nets WHITE PAPER

Why European banks can benefit by adding BNPL services to enhance customer experience and profitability

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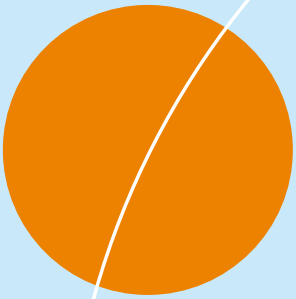


Introduction

As Buy-Now-Pay-Later (BNPL) surges in popularity across Europe, leading retail banks must act. Not only are banks ideally placed to compete: BNPL could help them cement customer relationships, unlock new revenue and create strategic opportunities.

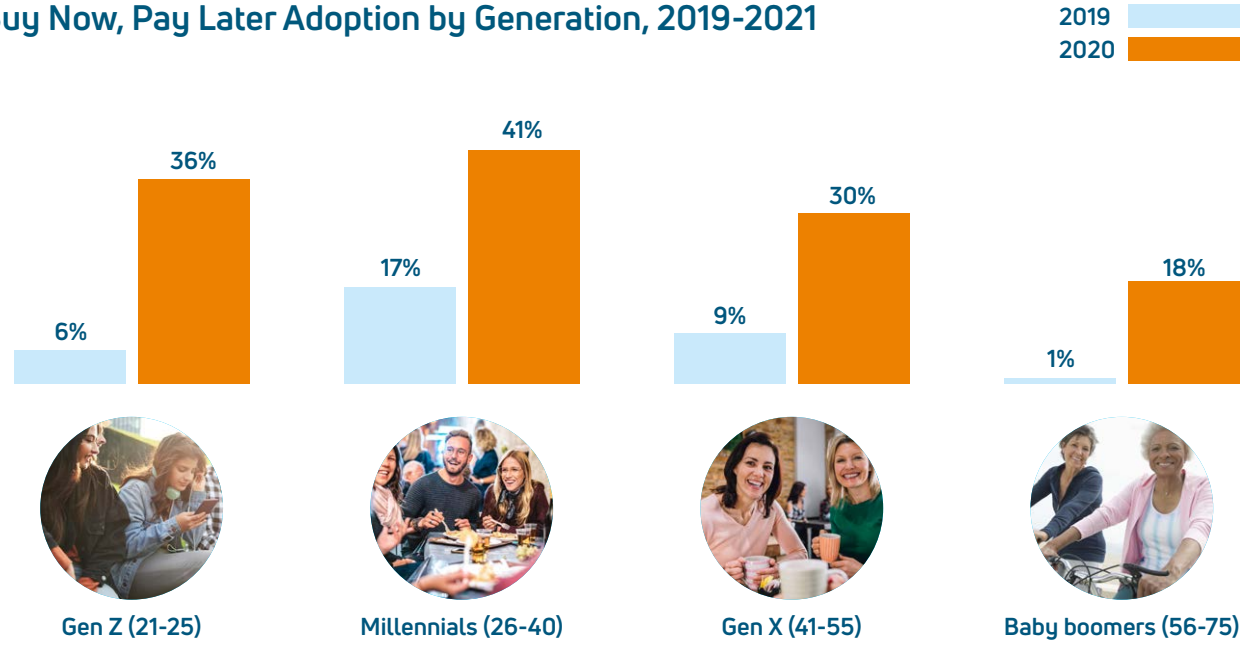
Buy-Now-Pay-Later schemes can claim to be one of the key payments advancements of recent years. Led by fintech unicorns such as Sweden's Klarna and Australia's AfterPay, growth in the BNPL sector has been stratospheric. Grandview Research[1] estimates the global market to be worth €3.6 billion as of January 2021, and projects a total market value of €17.9 billion by 2028, which would represent year-on-year growth of more than 22% over the next seven years.

BNPL: Not just for Millennials

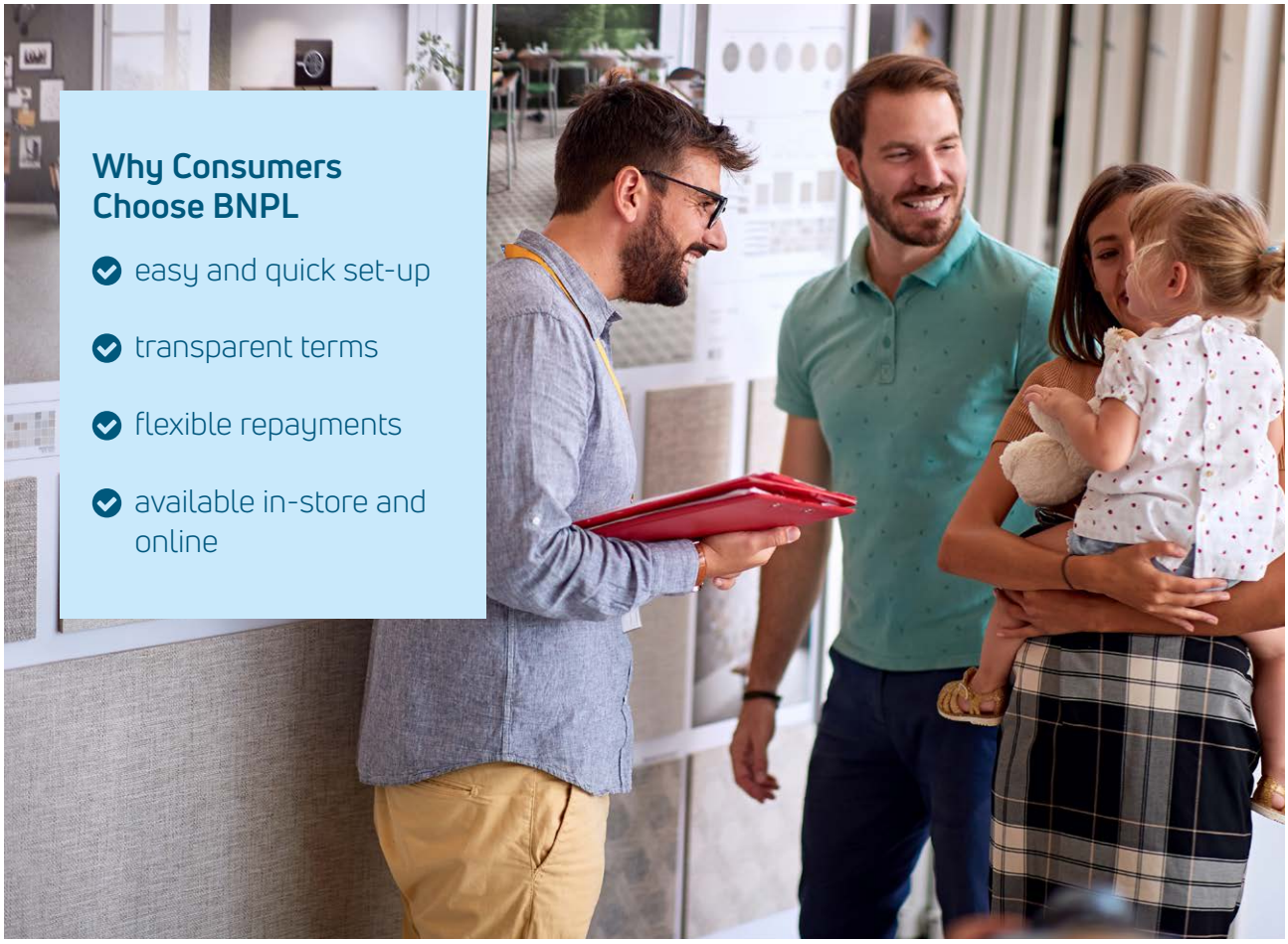
While BNPL is commonly seen as a way to spread payments for cash-strapped Millennials, Nets' research in European markets presents a more nuanced picture – one confirmed by research in other regions. There's no getting away from BNPL's role as a quick means of accessing small amounts of credit. However, our consumer research reveals BNPL customers in Europe appreciate the ease of use and flexibility that BNPL offers compared to traditional credit cards or a debit overdraft. As a market trend, BNPL is not just about consumers who lack access to traditional credit products. What's more, our research suggests it's not just Millennials, but customers of all ages who are turning to BNPL's benefits. This is a point also reflected by global studies: Cornerstone Advisers say adoption of BNPL by "baby boomers" (over 55 years of age) worldwide grew from 1% to 18% between 2019 and 2021[2].

1. Grandview Research, BNPL Market Overview and Projections: https://www.grandviewresearch.com/industry-analysis/buy-now-pay-later-market-report
2. Cornerstone Advisors, Buy Now, Pay Later: The "New" payments Trend Generating $100 Billion in Sales: https://www.forbes.com/sites/ronshevlin/2022/02/01/buy-now-pay-later-the-new-credit-card-acquisition-channel

Buy Now, Pay Later Adoption by Generation, 2019-2021



CREDIT: CORNERSTONE



CREDIT: NETS 2021

The benefits for banks

BNPL's impact on the retail banking business across Europe has been twofold. Firstly, companies such as Klarna have begun to make formal inroads into the banking sector, acquiring a Swedish banking license and announcing plans to target full-spectrum banking services[3]. Klarna's recent introduction of a physical card in the UK may also signify their strategic intent to offer a wider array of financial products. Going forward, it's likely that fintech challenger banks such as Revolut[4] and Curve may also add BNPL services to their portfolio, given the younger demographic they are targeting and desire to offer products with attractive economic models.

Despite a boom in online shopping, credit card use has declined across Europe.

The other change driven by BNPL is a marked decline in the use of credit cards. PCM's Digital and Card Payment Yearbooks 2021-2022[5] show how drastic this reversal in credit card use has been; in 2020, the number of credit cards in the UK declined by 0.55%, and has declined by 4.32% over the last five years; while in Sweden, credit card numbers dropped by 3.5% last year, by 1.2% in Finland and by 0.9% in Denmark. Despite a pandemic which saw online shopping soar by almost 30%, the number of payments using credit cards declined by 2.5% as shoppers flocked to BNPL for their credit needs, while choosing debit cards and account-to-account payments for other transactions.

Regulators have announced plans to increase regulation on BNPL, bringing the segment into line with other credit products.

For context, this displacement of credit cards comes at a time when regulators across Europe are expressing disquiet at the rapid growth of BNPL and warning consumers to be cautious. Over the past year, media reports in Germany, Switzerland and elsewhere[6] have warned of hidden high interest rates and the dangers of too much credit – yet BNPL keeps rising. Most recently, EU and UK regulators have announced they intend to place BNPL under much more stringent regulatory scrutiny, treating BNPL more like other credit products.

3. Klarna Press Release: Klarna gets a full banking license, gears up to go beyond financing payments | TechCrunch
4. Finextra, 11 January 2022:"Revolut launches as a bank in ten European countries"
https://www.finextra.com/newsarticle/39492/revolut-launches-as-a-bank-in-10-western-european-countries
5. The Digital and Card Payment Yearbooks 2021-2022: www.paymentyearbooks.com
6. Das Erste, "Kredit-Falle? – Wie gefährlich Klarna und Co beim Online-Shopping sein können"
https://www.daserste.de/information/wirtschaft-boerse/plusminus/sendung/hr/211124_pm_online-shopping-100.html

Banks: making the best of BNPL

If, to date, the rise of BNPL has had a negative effect on retail banks' revenues and eroded customer loyalty, then Europe's retail banks have some aces up their sleeve. To start with, many European banks are among the most technologically sophisticated in the world: a 2021 study from Mastercard[7] ranked the Nordics as the most advanced region when it comes to Open Banking, with DACH third behind the UK; meanwhile, digital wallets such as Vipps, Bancontact and GiroGo are more widely used in Europe than in any global region outside of Asia.

> "Banks hold aces up their sleeve: they already enjoy the trust of their customers and regulators, and know their customers' credit histories."

In addition to this technical sophistication, banks still enjoy strong relationships with their customers of all ages and, crucially, they are trusted by those customers. Perhaps most importantly of all, they already have full knowledge of their customers' credit histories thanks to their existing banking relationships across multiple product lines.

When it comes to responsibly launching a BNPL function as an option on an existing credit card, debit card, or digital wallet, this knowledge of customer credit history is crucial. Based on internal credit scoring, banks can offer customers appropriate levels of credit via BNPL and price that credit accordingly based on an individual customer's risk score. What's more, banks can create additional products based on the wide spectrum of services they offer customers. Imagine spreading the cost of recurring payments using BNPL in a "Buy Tomorrow, Pay Later" function, or splitting existing credit card debt between a credit line and a BNPL product. These ideas all stem from one fundamental fact: banks already enjoy the relationships, access to credit information, and flexibility BNPL firms are looking to acquire.

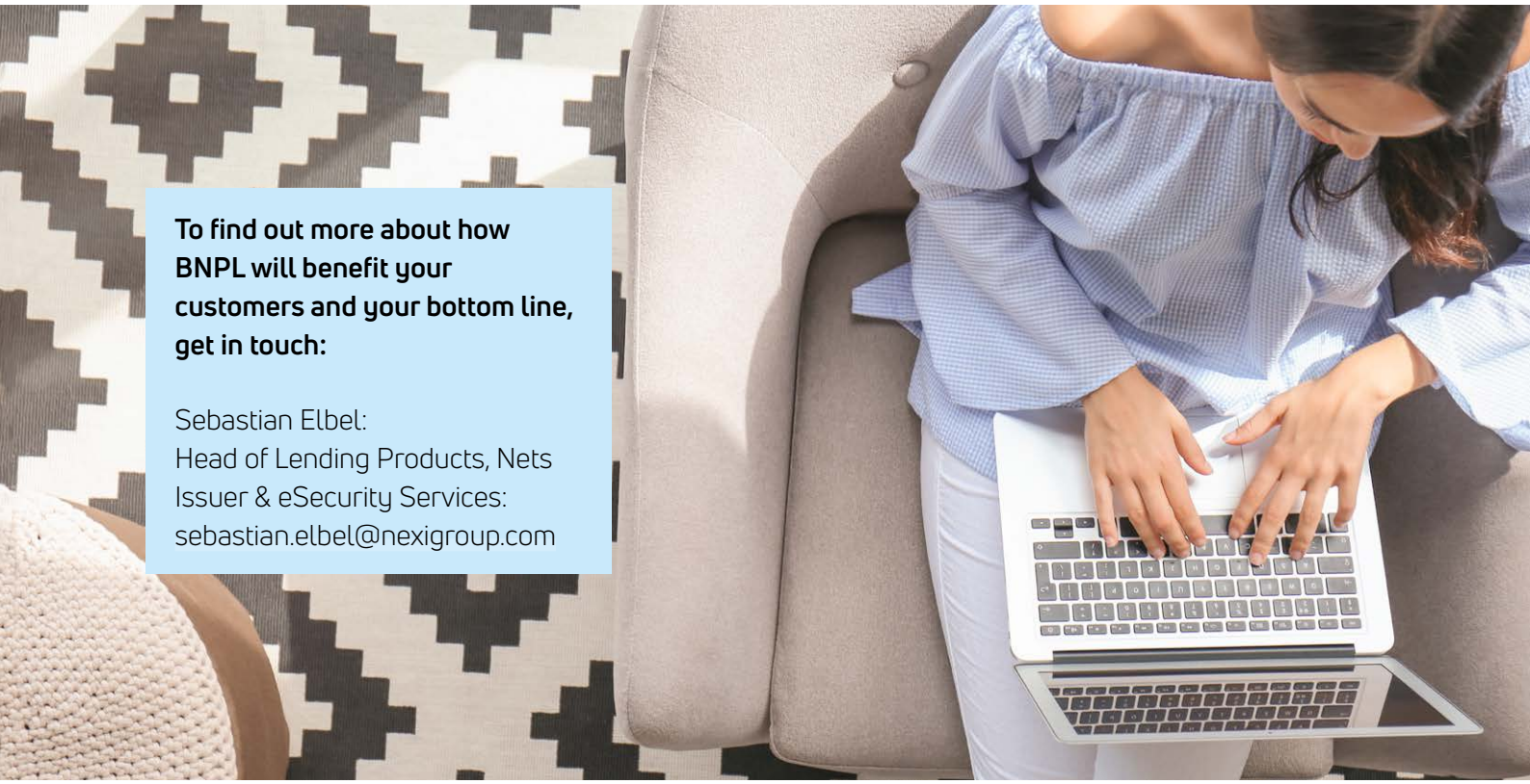
7. Mastercard, "Open Banking Readiness Index" https://openbanking.mastercard.com/readiness-index/

Bank strategy: BNPL and full digitalization

Our European research suggests consumers are concerned about the potential for overspending when paying with BNPL. Based on a bank's existing relationship with its customer base, it would be possible to provide customers with a 360-degree view of their overall credit lines versus income via a banking app. This is another example of a service that BNPL firms simply cannot offer as they don't hold the wider banking relationship with their customers.

By offering BNPL functionality through existing card and digital wallet products, banks can offer customers an alternative to Klarna, AfterPay and other BNPL players. More than this, by adding BNPL to their existing product range, banks will take another step towards competing with the so-called "giant pay" digital wallet schemes coming out of the US and Asia (think GooglePay, ApplePay, WeChatPay and AliPay.) These wallets are gearing up to offer products which have, historically, been the province of banks: cards, loans, insurance, overdraft facilities and others. BNPL functions provide banks with another revenue stream, enhance customer choice and, by extension, their loyalty. As much as anything else, a move to BNPL also shows a bank's willingness to transform its business model to meet customer expectations in the digital era.

For decades, banks have excelled in providing a safe and trusted resource for consumers thanks to their risk management expertise and regulated status. They also have the advantage of owning customer relationships and holding their customers' credit information. However, they now face a challenge from competitors with nimble, fully-digital technology stacks and the ability to innovate at speed – as evidenced by the rise in non-bank BNPL products. To meet this challenge, banks need a partner with the technological expertise to help them get to market fast and focus on what they do best: engaging with customers and building on their existing relationship as a trusted provider.



To find out more about how BNPL will benefit your customers and your bottom line, get in touch:

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