



# Friends or Foes? BNPL vs. Credit Cards

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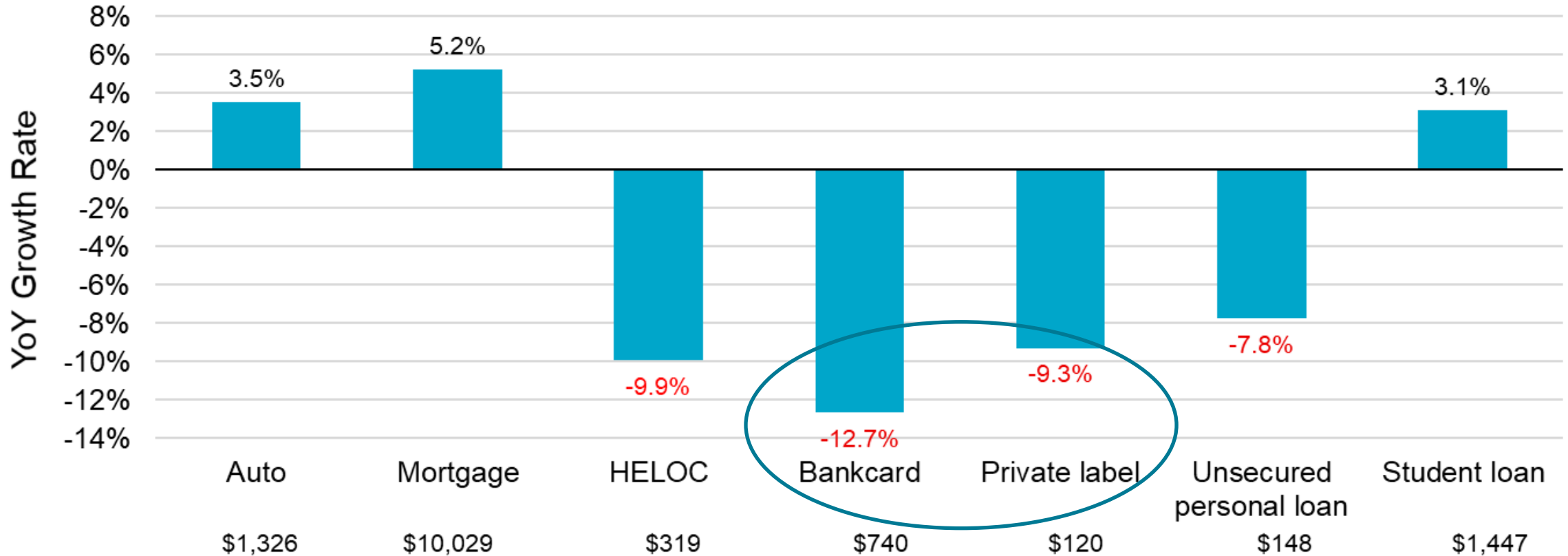
APRIL, 2021



# Bankcard balances declined significantly in 2020 as consumer liquidity and competing payment forms grew



### Q4 2020 Balance Growth



Total Balances by Product (B)

Source: TransUnion consumer credit database



## In this session, we'll discuss:

- The emergence of BNPL
- Where the growth from Fin Tech and BNPL originates
- What the key consumer factors are in driving this growth
- Considerations for lenders and partners



# A decades-old concept transformed by new technologies

Traditional POS financing methods...

...offer these benefits:

Add these new benefits...

...and we have:

### Credit cards/Retail cards

- Possessing the purchased item at POS without paying today
- Option to pay over time

### Debit and prepaid cards

- Convenience of not paying in cash
- Ability to shop online
- Without the 'credit' label

### Layaway

- Ability to purchase today, rather than wait or not spend at all, if funds are not yet available

- Form of immediate payment
- Set strict due dates
- Predictable fixed amounts
- Avoids racking up credit card debt
- Usually cheaper than card APR if paid on time

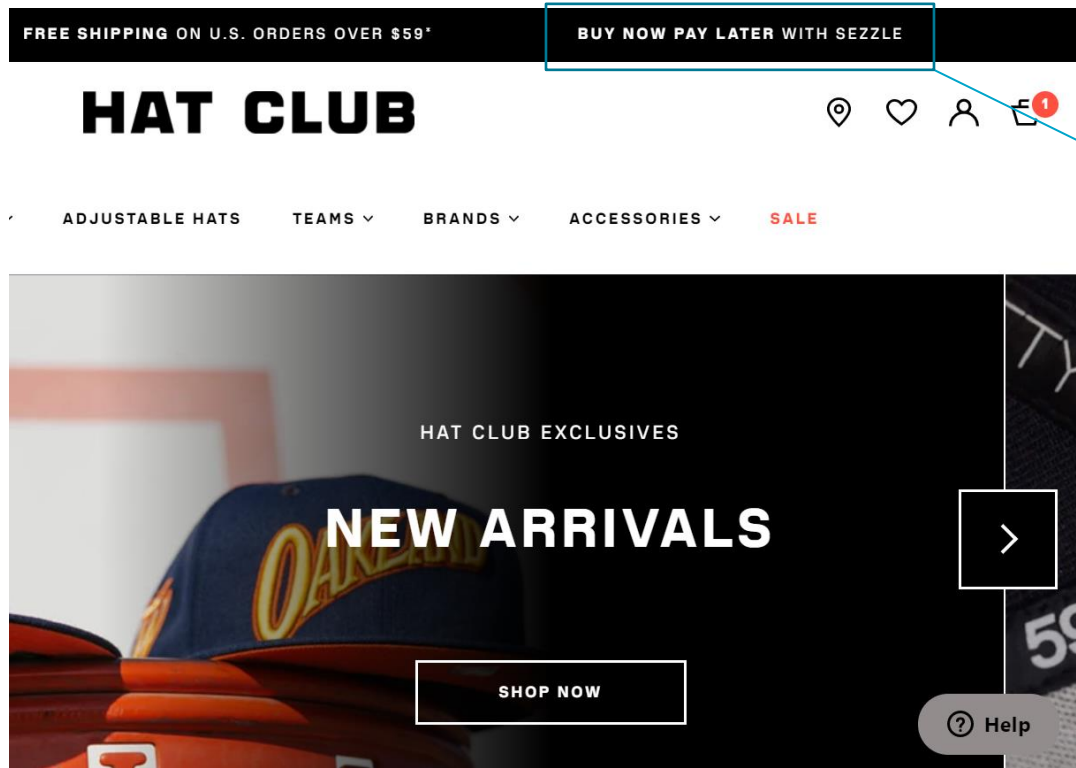
- Ability to purchase today, rather than wait or not spend at all, if funds are not yet available

- Possessing the purchased item at POS without paying today

## Buy Now Pay Later (BNPL) – 3 types

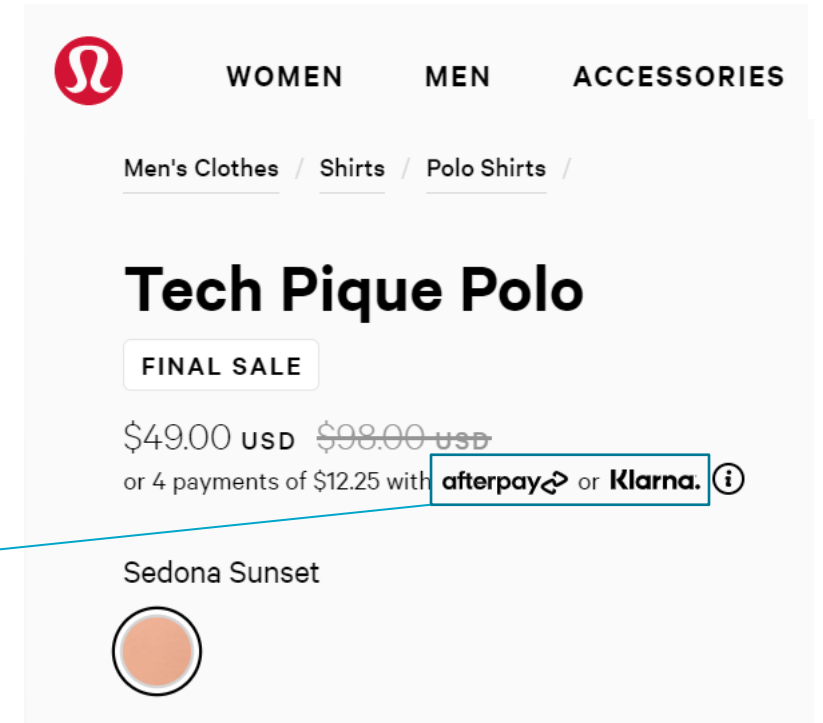


# BNPL's success comes from positioning and integration paired with a simple consumer value proposition

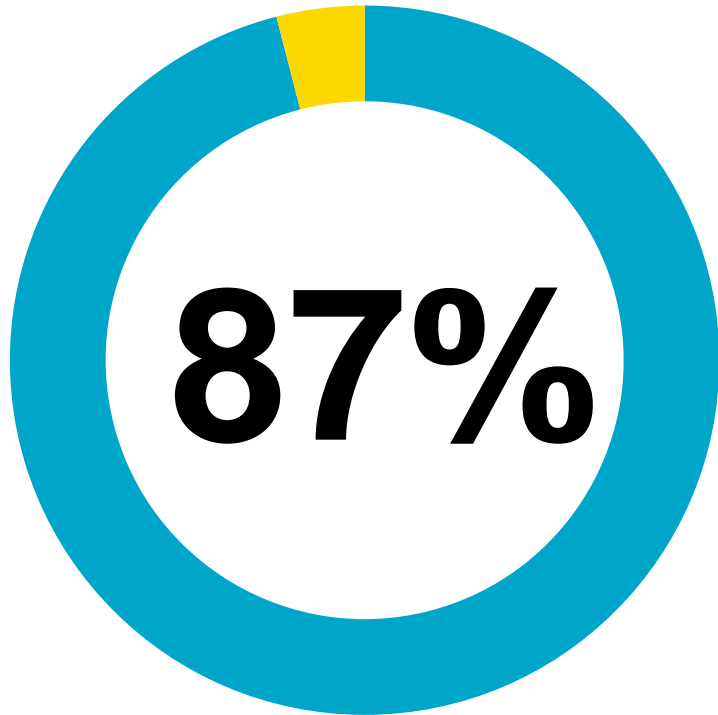


“Heads-up” positioning, to help drive shopping behavior

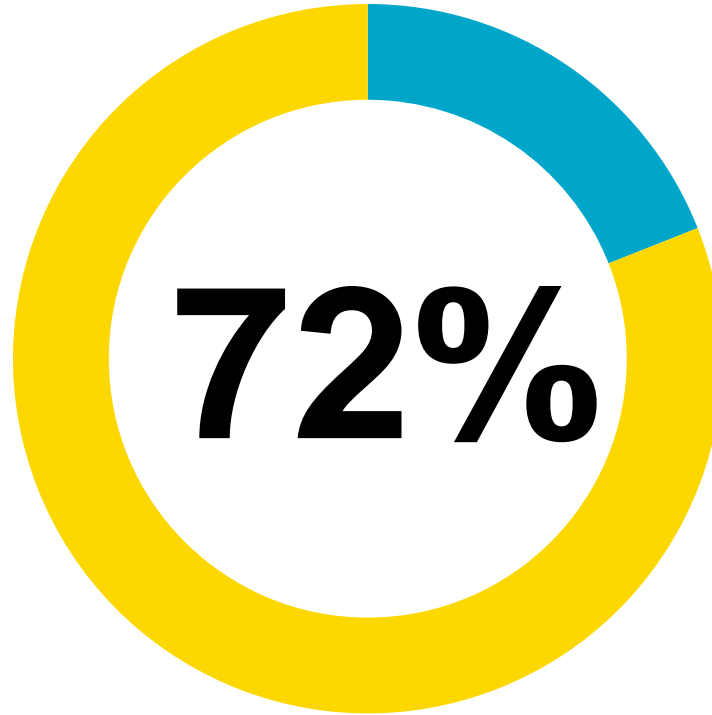
Point of Sale targeting to capture conversion



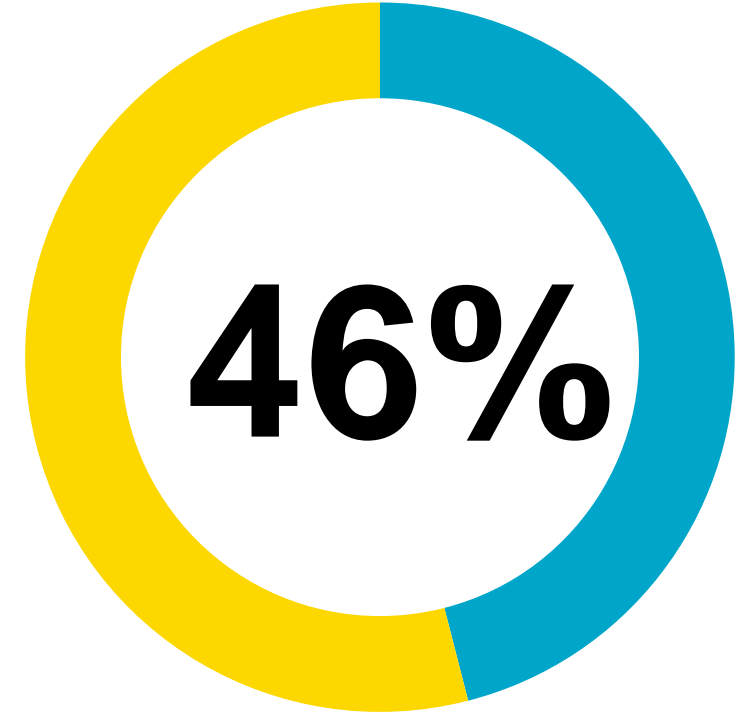
# Consumers prefer straightforward and predictable repayment terms



Interested in a **simple way to pay over time** for large purchases that's not by credit card



Worry about how much their purchases **would end up costing them in total**

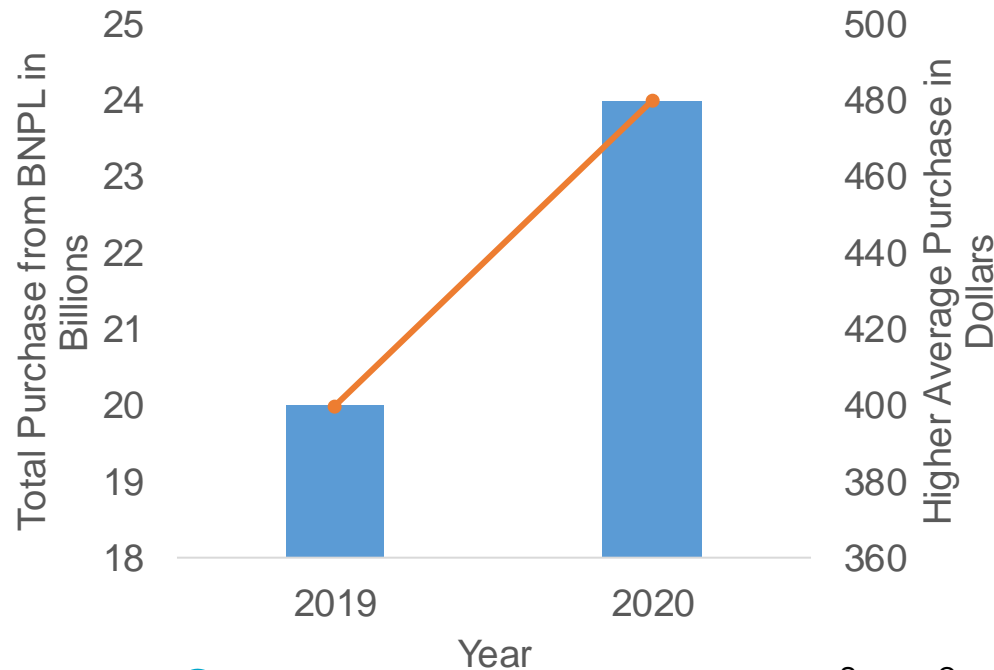


**Enjoyed some purchases less** due to carrying a credit card balance

# The BNPL has seen tremendous growth in transactions and average ticket

- Transaction volume continues to increase and the average ticket increased to \$480
- PayPal is positioned to be the largest player given the distribution/network
- BNPL now function as payment networks

## BNPL grew 20% in 2020



Source: Cornerstone/Oliver Wyman

## Key Players



**Klarna.**





# The result is double the incremental growth in POS lending

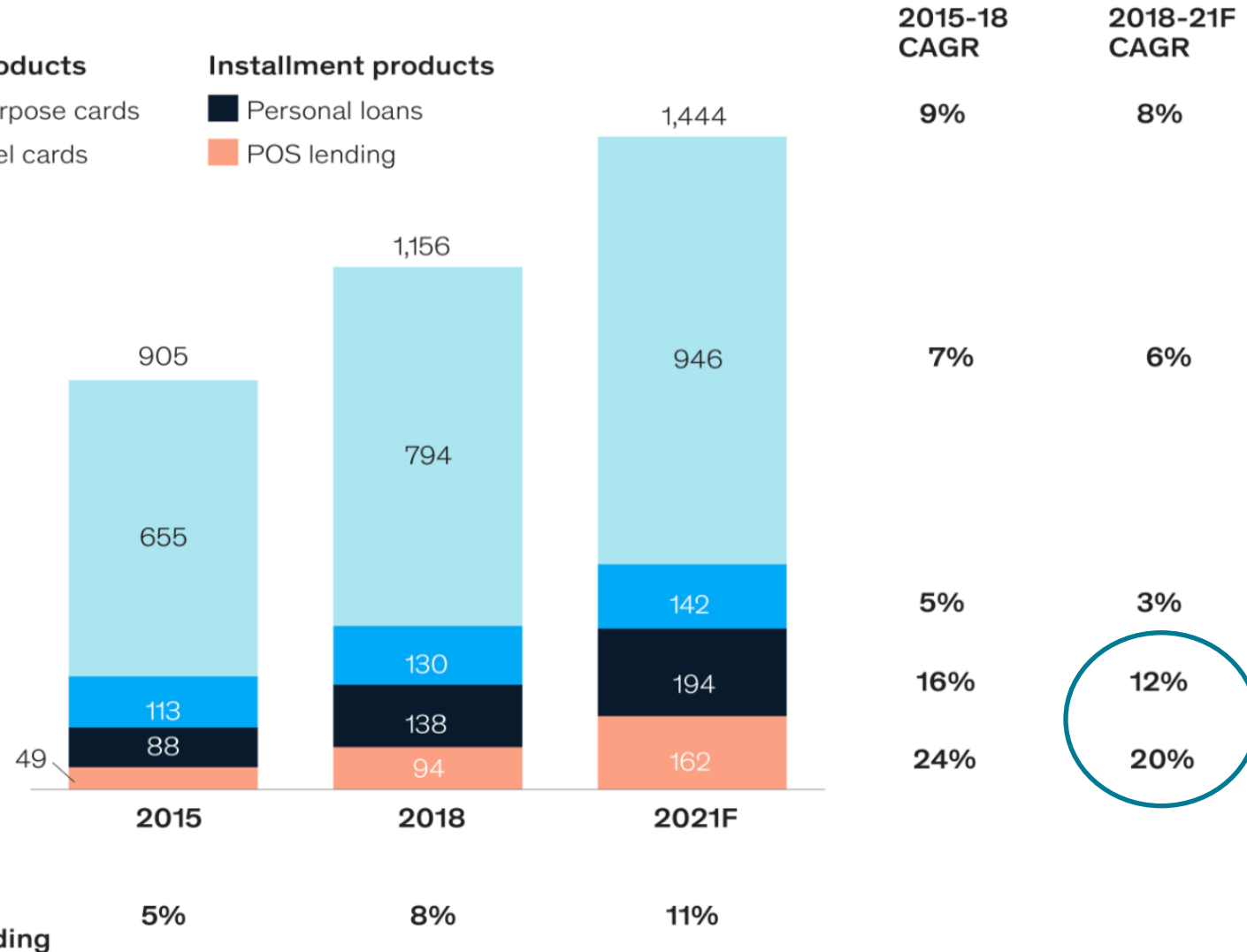
Unsecured lending, outstanding balances, US  
\$ billion

### Revolving products

- General-purpose cards
- Private-label cards

### Installment products

- Personal loans
- POS lending





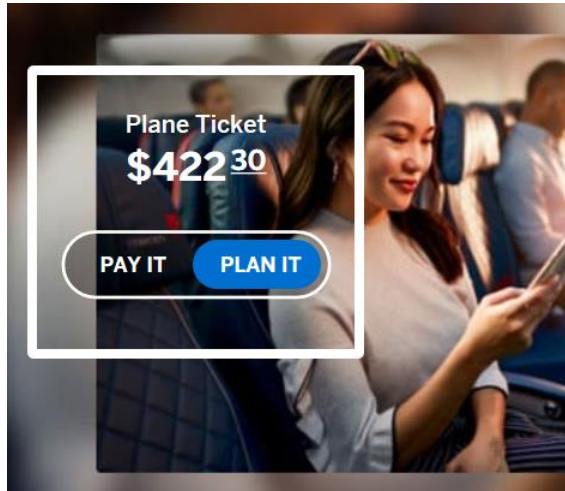
# Key learnings from the market

- Critical mass in BNPL has not been achieved despite media coverage reporting on growth
- Point-of-sale logo placement and POS integration is a competitive advantage for BNPL given the shift in ecommerce market share
- Brand positioning of BNPL partners masks discount fees and could drive long term dissatisfaction with ecosystem economics
- Card value propositions of simplicity and value have an opportunity to resonate with consumers

**Charge! – responding to the market challenge**

# Card lenders launched financing alternatives

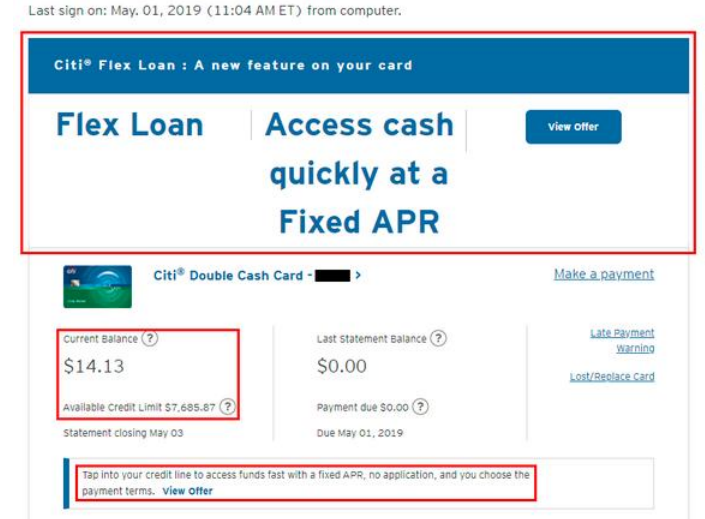
**American Express**  
“Pay It, Plan It”



**JPMorgan Chase**  
“My Plan”

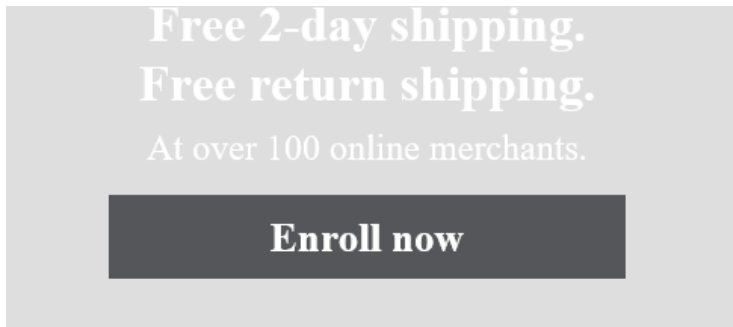


**Citibank**  
“Flex Loan”



These offerings enable consumers to choose specific purchases to be converted from revolving to term installment loans

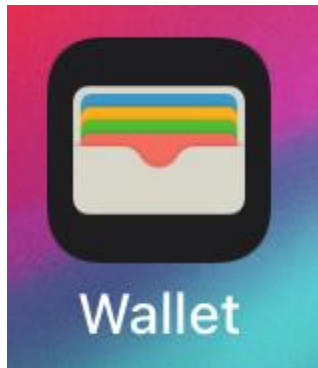
# CLOs and reward programs enable lenders to drive higher engagement and introduce differentiated experiences



**X% rewards**

- Connect merchants to the “best” and most engaged consumers
- Commit and define value proposition for the cardholder before engaging in commerce
- Simplify a process that is perceived to be difficult (i.e. shipping)
- Provide consumers with a best in class experience to earn primary position
- Re-educate and position rewards programs as new currencies

# Mobile wallets provide a streamlined and enhanced delivery experience for consumers



- Merchants supporting wallet integration provide one click check out – form completion
- Card lenders have established process to provision wallet access, however may have more opportunity to promote value proposition of use
- Simple process that consumers perceive most convenient



# Leverage the most valuable asset in the ecosystem – access to the most desirable target with the best offer

- Link together offers/merchants to lenders by positioning the best offers and targeting the best customers
- Evaluate card issuer value propositions for rewards and add on programs and communicate the value frequently
- Communicate with wallet enabled customers reinforcing the convenience of the wallet capabilities