# Finding success with BNPL

Strategies for banks to get it right

accenture

# BNPL could continue to grow if banks make it safe and respectable

**The theme of our 2022 Global Consumer Payments Study[1] is that consumers are seeking more control over their payment choices, and that this has created opportunities for financial services providers to differentiate themselves and increase their customer relevance.**

One of these opportunities is buy now, pay later (BNPL). While the fintech Affirm was one of the first to launch the product in 2012, Retail Brew[2] believes its true origin is the private-label credit cards offered by retailers like Nordstrom in the 1980s and '90s. The seamless introduction of BNPL to online retailers' point of sale was an instant hit, making big-ticket items more affordable to customers and boosting sales without any risk to the merchant. It is estimated that there were 360 million users of BNPL in 2022, with that number likely to balloon to almost a billion in 2027.[3]

This growth will be driven by a number of factors. One is the increasing sophistication of financial services providers' digital core. By capitalizing on data, cloud and AI within a secure operating platform they are able to look beyond traditional offerings and performance frontiers and start to reinvent their business models to keep pace with customer expectations.

Another is that incumbent banks have the potential to take BNPL way further than the fintechs ever could. While under 3% of consumers globally use the product for most of their big-ticket purchases today, 40% said they would be more willing to do so if it were offered by their primary bank.[4] Furthermore, banks are much better equipped to manage the regulation of BNPL, should that come about. This is an important advantage, given that regulators in a number of key markets are becoming increasingly nervous about consumer indebtedness.

In this report—an extension to our Global Consumer Payments Study—we explore the strategies that banks might use to make BNPL a lucrative part of their consumer finance and payment offerings. We examine the various models, and conclude that the embedding of BNPL in banks' credit cards could increase credit utilization in the US from 21% in 2021 to 26% in 2025, and in Europe from 19% to 28%. This would boost the total credit card income of a large model bank by between 10% and 16% in 2025.

Given that banks could drive BNPL adoption while safeguarding their customers' financial wellbeing, this is an opportunity that promises to benefit both parties as well as online and bricks-and-mortar retailers. It certainly deserves close examination.

# Innovation drives competition in consumer finance

**Consumer finance is the largest segment in retail banking, accounting for more than a third of a revenue pool that is worth more than $2 trillion a year.[5]**

The sector has enjoyed steady growth in recent years, with loans outstanding rising by an average of 3.7% a year in the US[6] and 2% in Europe[7] between 2017 and 2021.

Before evaluating how consumer finance incumbents can compete more effectively in a changing marketplace, it is worth looking at the ownership structures, financial performance patterns and business models which currently characterize this dynamic sector. The market comprises:

- **Incumbent banks** which offer consumer finance under their main brand or a separate brand. They make up 28% of the retail lenders included in our analysis.
- **Subsidiaries of non-financial companies** whose primary business is to supplement their parent company's offerings by providing finance to its customers. One example is auto company subsidiaries that offer financing to car buyers. They represent 17% of the retail lenders in our analysis.
- **Independent players**, which account for more than half of all participants. This group includes digital-native as well as traditional specialist lenders, but excludes fintechs that provide only credit scoring or technology solutions.

We analyzed 703 consumer finance lenders in 10 North American and European countries (the US, Canada, the UK, France, Germany, the Netherlands, Italy, Spain, Sweden and Poland) as well as a number of interesting players in Brazil, Australia, Indonesia and Denmark. These firms were identified, based on Accenture Research analysis, as the most relevant players in the consumer finance sector.

An examination of the financial performance of the players in our three clusters reveals that none of the clusters achieves both growth and profitability (Figure 1).

**Figure 1. Consumer finance players fit into three main clusters**

| Type of player | Share of all analyzed players | ROE FY21 | Revenue change YoY FY20-21 | Loans granted change YoY FY20-21 | Cost : income FY21 | Cost of risk FY21 (bps) |
|---|---|---|---|---|---|---|
| **Incumbent banks** | 28% | **9.5%** (37) | 3.2% (34) | 7.0% (22) | **57.1%** (20) | **75** (21) |
| Same brand | 16% | 6.2% (14) | 3.6% (11) | 4.8% (12) | 57.1% (10) | 89 (11) |
| Separate brand | 12% | 12.1% (23) | 2.6% (23) | 7.0% (10) | 55.1% (10) | 63 (10) |
| **Non-FS subsidiaries** | 17% | **11.2%** (42) | 3.5% (35) | -5.1% (29) | 59.4% (27) | **15** (27) |
| Auto captive | 12% | 13.9% (31) | 3.8% (24) | -5.2% (22) | 51.8% (21) | 14 (21) |
| Other non-FS | 5% | 1.3% (11) | -0.2% (11) | 16.7% (7) | 67.5% (6) | 289 (6) |
| **Independent players** | 55% | **8.5%** (92) | **6.7%** (84) | 8.2% (34) | **62.7%** (35) | 95 (35) |
| Traditional model | 31% | 11.8% (59) | -9.6% (53) | 7.1% (29) | 61.9% (29) | 92 (29) |
| Digital native | 24% | **-12.4%** (33) | **46.9%** (31) | 39.5% (5) | **83.2%** (6) | **356** (6) |

Median of FY2021. Revenue change YoY FY20-21 based on 153 players. Loans granted change YoY FY20-21 based on 85 players. Cost : Income FY21 based on 82 players. Cost of Risk FY21 based on 83 players. ROE FY21 based on 171 players. The numbers in brackets are the totals of players from which adjacent values were derived. These vary due to the unavailability or incompleteness of some players' financials.

Cost of risk was calculated as loss loan provisions/net loans to customers. RoE was as stated by the respective players or was calculated as net profit attributable to parent/equity.

Source: Accenture Research analysis on S&P Global Market Intelligence.

We also classified the business models of the various players along a spectrum ranging from traditional to emerging non-linear models. As Figure 2 shows, traditional players used to follow linear models that focused on selling ready-to-use products via their own channels and those of their partners. By contrast, many new, digital-native companies that have entered the market in recent years utilize non-linear business models.

**Figure 2. Consumer finance lenders utilize a range of business models**

Business Models Continuum: Traditional, Linear → Emerging, Non-linear

| | | Value Chain coverage | | | Value Chain elements | | |
|---|---|---|---|---|---|---|---|
| **Business Model** | **Description** | Manufac-turing | Packag-ing | Distrib-ution | Value Chain Model | Balance Sheet & License | Customer Ownership |
| **Vertically Integrated** | B2C<br>The firm creates its **own consumer finance (CF) products** and distributes them either directly or, without tailoring, through distributors. | ✓ | ✓ | ✓ | **Mono-lithic** | **Own** | **High** |
| **Distributor** | B2C<br>The firm simply **distributes ready-to-use CF products** of other providers. | | | ✓ | **Frag-mented** | **Others'** | **High** |
| **Enabler (BaaS) with or without BS** | B2B2C<br>The firm enables its partners to **create their CF products** by assisting with their license, lending process, balance sheet and/or technology. **Invisible to the customers of its partners.** | ✓ | | | **Frag-mented** | **Own** | **None** |
| **Embedder** | B2B2C<br>The firm creates its **CF products**, which are distributed by **being embedded** in the offerings of its retail partners at their online or in-store point of sale. | ✓ | ✓<br>The CF firm and its retail partner share responsibility for these two roles | ✓ | **Frag-mented** | **Own** | **Medium** |
| **Packager** | B2B2C<br>The firm creates its **CF products by seamlessly packaging one or more components** of its own and of other providers. This group excludes firms that source only technology from another provider. | | ✓ | ✓ | **Frag-mented** | **Others'** | **High** |

Manufacturing often involves funding the loans via their own balance sheet.

In a non-linear business model, the customer experience, distribution, products, and balance sheet management are decoupled, and traditional products may be broken into smaller components.

The model includes a digital core—data, AI, cloud, security and platform—as sources of agility, adaptability and competitive differentiation. This contrasts with a traditional, vertically integrated approach, where the provider retains complete control of product manufacturing, distribution, risk management and the customer interface.

One type of non-linear model is the Enabler, which enables its business partners to offer white-label financial products using its technology and/or balance sheet. For example, Divido is a global white-label consumer lending platform that allows financial institutions and retailers to use its technology and platform to offer regulated banking services to their customers.

The Embedder is another non-linear business model that is achieving traction in the market. These providers allow companies such as retailers to insert financial products into their offerings, experiences and business workflows. Barclays, for example, has teamed up with Amazon in the UK to offer customers of the e-commerce firm a BNPL payment option that splits the cost of their purchases over £100.[8] Santander, meanwhile, has launched a separate brand, Zinia, to offer loans embedded into merchants' checkout processes.[9]

The Packager model brings together products and microproducts from different providers to offer a bundled solution and creates a new value proposition under its own brand. BNPL players like Afterpay and Klarna offer embedded solutions for retailers' checkout processes, but also act as Packagers—they strive to aggregate as many merchants as possible and offer super-apps for a comprehensive shopping experience.

# Innovative models reinvent the value chain

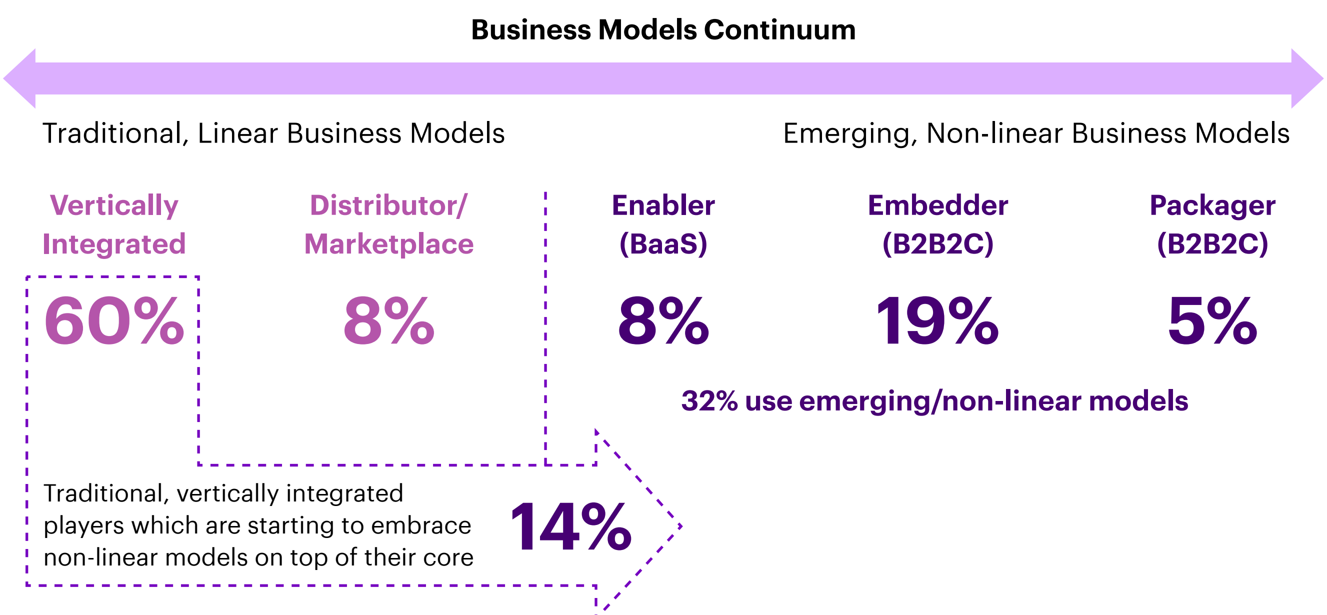
**Our analysis shows that, in recent years, digital natives have used their non-linear business models to fragment the traditional value chain, creating opportunities for product innovation and componentization. In so doing, they have reshaped the dynamics of the market.**

Whereas banks once enjoyed end-to-end ownership of customer relationships in unsecured lending, this may today be shared across different players in the value chain. As Figure 3 shows, 32% of major digital-native companies already use a non-linear model, with 19% participating as Embedders.[10]

Traditional banks and consumer finance providers mainly operate with linear models (60% of the cases we analyzed). However, one in four of these (14% of all those analyzed) are experimenting with Embedder and Enabler models on top of their core and traditional vertically integrated models. As consumers look for more convenience and control, incumbents can seize the exciting opportunities that arise from value chain fragmentation.

**Figure 3. New consumer finance business models are becoming more prevalent**

*The share of firms analyzed that employ the different models*




The numbers correspond to the % share of consumer finance players categorized as operating currently via this business model vs. the total panel. One model per company.

Source: Accenture Research based on business model taxonomy of 130 leading consumer finance players in 9 countries (US, Canada, UK, Germany, Italy, Spain, France, Australia, Brazil).

# Non-traditional approaches could change the game for incumbents

## Consumer finance incumbents can leverage non-linear approaches to enrich their customer value proposition and enable growth into new markets.

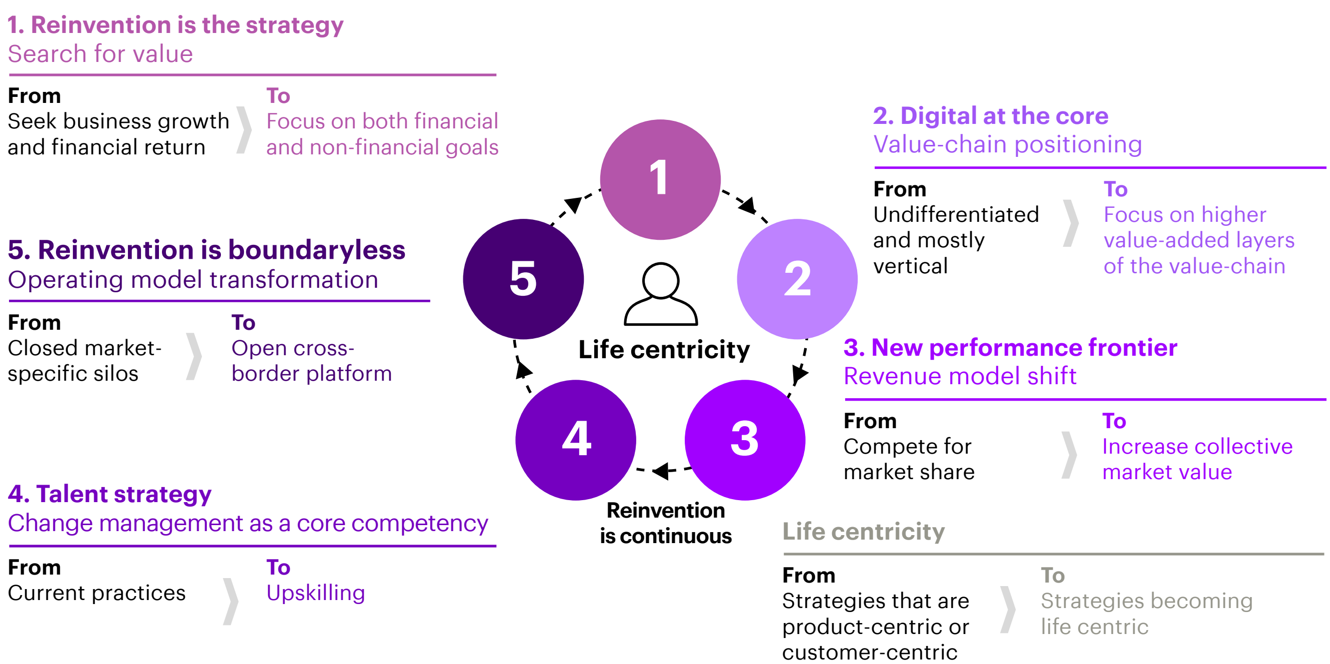
Because of their privileged relationship as the primary bank of many of their customers, they can offer a suite of products that deal with customer affordability and financial wellness, while adding perks such as loyalty rewards.

In so doing, they can answer to consumers' demand for convenience, personalized offers and seamless access to financing options that help them manage cashflows and paybacks. The leaders will build loyalty by understanding customers better—seeing them not only as consumers of their services but as complex human beings who are doing their best to adapt to circumstances beyond their control. This shift—from customer-centricity to what we call life centricity[11]—allows banks to increase customer lifetime value, which includes non-financial value.

By transforming their operating model banks will be able to offer customers a convenient, frictionless experience with instant loan approvals. This emulates the 'anywhere, anytime' experience that digital-native players offer, but with a tighter focus on credit vetting and affordability.

Partner governance is a key requirement as incumbents add non-linear models to their mix. They will focus on building and managing an ecosystem of partners to deliver value to customers, as well as on monetizing their presence in the merchant network.

**Figure 4. Consumer finance is being continuously reinvented, driven by a life centric approach**



# Incumbents are well placed to capitalize on BNPL

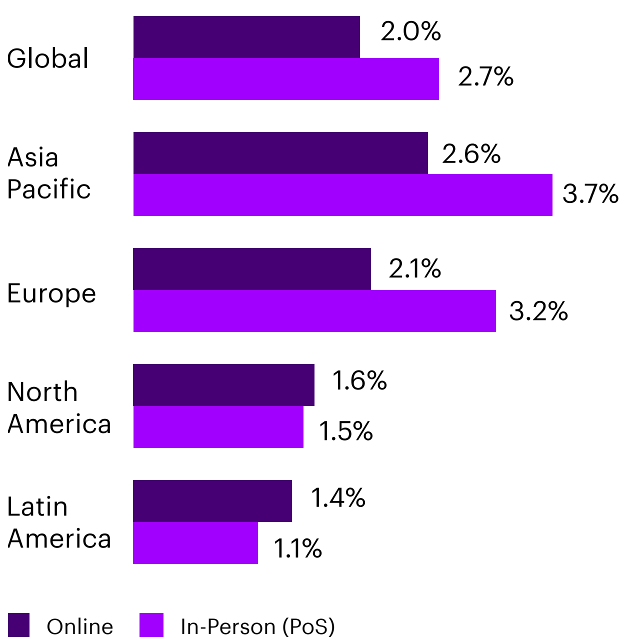
**BNPL is one example of non-linear business models reshaping consumer finance. Before the pandemic, pure-play BNPL fintechs with e-commerce-focused propositions like Affirm, Afterpay and Klarna were already on the rise.**

A surge in e-commerce transactions during Covid-19 lockdowns catalyzed an explosion in BNPL usage, in turn facilitating the rise of BNPL for in-store purchases.

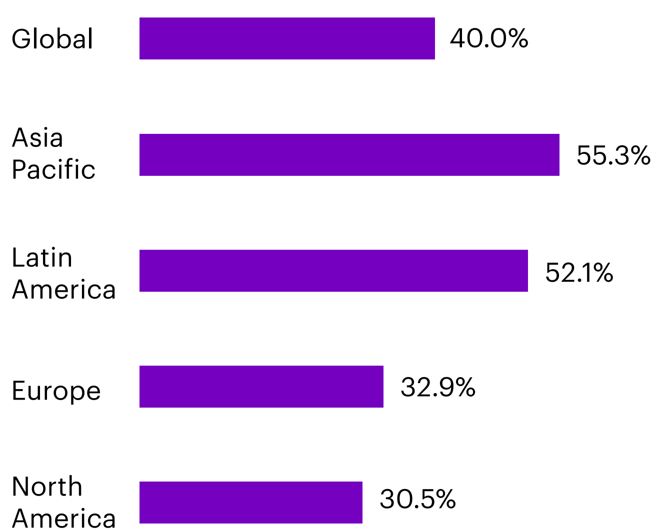
Following the accelerated growth of these players, other non-banks are also targeting the market. Apple, for example, announced[12] that it would allow Apple Pay users in the US to split purchases into installments with the Apple Pay Later feature. According to Juniper Research, there are around 360 million BNPL users globally, a number expected to surpass 900 million by 2027.[13]

**Figure 5. BNPL usage and acceptability by region**

**Consumers using BNPL as a payment method**
*Q. Do you use BNPL for more than 50% of your big-ticket product and service purchases? A. Yes*




**Consumers willing to use more BNPL if provided by their primary bank**
*Q. Would you be more willing to use BNPL if it were provided by your main bank? A. Yes*




Source: Accenture Global Consumer Payment Survey, 2022.

Today, most major BNPL players offer financing solutions for both e-commerce and in-store point of sale. The market continues to evolve as many banks offer their existing customers post-purchase conversion of credit card debt into installment loans. Meanwhile digital-native companies are starting to offer credit cards with staggered repayment options.

Despite the rapid revenue growth and customer acquisition which BNPL players have enjoyed, most are straining to attain profitability.[14] With regulatory headwinds increasing around the globe, interest rates rising and capital becoming scarcer and more costly, BNPL companies will face growing pressure in the months to come.

BNPL players have innovated through their focus on cross-border growth, economies of scale and the customer experience. But in a changing market, it's not just about growth. All consumer finance players will need to tighten fundamentals such as operating costs, credit risk management, customer knowledge and compliance.

This is a landscape where regulation is expanding, concerns about consumer indebtedness are growing and fundamentals matter—all of which plays to incumbents' strengths. By embedding BNPL into credit cards, banks can create a non-linear model on top of their traditional business. The leaders will seize the opportunity by creating propositions that balance growth, profitability and responsible lending.

# A big growth opportunity for banks

**In addition to helping banks defend their consumer finance and credit card businesses from new competition, BNPL could offer a significant growth opportunity.**

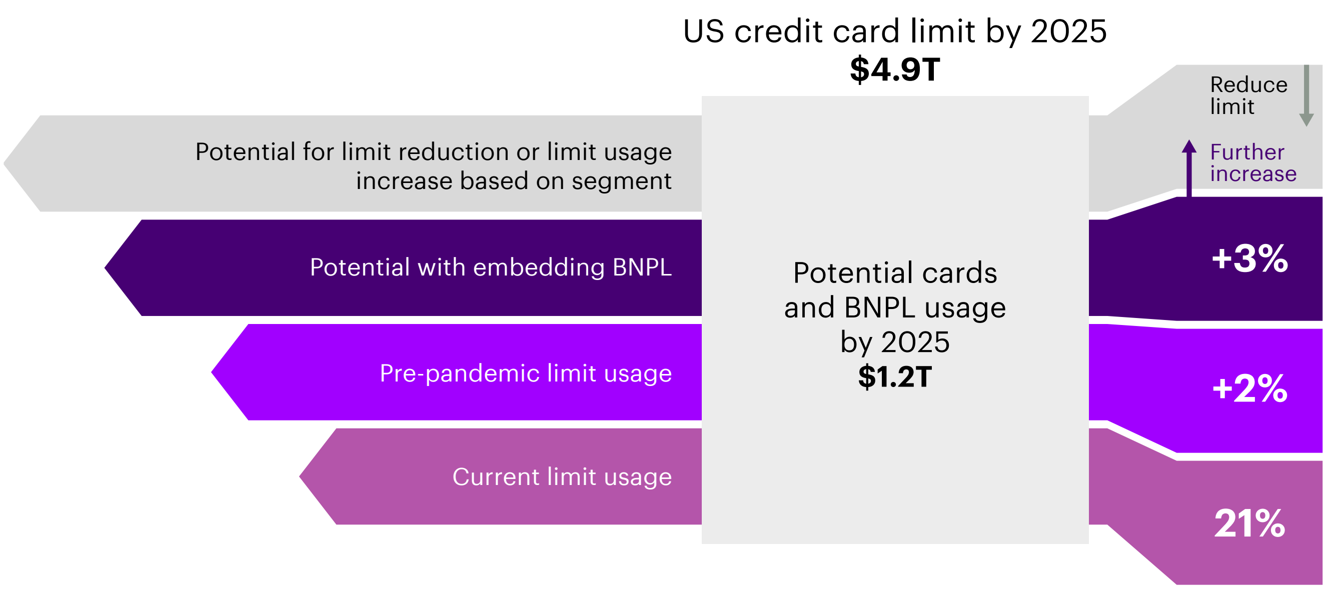
We estimate that a large US bank with total assets of $3 – 4 trillion could boost its total credit card income by 10% in 2025 by embedding BNPL into its cards. A large European bank with total assets above $2 trillion could benefit from a ~16% uplift in credit card income in the same timeframe.

In the US, credit card utilization is currently around 21%.[15] By embedding BNPL into their credit cards, US banks could potentially increase usage of customers' credit limits from $856 billion to $1.27 trillion by 2025.

This represents an increase in the utilization rate to 26%.[16] Banks could also potentially double the ticket size and triple the number of transactions by their cardholders.

Most of the growth potential lies with the best credit customers, who we believe are likely to respond positively to the personalized offers of free credit. According to the US government's Consumer Financial Protection Bureau, most of the unused credit line is held by consumers with super-prime scores.[17]

**Figure 6. How US banks could increase credit utilization by adding BNPL to their credit card offerings**

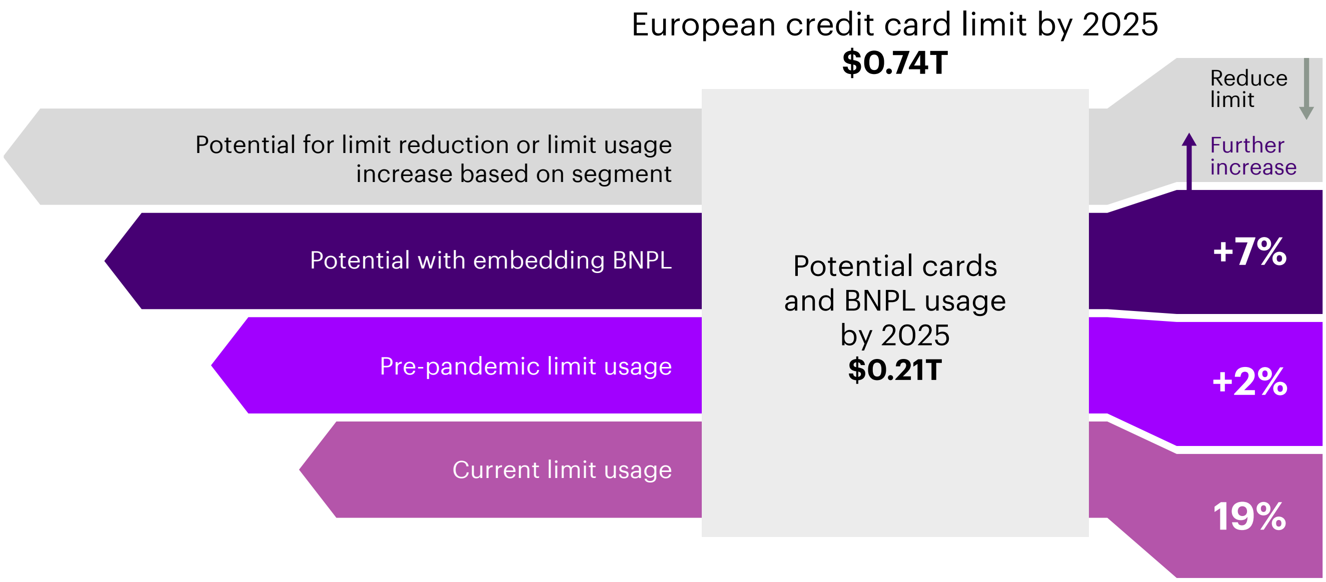



These US estimates are based on GDP projections and a BNPL growth simulation that starts with projected 2025 values then doubles the average ticket size and triples the number of transactions. In 2021, US consumers used only $0.86T out of $4.1T available to them in credit card limits—leading to a 21% utilization rate.

Source: Accenture Research analysis based on data from CFPB, FED.

Our model indicates that in Europe we will experience a moderate but responsible uplift. European consumers use only $126 billion of the $670 billion available to them on their credit card limits—a 19% utilization rate.[18] Embedding BNPL into cards could create a convergence between the two products with a potential market size of over $208 billion—increasing utilization to 28%.

**Figure 7. How European banks could increase credit utilization by adding BNPL to their credit card offerings**




These European estimates are based on GDP projections and a BNPL growth simulation that starts with projected 2025 values then doubles the average ticket size and increases the number of transactions 1.5 times. The estimate of the credit card limit is based on net wage statistics. The analysis draws on data from 13 counties: Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden, UK. In 2021, European consumers used only $0.13T out of $0.67T available to them in credit card limits—leading to a 19% utilization rate.

Source: Accenture Research analysis based on data from CFPB, OECD, ECB, BIS.

# Banks’ responsible BNPL benefits all parties

## Embedding BNPL into credit cards will create wins for both banks and consumers.

Consumers will benefit from ‘anywhere, anytime’ access to financing, the ability to manage their cashflow seamlessly, and tools to manage their financial wellness. Banks, meanwhile, will leverage their existing capabilities to grow credit card utilization and their consumer finance business overall.

Consumers will be able to tailor the financing option they use to their need at the moment of purchase—whether it is traditional credit card financing or installment payments. They will also be able to trace transactions more easily and stay on top of their cashflow and paybacks. This will help them manage their finances in a responsible manner. Westpac credit card users, for example, can now pay their shopping bills in four fortnightly installments, which are automatically deducted from their bank account. They pay no interest or late-payment charges, and receive an alert prior to each deduction—giving them greater control and flexibility.[19]

Banks will benefit beyond the immediate potential boost in card income. When integrated with a credit card, BNPL becomes a flexible product that can be offered at different moments in the customer journey. It can be tailored to different customer segments to optimize credit limit usage, customer acquisition and customer loyalty.

Not only can banks improve their share of the customer’s spend; they can also gain a better view of customers’ overall affordability for risk management. Furthermore, BNPL can help them leverage the power of their merchant networks and enable them to reinvent their credit card proposition to make it more relevant as customer behavior and expectations evolve.

> Accenture’s 2022 Global Consumer Payments Study[20] found that 40% of consumers would be more willing to use BNPL if it were provided by their primary bank.

## Ready for the regulatory shift?

The regulatory climate around BNPL is changing, giving banks a distinct advantage. Regulations are expected[21] to change markets such as the UK, where BNPL providers will likely be required to conduct affordability checks on consumers who borrow from them. Banks' credit card businesses already have robust processes and systems to conduct credit scoring and affordability checks.

In lending, that means fair treatment for customers. To protect them, responsible lenders will conduct affordability checks before regulation is enacted and provide consumers with tools to manage their financial health. Banks already understand the customer's finances in a holistic way.

Embedding BNPL into cards could be an opportunity for banks to promote financial wellbeing and help their customers optimize their finances through responsible lending. This is an important move towards a more responsible BNPL model that helps customers avoid over-indebtedness, late payment penalties, and the deterioration of their credit records.

As part of a credit card proposition, BNPL can be linked to a bank's loyalty program to attract mass-market and affluent customers. Banks could consider launching bundled offers tailored to a time of resurgent inflation and interest—for example, short-term interest-earning deposit accounts bundled with new BNPL offers.

Embedding BNPL into cards could be an opportunity for banks to promote financial wellbeing and help their customers optimize their finances through responsible lending. This is an important move towards a more responsible BNPL model that helps customers avoid over-indebtedness, late payment penalties, or the deterioration of their credit records.

# Scalable BNPL propositions for banks

## As our research shows, BNPL is a compelling opportunity that incumbent banks will not want to ignore.

To succeed at scale in this fiercely competitive market, leading banks will evolve from tactical, vendor-specific BNPL plays to embedding BNPL into their existing propositions and platforms to maximize issuing and acquiring opportunities.

Each bank will need to consider which business model plays to its strengths, be it a white-label or co-branded play or an entirely separate brand. We present two strategic options for banks:

### 1. Follow the customer

In this approach the cardholder or borrower decides with which merchant they want to use the consumer finance proposition. There are two further categories here:

- A model where the customer is owned by the bank, credit card company or BNPL provider. The consumer financing firm focuses its proposition on the end-customer and offers consumers customized payment terms and scaled rewards programs across its merchant network. BNPL is part of the card service, as in the Amex example below.
- The customer is owned by the retailer and the BNPL solution gets visibility at the point of sale. BNPL is not embedded into the customer's credit card and payment terms are usually standardized. This is the typical model followed by the likes of Klarna and Afterpay.

**Case study**

#### American Express Pay It Plan It

The credit provider gives cardholders the option to pay right away for purchases below $100 (Pay It) or over time for bigger-ticket items by setting up an interest-free payment plan for a monthly fee (Plan It). Customers are offered plan duration options based on factors such as purchase amount, account history, and creditworthiness. Card members have created almost 5 million plans, totaling nearly $4 billion, since the feature was introduced five years ago. Millennial and Generation Z card members have created over 40% of these plans.[22]

### 2. Follow the seller

In follow-the-seller models, the proposition is aligned to a single merchant or category. Again, there are two models:

- The customer is owned by the bank or BNPL provider, which creates category-specific products or solutions by, for example, embedding BNPL into travel credit cards. Capital One,[23] for example, provides holders of its more exclusive cards access to its Premier Collection of travel destinations. In addition to acquiring special benefits and reward points, customers can take advantage of a 'price-freeze' if they need more time to make a payment.
- The customer is owned by the merchant and the credit products or solutions are embedded in the merchant's card or finance proposition. Amazon UK's option, called Instalments by Barclays,[24] is an example.

**Case study**

#### Walmart

The retailer reportedly plans to offer BNPL through its majority-owned fintech venture, ONE. Shoppers could use it on Walmart's website and at its stores, as well as at other retailers. The BNPL product will join Walmart's other payments products, like its proprietary mobile wallet Walmart Pay. The company currently offers BNPL loans through a partnership with Affirm. In Canada, it offers BNPL to select customers through a partnership with Fairstone Bank of Canada.[25]

CONCLUSION

# Charting a path beyond today's norms

**To compete more effectively and meet the evolving expectations of customers and partners, consumer finance companies need to create multi-dimensional value.**

As such, tomorrow's leading players will take a holistic view of their customers and merchant networks to create winning propositions for all.

This is not simply about ticking the box by offering a new product like BNPL—it's about creating lifetime value and becoming a more important financial partner to both the customer and the merchant.

The leading players will differentiate by understanding each customer's needs and offering a suite of products, from cards and overdrafts to BNPL, that enable consumers to tailor their financing options to their needs and affordability.

Tomorrow's winners will look beyond the accepted industry benchmarks as they reinvent their businesses and their sector. They will recognize the potential of a strong digital core, with its data, AI, cloud, security and platform, to create new transformative capabilities and opportunities—to the benefit of their customers and business partners as well as themselves.

## About the research

### Expert interviews

We conducted 16 in-depth interviews with experts at banks and digital-native players across multiple regions to explore the outlook for the consumer finance market, product innovation in the segment, the BNPL trend, the value chain and the competitive landscape.

### Ownership model and financial analysis

Accenture Research analyzed the ownership model of 703 relevant financial services players (traditional as well as digital-native) which are active in the consumer finance markets of 10 North American and European countries (the US, Canada, the UK, France, Germany, Italy, the Netherlands, Poland, Spain and Sweden) as well as a number of players of interest in Australia, Brazil, Denmark and Indonesia. We were able to obtain the detailed information necessary for our financial analysis from the annual reports of 171 of these organizations, which we used to measure growth and profitability in 2020 and 2021, as well as S&P Global Market Intelligence data.

### Business model taxonomy

Business model analysis was done on 130 relevant players in the US, the UK, France, Germany, Italy, Poland, Spain, Sweden, Australia, Brazil and Canada. We categorized each player based on our proprietary taxonomy of five models: Vertically Integrated, Distributor, Enabler, Embedder and Packager.

### Modelling BNPL converged with credit card, market size and revenue uplift for banks

We focused on the US and Europe to model the potential market size of embedding BNPL into credit cards. The variables we considered were credit card limits, historical credit card usage levels and current utilization rates. For the forecast to 2025, we assumed the utilization rate will revert to the pre-pandemic level and modelled credit card limit growth for 2025 based on macroeconomic indicators.

Our assumptions for BNPL growth projections are a twofold increase in the average BNPL ticket size, and a threefold increase in BNPL transaction volume in the US and a 1.5-times increase in Europe. We believe that embedding BNPL into cards will drive more adoption by affluent consumers and even more usage by mass-market customers; more adoption across all age groups; and more adoption across product categories such as health, education, and travel.

The potential revenue uplift for a bank was estimated for one large model bank in the US and in Europe. The estimate comprised a BNPL component and a credit card utilization component. Credit card interest income was calculated as the forecast credit card outstanding total for 2025 multiplied by gross interest yield. We took the reported level of credit cards outstanding for 2021 and projected the growth rate based on our BNPL forecast model.

The gross interest yield was taken from Accenture Research's proprietary Payments Revenue Model. Credit card fee income was calculated as the projected credit card purchase volume for 2025 multiplied by the interchange fee. For the credit card purchase volume, we took data from banks' annual reports and calculated the ratio from credit cards outstanding (as of 31 December 2021) versus the total purchase volume through credit cards throughout 2021.

The BNPL component was based on interest income and credit card fee income generated by embedding BNPL into the card. Interest income generated from BNPL was calculated as the value of BNPL outstanding multiplied by 0.5 and gross interest yield in 2021 (data from Accenture Research based on internal experts' views). Credit card fee income from BNPL was calculated as BNPL volume expected in 2025 multiplied by the interchange fee.

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