Rising interest rates have complicated BNPL players' attempts to get funding.

Despite these conditions, new market entrants continue to swarm in to grab a slice of the BNPL pie, which is expected to reach **\$76.20 billion in US payments volume** by the end of this year, per Insider Intelligence forecasts.

**Insider Intelligence's take:** BNPL will survive—but not in its current form. Van Dyke highlighted five ways in which the industry is changing:

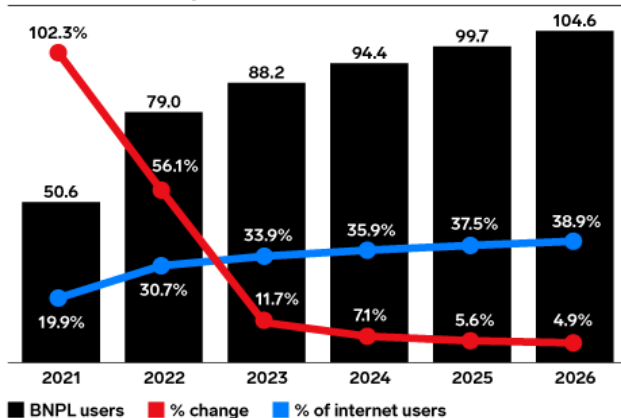
1. **The BNPL space is transitioning from BNPL 1.0 to BNPL 2.0**, which will see more sustainable growth as new business models change. This will make providers more profitable by opening up new customer-focused revenue streams. BNPL players will also see credit-card-like regulation.
2. **BNPL adoption will normalize.** US BNPL user growth will drop down to one-fifth of its current rate next year as conditions shift and the industry enters BNPL 2.0. The number of US BNPL users will grow 56.1% year over year (YoY) before the end of 2022, but next year, growth will slow down to 11.7% YoY, according to Insider Intelligence forecasts.

3. **Volume growth will become more resilient.** BNPL volume growth deceleration won't be as prominent as the slowdown in user growth thanks to rising spend per user. BNPL payment volume is expected to increase 25.5% YoY in 2023 compared with 77.3% YoY in 2022, per [our forecasts](#).
4. **Cross-selling and affiliate revenues will drive profitability.** BNPL incumbents will likely continue to expand beyond their core BNPL product by launching new revenue-generating solutions.
5. **Sustainability and wellness will become the future.** BNPL providers can offer customers more financial wellness tools—which can help increase engagement while also mitigating regulatory concerns.

**Related content:** Check out our [US Buy Now, Pay Later Forecast 2022](#) report to learn about factors influencing BNPL growth.

#### US Buy Now, Pay Later (BNPL) Users, 2021-2026

millions, % change, and % of internet users



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

Source: Insider Intelligence, June 2022

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