



Unlocking the Potential of Buy Now Pay Later

How Everyone Can Win

January 2023

The rapid surge of Buy Now Pay Later

Convenient, affordable, and fast, Buy Now Pay Later (BNPL) has seen wide acceptance and promising growth¹ in recent years. Yet, increasing regulations and scrutiny from consumer protection authorities² signal that the existing design of BNPL offerings may not be sustainable.

Players in the marketplace face an inflection point: put the customer first or miss an opportunity for substantial growth.

BNPL is a short-term financing option that breaks purchases into a set of smaller, no/low interest payments. Today, this installment plan is offered to customers both at point-of-sale by retailers (via BNPL providers) and post-purchase by a growing number of banks. Customers generally have the option to pay in four, no-interest installments or to select longer repayment terms with interest. Typically, BNPL providers make the majority of their money through fees they charge merchants to utilize their BNPL payment vehicle³.

With customers seeking more connected and personalized digital payment experiences, BNPL adoption has risen—especially through the pandemic. It has emerged as a strong challenger to traditional lending and credit, generating a real threat to banking incumbents. While U.S. credit card balances are only now back to their pre-pandemic levels⁴, BNPL saw a 970% increase in loan originations between 2019–2021⁵. Overall, it projects a compounded annual growth rate of 43.8% through 2030, increasing BNPL market size to \$3.2 trillion⁶.

Posing a threat to banks, Fintechs gained early traction in the BNPL space, owning more than 90% of the BNPL market share and diverting \$8–10 billion in annual revenues¹. Yet, BNPL accounts for only 3% of the global e-commerce transaction value⁷—showing there is still substantial growth opportunity for all.

Although BNPL is expanding, recent valuation losses, coupled with market exits of several players, are raising concerns about the viability of BNPL offerings. Additionally, existing providers have failed to activate the full potential of BNPL, facing notable consumer issues. Unhealthy financial habits⁸, lack of trust in financial institutions⁹, and historical financial inequities¹⁰ currently inhibit mass adoption and expansion of BNPL. Providers who can upend the status quo could see their BNPL offering drive business growth, enhance customer loyalty, and expand accessibility of financial services.



To better understand the common needs and nuanced behaviors of BNPL users, we conducted deep quantitative and qualitative research, engaging with more than 600 customers via surveys and ethnographic conversations. Our analysis surfaced four key customer segments:



Fashion Maven

The largest and youngest cohort of BNPL consumers, commonly leveraging flexible repayment to purchase latest fashion trends. 50% of this segment values payment flexibility in BNPL offers.

“Shopping online gives me flexibility to research the newest fashion. BNPL gives me the peace of mind to be on trend without spending too much at once.”

VERONICA
Passionate Gen Z user of BNPL



Social Recreationist

Active Gen Z and Millennials, looking for affordable deals to finance their social activities and hobbies. 47% of this segment values affordability as the main driver to utilize a BNPL offer.

“My friends and I have a lot of hobbies. BNPL allows me to keep up with the boys while keeping my monthly payments affordable and predictable.”

ROB
Mid-30s backpacker and digital nomad



Conscious Family

Younger families seeking reliable repayment options to finance both necessary essentials and communal experiences. 37% of this segment values **trust**^{*} as a key driver to select BNPL.

“Life with a family is busy and expensive. BNPL allows us to get our kids what they need for school with the convenience of payments over time.”

MARC & JENNIFER
Married couple with 2 children

**Trust is built from the humanity and transparency of a brand's intent and the capability and reliability of a brand's competence.*



Deal Chaser

Oldest cohort of BNPL shoppers, proudly looking for the best bargains. 75% of this group prefers familiar brands, taking special interest in loyalty programs and seasonal discounts.

“I am bargain shopper through and through—and I am proud of it. I enjoy scouring the internet for deals. BNPL gives me a budgeting tool to add predictability to monthly bills.”

BARBARA & GREG
Married and retired on a fixed income



Key challenges ahead for BNPL expansion

01. Unhealthy Financial Habits

BNPL consumers are falling behind on payments while spending beyond their means

BNPL is proving to be a debt risk, with more than 40%¹¹ of customers falling behind on payments in 2022. Financial risk increases as consumers utilize multiple BNPL offerings with differing policies and payment schedules. These factors make payments harder to track and manage, leading to declines in consumers' credit scores.

Especially susceptible are younger and less experienced consumers—like the Gen Z “Fashion Maven” and “Social Recreationist”. Gen Z sits at a nexus point of influence from social media, appetite in ever-changing trends, and inexperience with credit and debt. While 58% of GenZ used BNPL in 2022, 55% of those same GenZers had also missed at least one payment the same year¹².

Across segments, 68% of BNPL customers admit they overspend when using BNPL¹², showing BNPL can exacerbate unhealthy financial habits. These behaviors indicate the inherent difficulties in managing BNPL as a

positive financial tool. Regulatory bodies may, rightfully, limit expansive adoption of BNPL for certain segments to better protect financially vulnerable groups.

Without consideration for consumer financial wellness, BNPL providers may be undermining the long-term success of their own user base, hindering loyalty and compounding mistrust of financial institutions.



02. Lack of Trust in Financial Institutions

Consumers are wary, BNPL firms are doing little to build confidence

We know trust creates loyalty, which drives business results. People who feel they've had a positive emotional experience with a brand are 15 times more likely to recommend that brand, 8 times more likely to trust it, and 7 times more likely to purchase from it again¹³. Trustworthy companies outperform their competitors by a factor of 2.5x¹⁴.

Yet, trust among BNPL consumers is fractured, especially regarding financial service providers. Our recent research on consumer trust indicated that BNPL consumers trust technology companies more than financial institutions. Financial services perform the lowest in terms of consumer trust.

Financial Services are lagging, especially on Humanity and Transparency. Consumers across all segments have little understanding of how BNPL works behind the scenes. These misconceptions hamper trust.

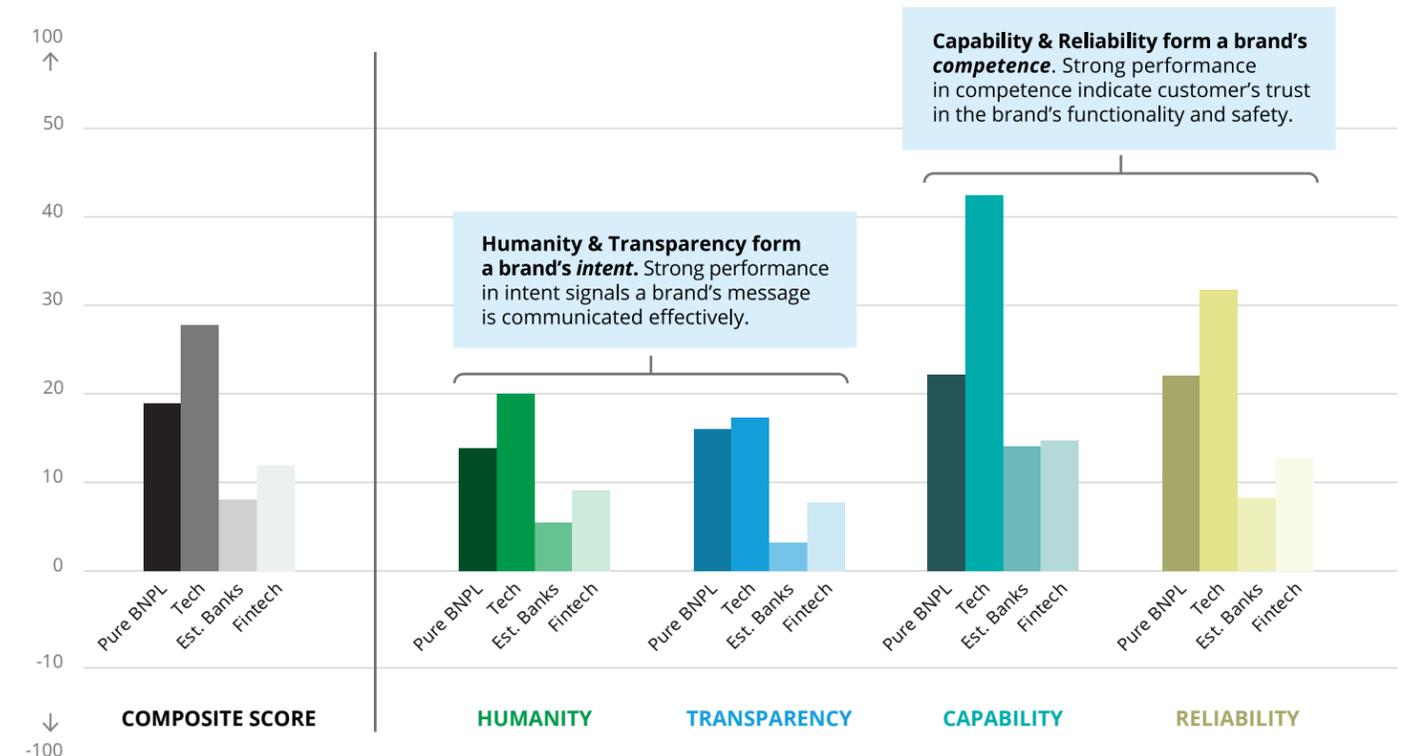
- 43% of BNPL consumers believe BNPL providers unfairly make money through interest rates¹⁵
- 26% of BNPL consumers believe products sold through BNPL are marked up to generate profit¹⁵
- 21% of BNPL consumers believe BNPL firms earn money through unadvertised fees¹⁵

There is a clear opportunity for BNPL providers to deliver more transparent offerings with genuine communication, fostering stronger human connection with all consumer segments. Especially for the “Conscious Family”—who values trust as key BNPL driver—trustworthy offerings can boost confidence, adoption, and loyalty.

We believe trust can be measured by four key signals¹⁶.

- Humanity**
The brand demonstrates empathy and kindness towards me and treats everyone fairly
- Transparency**
The brand openly shares all information, motives, and choices in straightforward and plain language
- Capability**
The brand provides quality products, services, and experiences
- Reliability**
The brand consistently delivers on its promises and my expectations

MEASURING TRUST IN FINANCIAL SERVICES



HX TrustID is measured on a -100 to +100 scale, but for the purposes of this visual, the y-axis is from 0 to +55 n= 1,200 (Pure BNPL); 1,200 (Tech); 1,200 (Established Banks); 400 (Fintech). The Pure BNPL segment includes companies that have their core business in providing BNPL services to end-consumers and emerged from it. Tech companies primarily provide technology driven products and services (hard-/ softwares) and (can) expand into digital payment offerings such as BNPL. Established Banks are companies that provide traditional banking services (e.g., loans, credit cards, money movement) and (can) expand into adjacent Financial Services such as BNPL. Fintechs include companies that primarily provide digital enabled Financial services to consumers and businesses, and (can) expand into adjacent Financial Services such as BNPL.



68% of all BNPL customers

admit they spend more than they otherwise would when using BNPL to make purchases¹²

LendingTree, Buy Now, Pay Later Survey, April 2022 (1,500+ consumers)

03. Systemic Financial Exclusion

Financial Services have not been designed for all—BNPL must work to change this

Financial Services consistently underserve underrepresented groups, leaving a promising market segment untapped. A recent Deloitte study showed that more than 60% of underrepresented consumers felt discriminated from Financial Service providers because of their race, gender, disabilities, and/or sexual orientation¹⁷. Additionally, underrepresented groups—specifically Black and Latino adults—are more likely to report unexpected fees, closed accounts, and credit line reductions than the general population. Across income levels, these groups are also denied credit at higher rates than the overall population¹⁸.

Inequitable underwriting practices, fee structures, balance thresholds, and credit history evaluations prove to be systemic barriers for marginalized populations when seeking financial products and services. Not being able to obtain and build credit, underrepresented groups are often deemed “credit invisible”—and therefore, have a harder time building wealth.

Whether providers realize it yet or not, the underserved are not the only ones feeling the effects of this gap. Based on Deloitte research on the value of inclusion in Financial Services, BNPL and Financial Services providers are losing more than 10% of their existing revenues by not addressing inequitable practices that exclude the underrepresented¹⁷.



One in six

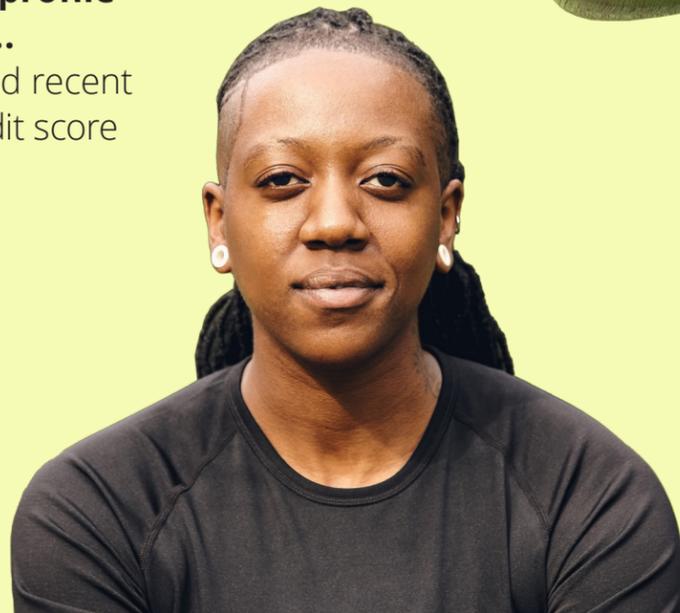
Americans surveyed feel unwelcome purchasing banking products due to their race, gender, socioeconomics and/or sexual orientation¹⁷.

DELOITTE, Affinity Banking: The intersection of digital Banking and financial inclusion

“There’s more to my financial profile than my race or where I live...

How I’ve been paying my rent and recent bills or how I’ve improved my credit score over time should matter, too.”

Samantha
32-year-old woman
Black, LGBTQ+



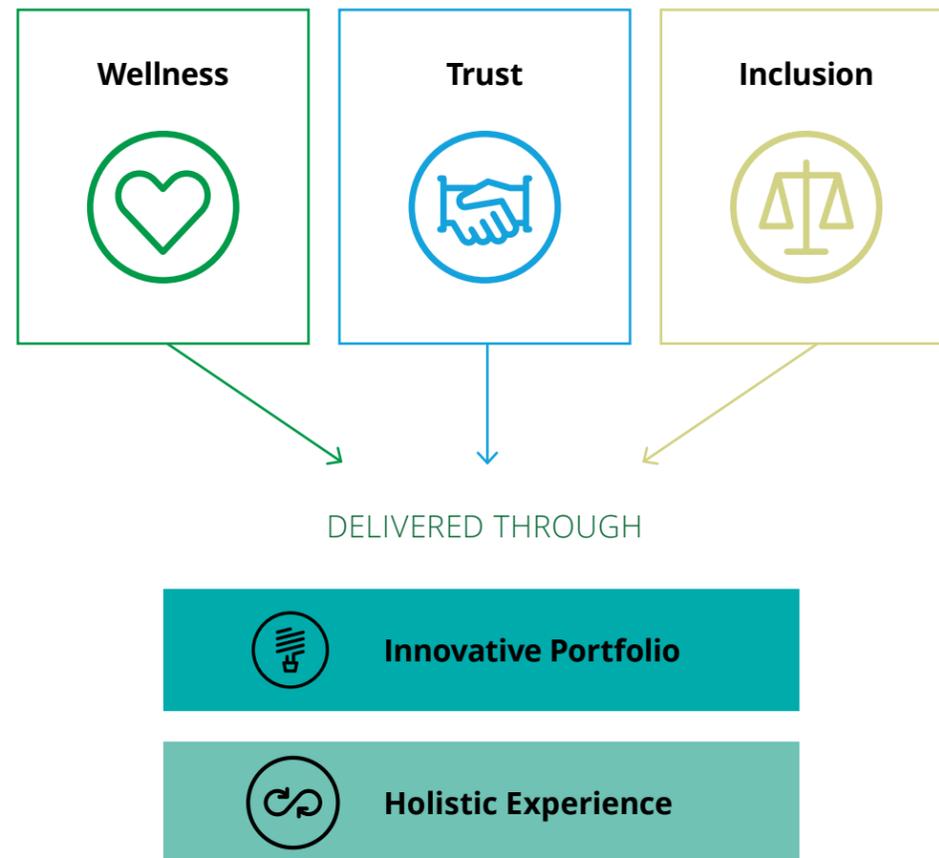
“A single moment of bias has long-term consequences in your financial wealth and how you perceive the brand for your entire life.”

Juan
30-year-old man
Latino

Turning BNPL towards collective success

For BNPL to grow sustainably and mature into a thriving offering, providers must proactively keep human experience at the core of their strategy.

A customer-first BNPL experience can be created by focusing on Financial Wellness, Trust, and Inclusion, delivered to the customer through an Innovative BNPL Portfolio and a Holistic Service Experience.



Wellness

Design with consumer interest in mind, emphasizing financial wellness

BNPL providers—including pure BNPL companies, Tech companies, Established Banks, and Fintechs providing BNPL services—can contribute to the enhanced financial literacy of their customers, providing insights that help them stay on top of their payments and build healthy financial habits. Financial implications of using BNPL—such as interest rates and fee policies—need to be clear and accessible.

BNPL providers can play the role of advisors throughout the experience. By providing cashflow tools to consolidate multiple payment

schedules, delivering insights on budgeting, and supporting customers in achieving financial goals, BNPL providers can encourage customers to save and spend more effectively.

Features centered around financial wellness may resonate especially well with the “Fashion Maven” and “Social Recreationist” segments, who may be younger and newer to financial independence and planning. Helping to improve customers’ financial health can lead to repeat business, loyalty, and trust.



Trust

Establish Trust, focusing on humanity and transparency

Building lasting trust matters deeply, as 1 in 5 consumers spend upward of 50% more money on trusted brands¹⁹. As mentioned earlier, our recent research around trust and financial services found that Financial Service providers are especially lagging in Humanity and Transparency. These two signals form a brand’s intent. This means financial service companies are 1) struggling to demonstrate how they care for their customers and the world at large and 2) missing the mark in communicating clearly about their motives and operations.

To create trust more effectively, Financial Services companies (especially Established Banks) can apply more human language, addressing consumers’ needs. Additionally, as customers across segments crave more personalization, BNPL providers who can delight customers with offers aligned

to their preferences may create stronger authentic connections. In particular, the “Deal Chaser”—who values familiar brands, loyalty programs, and discounts—may value tailored promotions to enhance trust and affiliation.

When a brand strongly demonstrates humanity, customers are 1.6 times more likely to purchase that brand over competitors¹⁶. Humanity can be heightened by demonstrating respectful treatment of consumers and concern for the greater good¹⁶, indicating a link between increasing trust and increasing financial inclusion.

* Any statements regarding Trader Joe’s have been derived from publicly available information and should not be read, in any way, that Trader Joe’s was approached by Deloitte regarding the BNPL service offerings to be combined with any Trader Joe’s customer data, etc.

TEND

Tend.money, a digital banking app, is an example on how BNPL can help elevate financial literacy. The platform provides personalized money tools to help users make smart financial decisions and improve wealth through strategic planning. The experience is enhanced with community, co-creation, and rewards.

BNPL providers can similarly adopt the power of sharing learned experiences to drive awareness and engagement, empowering users to take control of their finances.

TRADER JOE’S

Trader Joe’s* is a national grocery store known for offering transparency and humanity to its customers. Even without rewards programs, added incentives, or sales, they continue to rank high in customer trust—because they commit to attainable pricing, product quality, and human experience. Trader Joe’s has built a strong customer base that is loyal to the brand.

BNPL providers can boost trust, especially with the “Conscious Family” and “Deal Chaser” segments, by breaking down BNPL fees and policies with simple visualizations and clear language. Additionally, providers can deliver on humanity by creating an experience that is direct and honest.



Inclusion

Turn up the good, and grow your segments through financial inclusion

In the United States, there are over 45 million adults who are either credit unserved (“credit invisible”) or underserved (unscorable)²⁰. BNPL has the potential to become a financially inclusive loan instrument to support these groups. It can unlock additional purchasing power for consumers with little or unequal access to traditional credit and banking paths.

BNPL can help the unserved and underserved build or rebuild credit. When making on-time payments, including BNPL in reports helped those with young or thin credit files increase their credit scores by an average of 21 points²¹. Expanding the reach of fair credit services will enhance financial equity, help providers tap into new growth segments, and serve broader adoption of BNPL.

Additionally, providers (including pure BNPL companies, Tech companies, Established Banks, Fintechs, and retailers) can expand their embedded finance services beyond BNPL. Shifting the financial experience out of the traditional context removes barriers that often bar excluded groups from equitable banking, insurance, and lending.

Changing underwriting is core to improving access. Lenders need to assess risks accurately while successfully supporting the unserved and underserved. If biased systems, data, and algorithms persist, the road to inclusive credit will end at the door. Representation in underwriting can assist in removing bias—yet today, more than 68% of U.S. loan officers are white²². Redesigning a more inclusive underwriting model means employing a more diverse workforce—one that can inform equitable processes, identify biased systems, and drive inclusive lending decisions.



Experian Lift Premium™ is the credit reporting company’s flagship risk scoring solution. It seeks to challenge traditional credit scoring models to look more deeply into consumers’ behaviors. By bringing together expanded FCRA-regulated data, advanced analytics, and machine learning, Lift Premium can open the lending aperture to include 96% of the U.S. adult population²³.

BNPL players can consider similar data and modeling to expand access to payment options, support the growth of equitable practices, and create loyalty with underserved groups through an inclusive BNPL proposition.



Innovative Portfolio

Differentiate with an innovative BNPL portfolio, anticipating customer needs

Many customers are ready to expand the purchases they make with BNPL. We found that 42% were interested in using BNPL for future medium-sized purchases—37% for large purchases. Breaking into new forms of BNPL spending, customers gravitated to potential funding of vacations, healthcare procedures, boat or car purchases, and home improvements.

As confidence, familiarity, and trust with the brand grow, customers are ready to boost their current average cart size (of ~\$100-\$130) by a factor of 10x-15x for meaningful purchases.

A diverse product portfolio, reinforced by strong customer service and loyalty experiences, can support the growing and evolving BNPL user base.

As competition among providers increases, those with a continued focus on innovation, beyond only installment lending, will lead the way. BNPL providers should consider core, adjacent, and transformational growth opportunities, responding to customer needs and the financial landscape. For example, the “Fashion Maven”, “Conscious Family”, and “Deal Chaser” segments show interest in loyalty programs and/or access to discounts. A concept like BNPL Loyalty Rewards to Cash could entice these groups to make future purchases with BNPL.

Core opportunities are mainly centered around elevating the customer and merchant experience in current markets, using operational and technological innovations. Adjacent concepts can enhance BNPL experiences and business models. Transformational opportunities can use BNPL as a springboard for new propositions (e.g., credit service in the metaverse).

To deliver on wellness, trust, and inclusion, BNPL providers must take their offering beyond the point of sale. Below are illustrative ideas along an ambition matrix. BNPL providers can apply this framework to innovate and design a differentiating proposition that will resonate across consumer segments.

AMBITION MATRIX: DIFFERENTIATING YOUR BNPL OFFERING



Two-thirds of Americans surveyed

believe banks have a responsibility to support diverse and underserved communities.¹⁷

DELOITTE, Affinity Banking: The intersection of digital Banking and financial inclusion



Holistic Experience

Deliver a holistic experience, including merchant integration

An innovative portfolio is best activated with a holistic experience. Beyond seamless transactions, successful offerings should account for pre- and post-sale interactions. BNPL providers should enable an empowering, end-to-end experience that allows users to feel confident in their financial decisions. To truly deliver on this goal, customer service cannot be overlooked.

Underpinning how customers experience a brand is their interaction with customer service. 61% of customers said they would switch to a competitor after a single bad experience with a brand. With two bad experiences, the churn potential jumps to 76%²⁴.

Our recent BNPL study showed that customers prefer interacting with a chatbot for general account inquiries, such as account balance, payment terms, or upcoming deals. For more complex, sensitive issues—such as fraud, complaints, disputes, or missed payments—customers prefer human interaction. This means a mix between self-service options and

live support. Accurately triaging inquiries to the most effective channel is critical to meeting customer expectations and resolution times.

We also see utilization of self-service increasing, with 70% of customers using it at least once during resolution²⁵. As seen in other industries, BNPL providers may fall prey to the trap of full service automation in an attempt to reduce costs. This can lead to a loss in overall customer satisfaction. Currently, only 9% of these inquiries are fully resolved within self-service²⁵. To support nuanced customer needs, BNPL players should consider a strategic service experience—including chatbots, smart IVRs, human chats, and call-centers—to serve customers via right-channeling.

Moreover, holistic service cannot stop with the consumer. To keep customers engaged, BNPL providers need an attractive ecosystem of merchants. Winning and retaining merchants on the BNPL platform requires a service delivery model tailored to a merchant's size.

We differentiate merchants using three tiers: Enterprise (\$1 billion + revenues), Mid-tier (\$50 million + and less than \$1 billion revenues), and Small Business (less than \$50 million

revenues). BNPL providers can customize their approach for the differing business objectives of merchants across tiers.

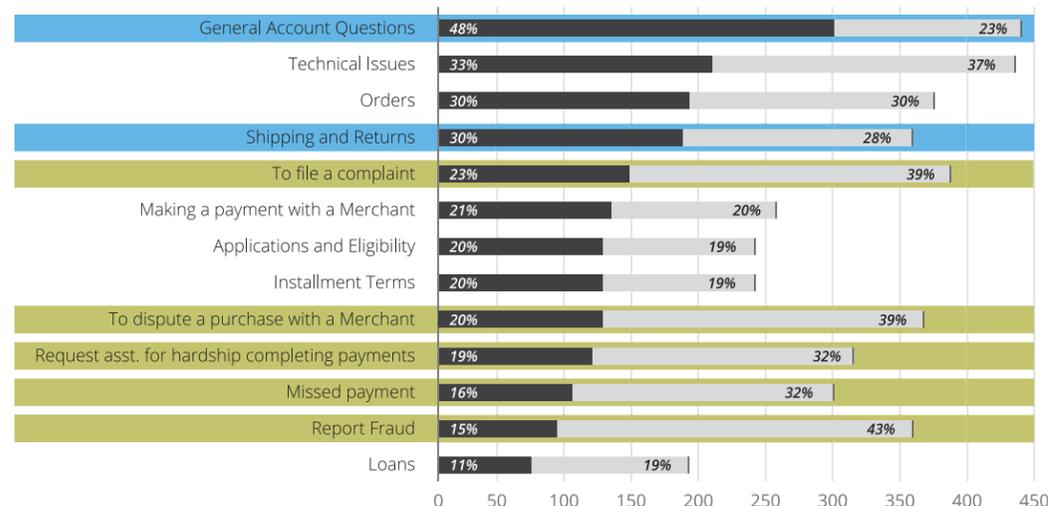
- For Enterprise merchants, growing the business while maintaining high profitability margins is the most common priority.
- For mid-size merchants, maintaining brand value while expanding into new segments and channels is the most common priority.
- For small business merchants, delivering a customer-first experience to establish the brand is the most common priority.



Chowbus, a curated food ordering platform, allows customers to sample multiple, authentic Asian restaurants in one delivery with no added fees. As an intermediary between merchants and customers, Chowbus strengthens the merchant experience with tools to enhance exposure and customer base, while providing customers with expanded options to bundle in an order.

DELOITTE BNPL SURVEY (600+ PARTICIPANTS)

When seeking service for the following options, would you prefer to use a chatbot or speak to a live agent?



SERVICE CHANNEL

- Chat Bot
- Agent

ISSUE TYPE

- General / Account Management
- Complex / Sensitive

Making moves to win

At the core, a human-centered design lens is essential to create innovative offerings focused on the needs of ever-evolving customers.

- Championing the financial wellbeing of new and existing customers spells retention and sustainable growth.
- Understanding customer data along the four signals of trust (Humanity, Transparency, Capability, Reliability) will help define a tailored BNPL offering that can bolster customer adoption, engagement, and loyalty.
- Defining an inclusive BNPL proposition—built with equity-centered practices—will allow providers to consider societal, lived, and individual culture, opening the door for underserved and affinity segments.
- Innovating product offerings can differentiate a brand in the marketplace, attracting customers and creating long-term value.
- Creating a more seamless purchasing experience, backed by tailored service delivery, can enhance customer satisfaction and increase digital commerce revenues.

Faced with growing BNPL customer demand, merchant adoption, market momentum, and regulatory scrutiny, pure BNPL companies, Established Banks, Tech, and BNPL Fintechs should act now to shift the future of BNPL.



These insights are based on a Deloitte BNPL Consumer Survey and ethnographic research (600+ participants), Deloitte Affinity Banking Research (2000+ participants), and our recent experience designing and launching successful BNPL propositions.

End Notes

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