




# ACCELERATING PARTNER FINANCE EXPANSION, BUY NOW PAY LATER, AND EMBEDDED FINANCE IN BANKING INDUSTRY

Predicting partners for banks



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- What are the challenges faced by banks in partner finance expansion, BNPL, and in the embedded finance space?
  - How many banks are prepared with the right set of partner-finance beyond the obvious choices?
  - Is there a product in the market to predict intelligent and sustainable list of next partners for bank?
  - What is the major challenge in BNPL, partner finance and in the embedded finance space?
  - How will the Capgemini fintech product help predict the next partner for banks to accelerate BNPL and the embedded finance market?
  - Does the product predict the unexplored and underexplored market?
  - How are regulators amending the Consumer Duty regulation to create transparency in BNPL and the short-term interest-free products market?



## WHAT IS BNPL IN BANKING?

A type of financing option known as 'Buy Now Pay Later (BNPL)' enables customers to purchase goods or services by deferring their payment. This kind of financing is frequently provided through alliances between retailers and financial institutions. The payment method has grown in popularity in recent years, especially in the e-commerce industry.

BNPL allows customers to break up the purchase cost into small, easy-to-manage, and interest-free payments over a predetermined period, compared to traditional lending and interest-bearing credits. Usually, a customer is required to make a down payment at the time of purchase and the remaining balance is paid in installments over the coming

days, weeks, months, or even years. The retailer and customer predetermine the terms of the BNPL agreement including the interest rate and repayment period.

BNPL has many benefits but a major one is being more accessible to consumers than conventional forms of credit. Customers with poor credit or short credit history may find it easier to access financing because BNPL providers, for instance, may have more lenient credit requirements. BNPL customers can select a repayment schedule that fits their needs and budget, making it potentially more flexible than traditional credit options.

However, BNPL may cause some potential issues. Customers could overspend or may not be able pay

their debt, just like with any other form of credit. Their credit scores may also be negatively impacted, which will make it more challenging for them to obtain credit in the future. The cost of a purchase can be significantly higher than the original price because BNPL providers frequently charge fees and interest on their financing.

Despite these risks, the BNPL industry has grown rapidly in the recent years. According to a global Worldpay report, the projected market worth of BNPL is expected to exceed £260 billion by 2025. BNPL usage in the United States has increased by more than 60% in the last year with an estimated 40 million consumers using BNPL services in 2020.

Source: Afterpay's 'BNPL 2020: The Year in Review'

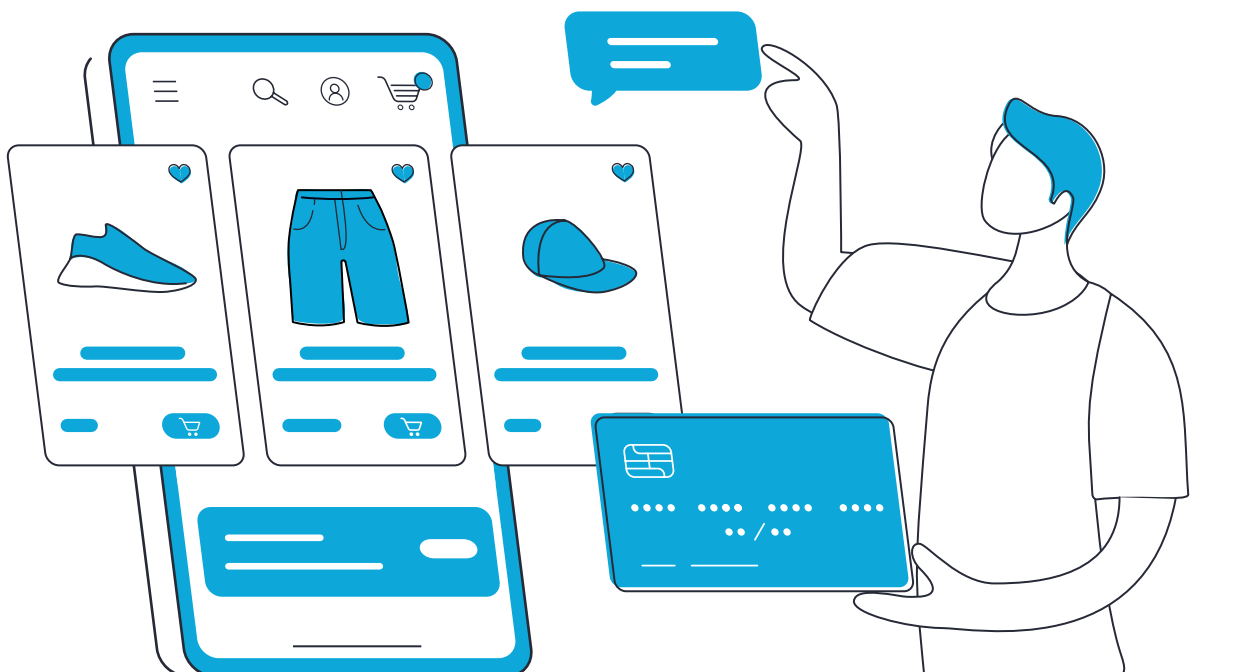
# WHY DO WE NEED BNPL IN THE BANKING INDUSTRY?

In the past few years, the BNPL concept has completely revolutionized the banking sector with its cutting-edge payment option.

The banking sector has embraced BNPL to boost client engagement, enhance client satisfaction, and spur revenue growth. According to a Gartner, Inc. report, the BNPL market has grown rapidly in the recent years and is predicted to reach \$150 billion by 2024. BNPL also enables greater financial inclusion by giving access of the BNPL facility to those who may otherwise not have the means to use conventional credit cards.

As an alternative to traditional credit cards, BNPL has grown in popularity due to its adaptability and simplicity. BNPL eliminates the additional layer of applying a credit card because it gets embedded during a customer's journey when they checkout products and opt for a payment method. Customers using BNPL can pay in installments, which helps them manage their cash flow. As a result, BNPL is a popular choice among young people and those who are starting their careers. Additionally, BNPL has been embraced by small businesses and retailers to increase sales and improve customer engagement.

The use of BNPL has dramatically increased in the recent years as people look for more adaptable and practical payment options. Younger generations, who are more accustomed to using technology and prefer the convenience of online shopping, have taken a particular interest in BNPL. The growth of e-commerce and expanding trend of omnichannel retail has also increased the popularity of BNPL as it can be used both online and in-store.



# WHAT IS A MAJOR CHALLENGE TODAY IN THE BNPL, PARTNER FINANCE AND EMBEDDED FINANCE SPACE?

Banks have so far targeted customers individually. In future, they will reach out to aggregators or partners such as Amazon, Walmart, Uber, or Right Move (to buy/sell/rent properties) to expand their customer base inorganically by providing credit-line facility on products that aggregators or partners offer.

However, none of the banks have an optimal solution to predict the next partner, aggregator, a promising startup, or a promising individual (who has lots of patents and is interested in a startup that banks can fund).

Thanks to our product, we can answer these questions:

- ▶ Which is the next promising startup?
- ▶ Which idea will be at a scale and still embrace a unique approach?
- ▶ How will financial institutions benefit from the new and untapped market collaborations?
- ▶ How to predict a new partner/ aggregator to collaborate with?
- ▶ Is there a new-age credit scoring to understand and analyze the affordability and establish the possibility to build a credit score history on its own and eliminate the additional layers to fasten the process?



## ABOUT THE FINTECH PRODUCT - ESOTERIC

- Esoteric is a **Banking-as-a-Service (BaaS)** based on data analytics obtained from all prominent digital sources
- It embraces fintech and shapes banking to create a smooth, secure, and stable experience for both consumers and merchants
- Esoteric predicts the new/ untapped market aggregator collaborations

Esoteric is equipped with a novel concept and uses sophisticated artificial intelligence (AI) and machine learning (ML) algorithms to provide a pipeline for the next partner or collaborator. It segregates high-value partnership from high-volume partnership.



## ESOTERIC BRINGS A SPECTRUM OF OPPORTUNITIES

This fintech product gives various opportunities like retail banking, wealth management, cards & payments, partner finance, and distributed-ledger technology.

### Those who will benefit from our product are:

- ▶ All NEO-BANKS will get a chance to collaborate with well-known, known, new/ emerging aggregators/ partners available in the market
- ▶ Big financial institutions that believe in expansion with innovation & a fintech mindset
- ▶ The education industry to provide loans to students
- ▶ Immigrants who look for financial inclusion after entering a foreign country
- ▶ Gig economy
- ▶ Tourism industry – predicting the next big resort/ hotel chain with medical facilities (COVID-19 has created different elements of opportunity in tourism)
- ▶ Content platform – predicting the next big digital content platform beyond the obvious ones (Netflix & Amazon Prime Video).

# WHAT ALL MAJOR BANKS PROVIDE BNPL TO THEIR CUSTOMERS (IN THE UK, USA, EUROPE, AND ASIA)?

BNPL is a rapidly-growing trend in the banking industry with more banks offering the payment option to their customers. BNPL is especially popular in the UK, USA, Europe, and Asia. It is estimated that over 50% banks in these regions offer BNPL to their customers.

Over the past few years, BNPL has become well-liked in the UK. Over 60% banks in the UK now offer BNPL to their customers, according to a Statista report. Customers today look for flexible payment options, which is a major factor driving the growth of BNPL. It offers a practical solution that

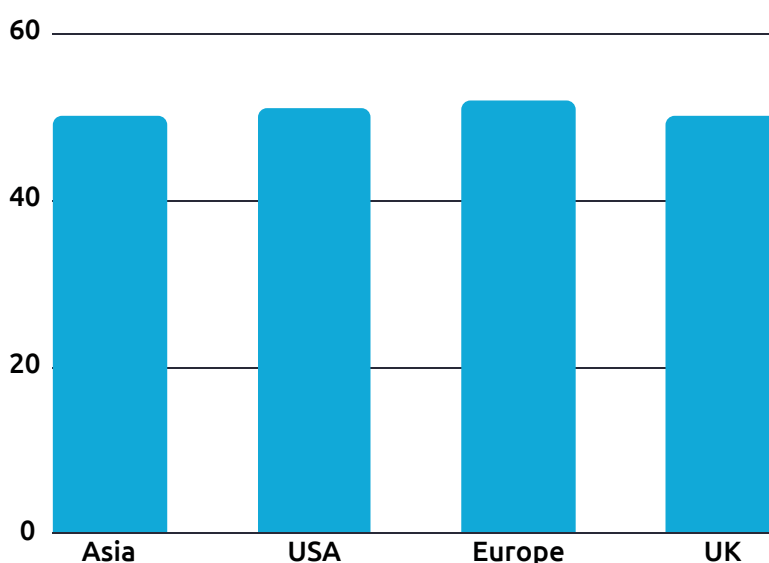
enables customers to buy now and pay later.

In the USA, the growth of BNPL has been similarly impressive. According to a Gartner Inc. report, over 50% banks in the USA now offer BNPL to their customers. This is largely due to the growing popularity of BNPL among younger generations such as millennials and gen Z who are more likely to be in debt and less likely to have a savings account.

In Europe, the popularity of BNPL is also growing rapidly. According to a report by Statista, over 50% banks in Europe now offer BNPL to their customers. This trend is

driven by the increasing need for more flexible payment options as well as by higher number of consumers who live from paycheck to paycheck.

In Asia, the growth of BNPL has also been significant. According to a report by Bloomberg, over 50% banks in Asia now offer BNPL to their customers. This trend is driven by the rising need for more flexible payment options as well as by the growing number of consumers who look for ways to manage their finances more effectively.





# WHAT ALL MAJOR BANKS PROVIDE BNPL FACILITIES TO BIG BRANDS LIKE AMAZON, OTTO, EBAY, WALMART, TESCO, APPLE, NIKE, ETC.?

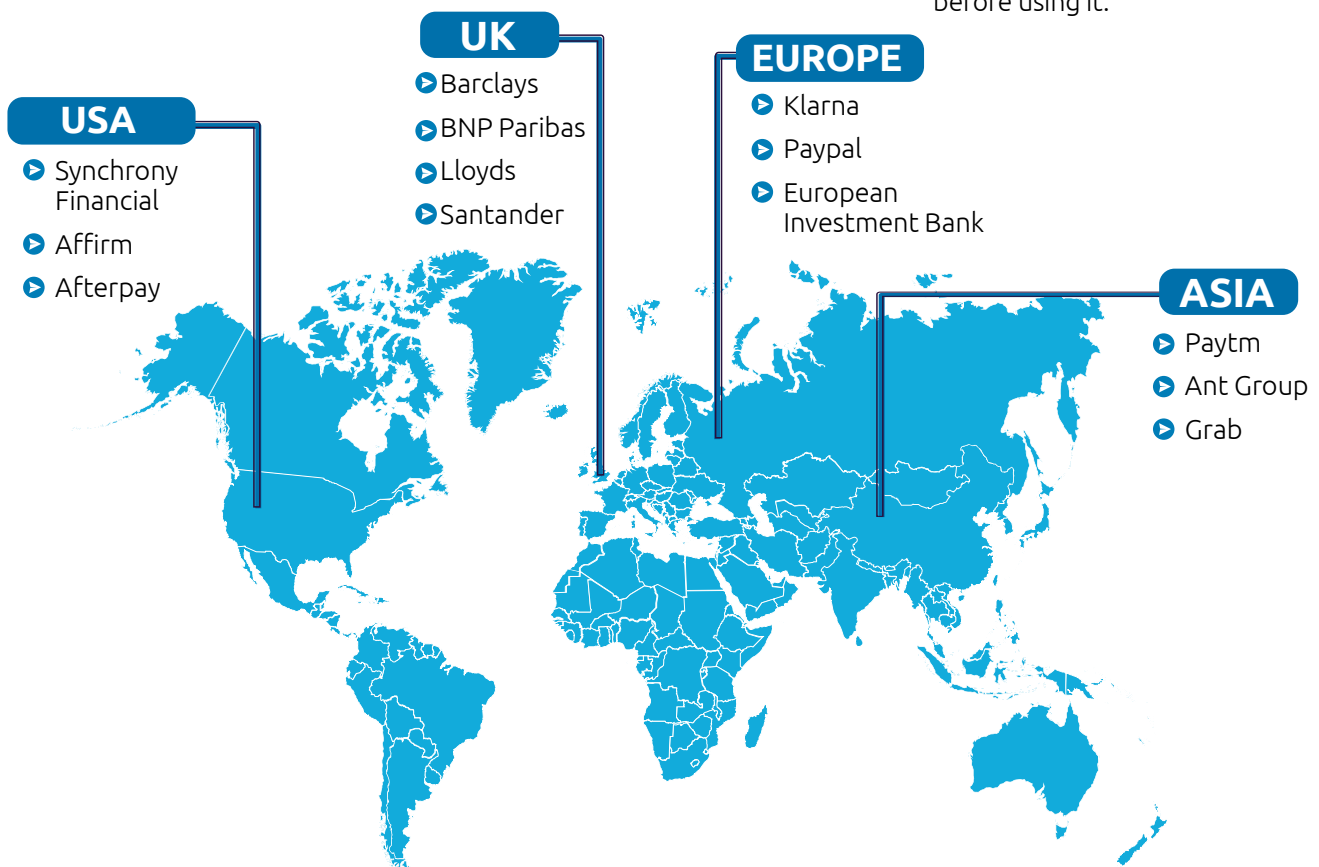
BNPL facilities have become increasingly popular in the recent years as they offer consumers the ability to make purchases without having to pay the full amount upfront. Many banks and financial institutions now provide BNPL facilities to major retailers such as Amazon, Otto, eBay, Walmart, Tesco, Apple, Nike, and more. However, the exact number of banks providing BNPL facilities to these retailers varies and is constantly changing. This is because of new entrants and existing players either expanding or exiting the market.

According to a recent report by market research firm, Global Data, the BNPL market is expected to grow significantly in the coming years. It estimates that the global BNPL market will reach \$290 billion by 2024, a whopping 700% rise from \$35 billion in 2019.

Several banks and financial institutions have entered the BNPL market in the recent years including Synchrony Financial, Affirm, Afterpay, and Klarna. These companies provide BNPL facilities to many retailers and offer consumers flexible and convenient

payment options. Some companies have also partnered with major retailers such as Walmart and Apple to offer BNPL facilities directly through their websites and mobile apps.

It is noteworthy that while BNPL facilities are becoming increasingly popular, they are not without risk. BNPL providers typically charge high interest rates and fees, and consumers who use these facilities may end up paying more in the long run than they would if they had paid upfront. As a result, it is important for consumers to carefully consider the terms and conditions of any BNPL facility before using it.



# WHAT IS THE MARKET SIZE OF BNPL IN THE UK, USA, EUROPE, AND ASIA?

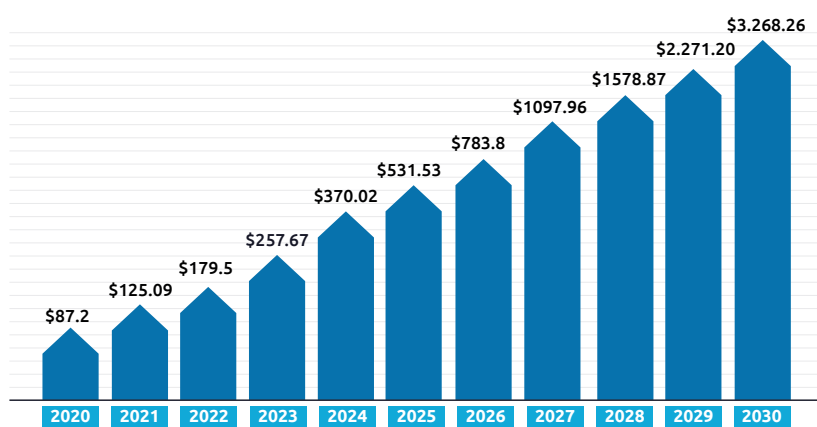
The BNPL market has seen significant growth in the recent years in the UK, USA, Europe, and Asia. This growth can be attributed to the increasing popularity of BNPL among consumers and the growing number of retailers that offer BNPL facilities.

In the UK, the BNPL market was valued at about \$1.5 billion in 2020 and is expected to grow to over \$3 billion by 2024. In the USA, the BNPL market was valued at \$4 billion in 2020 and is expected to

reach \$15 billion by 2024. In Europe, the BNPL market was valued at \$2 billion in 2020 and is expected to reach \$7 billion by 2024. In Asia, the BNPL market is still in its early stages of growth but is estimated to grow significantly in the coming years.

Overall, the growth in the BNPL market size is likely to continue in the UK, USA, Europe, and Asia as more consumers use its facilities and more retailers offer the BNPL options.

## Buy Now Pay Later Market Size. 2020 To 2030 (USD Billion)



Source: **Precedence Research**



# BNPL, CONSUMER DUTY, AND REGULATORY LENS IN THE UK MARKET

As recent research points out that the market demand for BNPL and other interest-free short-term products is increasing and inevitable. The Financial Conduct Authority (FCA) has issued a forewarning to lending firms to adhere to the Consumer Duty regulations for all short-term and BNPL interest-free products. What does it mean? This means that every lending firm offering such products will need to be approved by the FCA as the first step.

As the second and most crucial step, the FCA and UK government plan to amend the dimensions of the existing regulation to incorporate affordability checks for BNPL and short-term interest-free products when they are delivered by third-party lenders. Third is transparency, which includes standardized information such as Annual Percentage Rate (APR) and any kind of interest and change if a customer misses their payment and supporting details with clarity

when promoting and/or providing a product.

The promotions of financial products are always on the radar of regulators as terms and conditions are high on legalities and generally neglected by customers. Therefore, financial promotions under FCA rules are required to include a fair and major warning of any risks to customers including the effects of missing payments and the possible consequence on prospective credit scores in the future.



# WHAT ROLE DO BANKING INSTITUTIONS AND REGULATORS NEED TO PLAY FOR BNPL SUCCESS?

Banking institutions and regulators play a crucial role in ensuring the success of the BNPL market. Banks, as key players in the financial industry, need to provide secure and reliable payment platforms for BNPL transactions. They also need to implement proper risk-management practices

to minimize the possibility of default or fraud.

Regulators have the responsibility of overseeing the BNPL market and ensuring that it operates in a fair, transparent, and responsible manner. They need to set guidelines and standards to

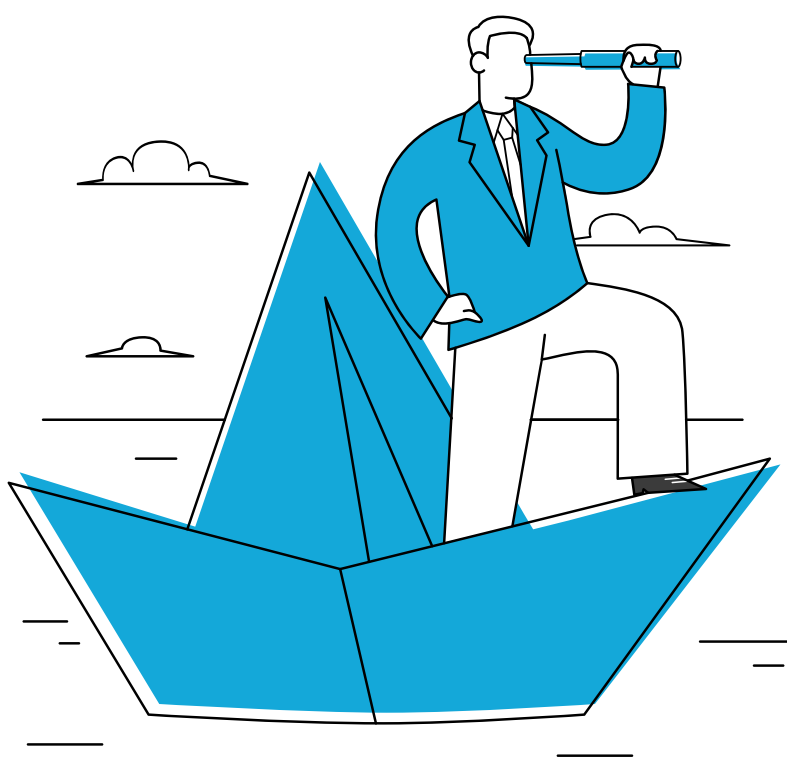
protect consumers and ensure that BNPL providers adhere to ethical business practices. Regulators also help prevent exploitation of consumers and ensure that they are not taken advantage of through high-interest rates and hidden fees.

# DOES BNPL HAVE THE CAPABILITY TO USE CENTRAL BANK DIGITAL CURRENCIES IN THE FUTURE?



Though too early in the game of partner finance, there is potential for BNPL to integrate with Central Bank Digital Currencies (CBDCs) in the future. CBDCs are digital versions of fiat currency, issued and backed by central banks. Using CBDCs in BNPL transactions could increase the speed and efficiency of payments and potentially reduce costs associated with the traditional payment methods. However, the use of CBDCs in BNPL is still in the early stages of development and implementation. The integration will depend on the adoption and development of CBDCs by central banks and the willingness of BNPL providers to align with the new currencies. Further, research and development will be necessary to fully realize the potential of using CBDCs in BNPL transactions.

# ROLE OF INNOVATION LEADER TO BACK BNPL



The role of an innovation leader is crucial in driving the success of BNPL initiatives as the payment method has reduced friction and an additional layer in the banking process. Innovation leaders are responsible for identifying new and innovative ways to bring BNPL to the market and align it with Consumer Duty regulations, making it more accessible and convenient for consumers. Innovation leaders work closely with teams across an organization to understand the needs of customers, assess the competitive landscape, and identify potential areas of improvement.

Innovation leaders also play a vital role in driving the adoption of BNPL by working closely with e-retailers, banks, and other key stakeholders. They also ensure integrating BNPL into their offerings and processes with the right collaboration. They help educate retailers and consumers on the benefits of BNPL and work to dispel any misconception or concern. With their deep understanding of the market and customer needs, innovation leaders are well-positioned to help drive growth and success of BNPL and build a connect among regulators, banks, and consumers.

A man and a woman in business attire are standing outdoors, looking at a tablet together. The man is on the left, wearing a light grey suit jacket, a white shirt, and a red tie. He has dark hair and is wearing glasses. The woman is on the right, wearing a dark blue pinstriped suit jacket and a white shirt. She has dark hair pulled back and is wearing glasses. They are both smiling and looking at a white tablet held by the woman. The background is a blurred building with many windows.

## CONCLUSION

In conclusion, BNPL has become a popular payment option among consumers and retailers alike. It allows consumers to purchase goods or services and pay for them in interest-free installments over time, eliminating the need for upfront payment. The BNPL market has expanded significantly in the recent years and is expected to continue growing in the future. Banks have also started offering BNPL services to their customers, either by partnering with BNPL providers or by launching their own BNPL services. This highlights the importance of BNPL in the financial industry and the growing demand for BNPL facilities among consumers. Banks will be required to adhere to the Consumer Duty regulations for promoting transparency and offering short-term interest-free products such as BNPL. These measures will truly lead to financial inclusion and serve a social cause.



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