

BNPL Changing Landscape of Alternative Credit

NandanP.

Research Scholar and Assistant Professor Dept. of Commerce,
GFGC, Bannur, Mysore (Dist), Karnataka, India

Abstract:

Buy Now Pay Later (BNPL) is an emerging FinTech Credit (alternative credit) that allows customers to borrow funds to meet their financial needs and pay later with or without interest. It will enable customers to pay their payments over a relatively short period instead of paying initially. Research firm Redseer has predicted that the Indian BNPL market is currently at \$3.5 billion, which will grow to \$ 50 billion within four years. Around 10-15 million users are estimated to benefit from this FinTech service. It may increase by 10-15 million by another four years. FinTech companies offering this service, such as Lazy Pay, Simpl Pay, Zest Money, Flipkart Pay Later, and Amazon Pay Later, have captured the existing market. Most online shoppers are users and beneficiaries of this FinTech service. Internet penetration and digital awareness have accelerated the growth of BNPL. However, in India, awareness of BNPL has yet to grow, and opportunities and challenges for this service are to be explored. This article is a small effort to explore the opportunities and challenges of BNPL.

Key Words: FinTech, BNPL, Amazon Pay, Lazy Pay.

Introduction:

Buy Now Pay Later is a financial service offered by FinTech. Under this service, a customer can avail of a loan at no interest and can pay the borrowed loan over some time. The entire process takes place online. It is a favorite choice for online shoppers. Customer shopping online avails this facility from FinTech to buy their necessities. The payment must be made after the period the company offers expires. Usually, it is for 15 to 30 days. The customer shall repay the amount used within the stipulated period. If a customer fails to pay, the penalty is levied, which is Rs.100 per day. Further, delays in payment could severely impact the CIBIL score. Customers buying offline can also use BNPL, provided the merchant has BNPL as a payment option. The BNPL market in India is set to grow to \$ 40 billion by 2025. India's FinTech space, BNPL, is proliferating, and the customer adoption rate is also rising. According to market research firm YouGov, India's BNPL adoption rate stood third among the 18 countries surveyed worldwide.

Research Gap

Buy Now Pay Later is still in the nascent stage in India. However, the adoption rate is increasing in the urban population. Online shoppers are reaping the benefits it offers. A few BNPL players have gone one step ahead and are also offering offline credit. Looking at this trend, it can be said that the future for BNPL is overwhelming. Around the globe, many countries have welcomed this FinTech service without any skepticism. However, in India, little research has been carried out regarding BNPL business models, customer perception, and other integrities of the industry as a whole. From an academic perspective, extensive research is required to understand the BNPL industry. This paper tries to explore the functionalities of BNPL and existing practice. However, in

India, there is still little research into BNPL's business models, the actual number of BNPL solutions in the market, and their real impact on buyers' behavior, sellers' sales, and the overall payment industry.

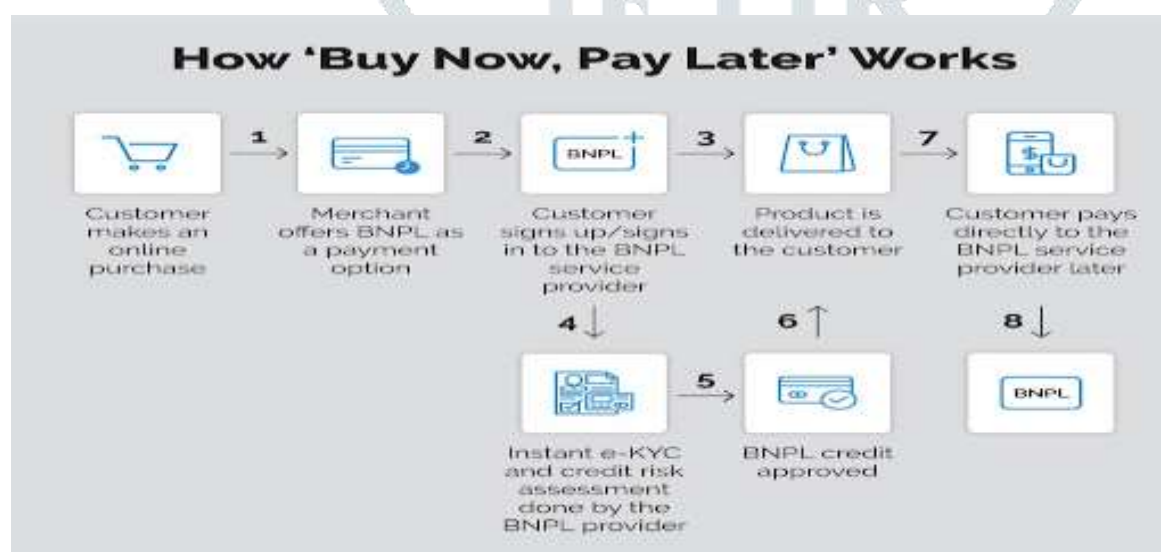
Statement of the problem: The BNPL players are changing the entire microloan market in India. This also poses challenges to the existing credit card business. The Reserve Bank of India has not yet initiated regulation of BNPL. Though there is a growing trend in customer adoption, the satisfaction level of customers on BNPL has not yet been researched. Indian customers are also unaware of BNPL's existing practices and functionalities. This paper is a descriptive study that examines BNPL players' functionalities.

Objectives of the study:

Understanding the existing practices and functionalities will help prospective customers, BNPL, and existing customers.

Analysis and Interpretation

Figure 1- Showing BNPL Working Model in India



Source: Embedded Credit Gateway

The above pictorial representation depicts the working model of BNPL. The cycle begins with the purchase of products online from the merchant portal. If the merchant offers BNPL a payment option, the customer selects the BNPL app by signing up if the customer is already a customer; if not, sign up with the BNPL service provider. After customers sign in to BNPL, the service provider checks the e-KYC and assesses the credit risk. If the customer's credit score meets the BNPL set standards, BNPL credit is instantly approved, and payment is made to the seller. Lastly, the customer shall pay the credit taken within the stipulated period to the BNPL service provider.

The big techs are playing a pivotal role in expanding the BNPL market. Indian middle class is showing keen interest in adopting BNPL to meet their urgent and impulsive needs. Nowadays, movie tickets, food, and journey tickets are booked using BNPL apps. Regulation on these apps is also not much-given priority by regulatory bodies in India, which turns out to be good for expansion and market capture.

Features of BNPL:

- It is a prominent FinTech Financial service offered to customers by the FinTech industry
- It is an online installment loan provided online to online shoppers
- On a rare occasion, BNPL provides offline service as well
- It is interest-free financial support provided to needy customers. Interest and penalties are levied only when customers fail to pay the amount borrowed on time.

Eligibility to avail of BNPL service:

- The individual must be an Indian resident.
- Customer should reside in tier 1 or tier 2 cities.
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- Individual should not be minor.
- Individuals must have a PAN Card, Adhaar card, and Bank account.
- Individuals must be digitally educated.

Important Research Facts on BNPL

An online research survey conducted by a media group found that the Indian urban population is more inclined to use BNPL services. The survey clearly shows that India is leading in the adoption of BNPL compared to other countries.

Table 1 shows the details of consumers inclined to use in the years 2018-19

Respondents inclined to use BNPL Services in the year 2017-18		Respondents inclined to use BNPL Services in the year 2018-19		% Of Change
% Of Respondents		% Of Respondents		
India	28	India	22	+27%
Indonesia	26	Indonesia	27	-3%
Mexico	25	Mexico	24	+3%
Australia	24	Australia	22	+4.5%
China	23	China	22	+4.5%
UAE	22	UAE	18	+22%
US	10	US	10	0
Global Average	17	Global Average	15	+17%
(Source - The Economic Times)				

The table evidences a decline in the population intent to use in Indonesia. The table shows the highest adoption rate from the UAE urban population.

Table 2: Repayment Cycle of BNPL Service Provider

BNPL Service Providers	Repayment cycle in Days			
	0-10 Days	11- 19 Days	20 -29 Days	30 days Above
Simple			20 days	
Lazy pay		15 days		
e-Pay later		14 days		
Amazon Pay			20 days	
Flipkart Pay later.		35 days		35 days
Zest money				90 Days
Flexi Pay				45 Days
Source: Company Websites				

The above table exhibits the repayment cycles of different BNPL services provided. Zest Money provides a maximum repayment cycle of 45 days, during which no interest is charged if the borrowed money is repaid. The minimum repayment cycle is provided by e-pay later, which offers 14 days. Other players such as Simpl 20 days, Amazon Pay 20 days, Flipkart Pay Later 35 days, and Flexi Pay 45 days offer repayment cycles.

Table 3: Amount of Credit offered by BNPL firms

BNPL Service Providers	Amount of Credit offered in (Thousands)				
	1- 9	10 -19	20-39	40-60	59 above
Simpl		10			
Lazy pay		10			
e-Pay later			20		
Amazon Pay		10			
Flip kart Pay later	5				
Zest money					59 above
Flexi Pay			20		
Source: Company Websites					

From the above table, it is pretty evident that Zest Money offers more credit than other BNPL players. Flip Kart pay later is the minimum credit amount offered which is 5000. However, over some time the credit limit will be enhanced depending upon the borrowers' prompt repayment. The remaining BNPL providers offer credit amounts ranging from 10 thousand to 39 thousand.

Conclusion:

Buy Now Pay Later is a new way of borrowing micro installment loans from FinTech service providers. This is gaining momentum in India. Urban salaried and online shoppers are the adopters of BNPL. Many features of BNPL are available, but most of them have not been explored by the customers. Penalty rates are very high when defaulted payments are made. BNPL firms are not mandated to disclose publicly. Their fee and revenue structure are not known to the stakeholders. The period of repayment is different from one firm to another. The funding amount is also varying. Regulation of BNPL is an ardent necessity in India.

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