

## **6. From Cash to Clicks - Exploring Buy Now, Pay Later**

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### **6.1 Introduction:**

The glistening screen of a smartphone, the impeccable Instagram feed that flaunts the seemingly perfect lives, and the constant flow of advertising tailored for us — we are living in a world of instant satisfaction.

No longer willing to be instructed to save and wait, customers want access to goods and services now and the finance industry has adapted to meet those desires. To fulfill the desire, enters Buy Now, Pay Later (BNPL) model, a deceptively straightforward but fundamentally disruptive movement transforming the way we shop.

### **6.2 Evolution of the Payment Models:**

The journey from ancient barter systems to today's intricate digital financial landscape illustrates a profound transformation in how businesses and consumers engage. This shift has been significantly propelled by technological advancements, with financial technology (fintech) playing a central role in enhancing transaction speed, convenience, and accessibility.

Fintech innovations have revolutionized digital transactions across various industries. Mobile payment platforms like Apple Pay and Google Pay have made contactless payments commonplace, offering users swift and secure ways to conduct transactions. The Indian BNPL market is expected to grow at a CAGR of more than 45%, reaching USD 45-50 billion by 2026.

It has also significantly accelerated E-Commerce growth in India, transforming consumer purchasing behavior. Major e-commerce platforms, such as Amazon and Flipkart, have included BNPL options, making high-value items more accessible to a wider audience.

### **6.3 What is Buy Now, Pay Later (BNPL)?**

BNPL is a short-term financing option that allows customers to purchase products or services immediately and pay for them over a set period, usually without interest if paid within the agreed timeframe. Unlike traditional credit cards, BNPL is more accessible, with faster approval and minimal paperwork.

Popular platforms like Zest Money, Lazy Pay, and Simpl are leading the charge. Now, more than ever, integrating BNPL into your payment gateway is becoming a necessity, not just an option.

At its heart, BNPL is a short-term funding process that enables consumers to buy products or services and pay for them in installments over a specified time, usually without paying interest or fees if the payments are made timely. This seemingly simple idea has a number of important characteristics that distinguish it from traditional credit products such as credit cards:

- **Point-of-Sale Integration:** In contrast to credit cards, which are everywhere on most retailers' platforms, BNPL is usually integrated as part of the checkout process on online and increasingly offline merchants. The smooth integration renders it extremely convenient and appealing to consumers.
- **Streamlined Approval Process:** Say goodbye to long forms and strict credit checks. BNPL providers tend to have a fast and straightforward approval process, sometimes needing nothing more than a few simple details and a soft credit check. This makes them appealing to a broader range of consumers, including those with poor or no credit history.
- **Translucent Payment Plans:** BNPL arrangements usually stipulate a simple and foreseeable payment schedule, normally spread across four identical payments over several weeks. Translucence enables customers to plan and manage their finances more clearly – theoretically, at least.
- **Emphasis on Individual Purchases:** While credit cards provide a revolving line of credit that can be applied towards a multitude of purchases, BNPL is usually paired with a particular purchase. This may help lead to more prudent spending, since customers are knowingly aware of the debt they are taking on.

## 6.4 Why is BNPL on the Rise?

The rise of BNPL isn't accidental. It's fueled by changing consumer behavior, especially among Gen Z and Millennials who seek more control over their finances without accumulating long-term debt.

From a consumer's perception, BNPL in India offers increased purchasing power, particularly for those with limited access to traditional credit options. It provides a convenient and flexible payment option, allowing consumers to spread out large purchases into smaller, manageable installments, often with no interest or very less processing fees.

This is especially attractive for younger generations and those shopping online, as BNPL aligns well with their digital lifestyles. However, there are also potential risks, including the temptation to overspend and the possibility of falling into debt if payments are missed.

### Here are some of the major drivers:

- **Convenience & Instant Gratification:** Shoppers want what they want *now*. BNPL eliminates the wait-without upfront costs. This ease of access makes customers more likely to complete their purchase.
- **No Credit Card? No Problem:** Many younger consumers don't have credit cards. BNPL gives them a flexible alternative, often with easier eligibility and instant approval.
- **Transparent Terms:** Unlike credit cards with hidden fees, BNPL plans are typically more transparent. This clarity boosts trust and reduces friction during checkout.
- **Pandemic Acceleration:** COVID-19 shifted more consumers online and made budgeting more essential. BNPL helped cushion tight financial situations, leading to mass adoption.

### Here are some of the major risks and challenges:

Risks of BNPL Apps: While BNPL services offer a convenient option to make expensive purchases seem more affordable, there are several downsides to consider before signing up.

- **Overspending:** The interest-free installments and smaller payment amounts can make larger purchases seem more affordable than they really are. This can lead to a temptation to buy more stuff than needed, increasing the risk of debt, defaulted payments, and lower credit scores in the long run. This also leads to over consumption and lesser savings.
- **Limited Regulations:** BNPL services are generally not as regulated as credit cards and other forms of financing in India which means consumers don't get strong protection against frauds and misleading and dispute resolution options
- **Issues with Returns and Refunds:** As BNPL services spread the payment amount over time, it can be difficult to cancel the payment or issue a refund in case of returning the product
- **Risks of Late Payments:** Some BNPL providers charge additional fees in case of late payments. Any defaults are also reported to the credit bureaus, which lowers the credit score, making it difficult to access other forms of financing.

### **6.5 Types of Buy Now, Pay Later model:**

The BNPL market is not homogeneous. There are various forms that suit different merchant requirements and consumer needs:

- **Pay-in-4:** This is the most ubiquitous form of BNPL, four equal payments due over a period of a few weeks, with usually no fees or interest charged if paid within the agreed term. This framework is typically used for lower ticket items such as apparel, gadgets, and beauty items.
- **Monthly Payments:** For bigger buys, like appliances or furniture, BNPL services might provide extended payment periods of several months or years. Such schemes usually include interest rates, but the interest rates are relatively low compared to credit cards.
- **Deferred Interest:** Under this scheme, customers are given a certain time, typically a few months, to settle the purchase amount in full without paying interest. But if the amount is not settled within that period, interest is levied retrospectively from the purchase date. This form of BNPL can be dangerous for customers who are not careful with their payments.
- **Merchant-Specific BNPL:** Certain retailers provide their own branded BNPL programs, which are frequently partnered with well-known BNPL providers. This provides them with flexible payment solutions and control over the customer experience.

## **6.6 Drivers of BNPL Adoption:**

**Ease of Accessibility in BNPL:** BNPL apps often have less stringent credit requirements than traditional loans or credit cards, making them accessible to a wider range of consumers, including those with limited credit history or financial limitations.

**Ease of Use:** BNPL apps are generally user-friendly and provide a streamlined checkout process.

**Many Promotional Offers:** BNPL providers often partner with merchants to offer discounts and promotions, incentivizing consumers to use BNPL for online purchases. Like 10% instant discount if you select this payment mode

**Time Inconsistency:** Some research suggests that consumers' tendency to discount future payments (time inconsistency) can also drive BNPL adoption, as it allows them to make impulsive purchases without fully considering the long-term financial implications.

**Inflation is a key driver for BNPL adoption:** In a recent Experian Consumer Study, 75% of consumers said they were worried about the rate of inflation while 43% of consumers reported that they were moderating their spending. This inevitably implies slow retail spending through traditional payment methods. Barring late fees and any other platform specific charges, BNPL offers the option of spreading out a payment into the future without any extra interest charges. Around 40% of customers from a survey stated they would want to use BNPL to avoid additional interest payment.

**Financial flexibility regardless of wage:** Although BNPL has often been stereotyped as a solution for people who live paycheck to paycheck (much like a payday loan), consumer research has revealed that it is, in fact, an excellent solution for frugal and credit averse customers. Customers enjoy the idea of BNPL because it allows them the flexibility to manage their accounts regardless of their wage level. Around 25% of surveyed customers did not want an additional credit check during a purchase, which is usually done in case of credit cards. They therefore preferred BNPL to other types of credit methods. Research also showed these consumers were keenly interested to use BNPL for high value purchases.

## **6.7 The Key Players of BNPL in India:**

The BNPL market is a fiercely competitive arena, with a mix of established fintech companies and emerging startups vying for market share:

- **Pay Pal:** PayPal has expanded its offerings to include a BNPL option titled "PayPal Credit," in which customers can pay for their purchases over time. It is a top player in the global digital payment industry, with its massive user base and established reputation. PayPal focuses on security and consumer experience through its flexible payment integrations into online stores.
- **Simpl:** As a BNPL service based in India, Simpl allows customers to purchase and pay for amounts later without having to re-enter payment information. It has become popular with millennials and Gen Z shoppers, using a merchant subscription model to increase user experience and convenience.
- **Klarna:** Klarna is a BNPL market leader globally, enabling consumers to shop and pay later in installments or delay payment. It is renowned for its dominance in the U.S. and Europe and is slowly making inroads in India by emphasizing a smooth shopping experience via easy-to-use apps and tie-ups with leading retailers.
- **ZestMoney:** ZestMoney is based in India, providing BNPL solutions mainly for online transactions, catering to unbanked and underbanked segments. As a leader in credit democratization in India, ZestMoney targets consumer electronics and lifestyle items, using machine learning to speed up credit approval procedures.
- **LazyPay:** A PayU product, LazyPay enables consumers to shop now and pay later with seamless integration across multiple merchants. It is widely used for daily transactions, such as bill payments and food ordering, and provides novel repayment options through UPI, making it even more convenient.
- **CashCare:** CashCare is a new entrant in the Indian market for microcredit and BNPL offerings, targeted at low-income customers. It aims to enhance access to credit and employs digital identity authentication to determine creditworthiness quickly.

The BNPL landscape is changing at a fast pace, with international companies such as PayPal and local entrants like Simpl and ZestMoney setting the pace for the industry in India. These firms are intent on developing flexible payment options that serve a new generation of consumers. Monitoring regulatory changes and competition will be crucial for both companies and consumers.

## **6.8 Conclusion:**

The Buy Now, Pay Later (BNPL) industry is growing very fast and introducing both opportunities and obstacles for consumers and businesses. The future of BNPL is not in unbridled expansion and predatory behavior, but in a dedication to responsible lending, consumer protection, and sustainable business models. The BNPL model can be a potent driver of financial inclusion and economic empowerment, but only if it is constructed on pillars of trust, transparency, and responsibility. While BNPL presents significant growth opportunities, it also introduces risks, particularly related to credit defaults. The ease of access to BNPL services can lead to over-borrowing, especially among consumers who may not fully grasp the implications of deferred payments. This has raised concerns among regulators about the potential for increased debt levels and financial instability.

The Reserve Bank of India has acknowledged these risks and is contemplating regulatory measures to ensure responsible lending practices. Implementing guidelines and oversight will be crucial in maintaining a balance between fostering innovation and protecting consumers. BNPL is revolutionizing traditional lending models by providing an attractive alternative to credit cards and personal loans. This disruption is compelling banks and other financial institutions to adapt their offerings to stay competitive.

While businesses like PayPal, Simpl, and Zest Money are working hard to develop new innovations and improve user experiences, it is important for consumers to be careful about these services so that they remain well aware of dangers such as overspending and debt buildup. In order to maximize the benefits of BNPL, consumers should exercise responsible usage by carefully planning purchases and knowing their repayment terms, while firms need to concentrate on establishing open communication and informing users about the nuances of such financial products. As a result, many are now partnering with BNPL providers or creating their own installment-based products to capture a share of this rapidly expanding market. This collaborative approach will not only propel growth in the BNPL space but also enrich a healthier financial ecosystem for consumers and business.