

The seminar titled "**BNPL (Buy Now - Pay Later) - deferred payment - a new method of financing purchases**", organized as part of the mBank and CASE seminar series, focused on analyzing the emerging market in Poland and worldwide. The speakers were Sławomir Grzelczak - Vice President of the Management Board of the Credit Information Bureau and President of the Management Board of BIG InfoMonitor, Tomasz Hadzik - Co-founder and Vice President of the fintech company PayPo, and Michał Macierzyński - Director of the Digital Services Department at PKO BP.

## **Development of BNPL Worldwide**

BNPL is a payment model that allows customers to make online purchases without immediately paying the full price. Customers pay for the goods in installments or after a specified period without interest.

The beginnings of BNPL date back to 2005, pioneered by the company Klarna in Sweden. In subsequent years, BNPL gained popularity in other markets, including the USA (Affirm, 2012), and Australia (Afterpay, 2014). The dynamic growth of this sector in countries where BNPL appeared earlier occurred during the COVID-19 pandemic and post-pandemic, due to the post-pandemic increase in the value of e-commerce companies on stock exchanges.

Due to the specificity of the product, accurately estimating the size of the BNPL market is difficult. It is often referred to as the "credit card for millennials" due to its popularity among younger generations.

Two main BNPL systems can be distinguished:

- The Anglo-Saxon system: characterized by high fees for merchants (5-8%, and even above 10% in the so-called fast fashion). In addition to the costs of delayed payment charged by the BNPL operator to the customer, all costs of deferred payment are borne by the online store.
- The German-Japanese (continental) system: merchant fees are much lower (2-3%, and in Poland even below 1%). This is possible, among other things, thanks to European Union regulations that limit interchange fees (for cards).

Four parties play crucial roles in the BNPL transaction. The first is the customer, who makes the purchase and uses the deferred payment service. The second party is the intermediary financial institution, which offers customers the option of deferred payment, i.e., the BNPL operator. It manages the entire payment and repayment process and collaborates with the bank (the third party of deferred payment), which ensures the transfer of funds from customers. The online store (the fourth party), which sells the product or service, accepts BNPL payments, enabling customers to make convenient online purchases. The collaboration of these four parties ensures online stores a safe and efficient sales process.

The lack of legal regulations for BNPL presents both opportunities and challenges. On the one hand, the lack of regulations promotes the rapid development of a new market, already encompassing 340 million customers worldwide. On the other hand, it carries the risk of excessive indebtedness, similar to what was observed during the 2008 crisis. This problem

is compounded by the possibility of simultaneously using the services of multiple BNPL operators, which makes it difficult to assess the creditworthiness of the customer reliably.

## **BNPL Market in Poland**

In Poland, the definition of BNPL was developed by the Credit Information Bureau (BIK) in collaboration with key market players. According to this definition, the BNPL service includes exclusively non-cash online transactions, with an interest-free period for customers of up to 35 days. It is important to note that BNPL is not a form of loan and does not allow for cash withdrawals.

Establishing the definition of BNPL allows BIK to report and analyze this market. Banks and non-bank institutions identify BNPL transactions in the BIK database, enabling the tracking of trends over time.

The BNPL market is undergoing dynamic changes, as illustrated by the example of the United Kingdom. Consumer behaviors are evolving, and the younger generation is increasingly abandoning traditional credit cards in favor of mobile payments. BNPL services are gaining popularity due to their attractiveness and ease of access.

However, there are differences between the Western and Polish markets. For example, in the United Kingdom, consumers may be subject to late fees, which are legally prohibited in Poland. This difference in legal regulations affects the usage of BNPL services and creates different conditions for the development of this market.

As of March 2024, 1.98 million Poles have used BNPL, and by the end of 2023, 1.2 million customers in Poland were actively using this product, with 140.4 thousand customers currently having only a BNPL credit product. For comparison, the number of active borrowers in Poland is 14.4 million. Another measure of BNPL popularity is the choice of this payment method in about 8-9% of the total value of all online purchases, compared to 3.4% in 2021. For comparison, in Germany and Sweden, where BNPL has been present much longer, its share in online purchases ranges from 20 to 25%.

The BNPL market is still young and growing rapidly thanks to the activities of intermediaries such as PayPo, Twisto, or Allegro Pay; PKO BP is also active in the BNPL market. It is projected to continue growing in the coming years, despite difficulties in developing a universal business model. Most likely, several players offering diverse business models will persist in the market.

## **PayPo's Fintech Experience**

Tomasz Hadzik, co-founder of PayPo - a Polish leader in deferred payments, shared his company's experiences. In 2023, the total value of transactions realized by PayPo reached 3.6 billion PLN; over 30 thousand online stores in Poland offer this form of payment processed by PayPo. It has the highest conversion rate in Poland and Central and Eastern Europe, with a market share of 70%. Proper UX design (user experience - the experience of a website user) is crucial for maintaining this position, and research shows that cart

abandonment rates are significantly higher for other BNPL systems due to unfavorable user conditions.

PayPo offers a flexible payment plan (SmartPlan) that allows adjusting the amount and number of installments to the individual needs of the customer. The PayPo payment limit is 3,000 PLN, allowing for high conversion rates. With an average debt of 1200-1500 PLN, customers are not overly indebted and have the option of repaying deferred payments. Collaborating with PayPo brings several benefits to online stores, including increasing sales by enabling customers to purchase products regardless of their financial resources at the time. PayPo customers are more likely to buy products at regular prices, which is beneficial for stores. Thanks to available deferred payment limits, they do not have to wait for discounts on goods. PayPo can also be used to organize seasonal sales, allowing stores to reduce inventory and increase profitability. Additionally, PayPo provides instant access to funds after payment, streamlining cash flow in the store.

### **BNPL in PKO BP's Offer**

Michał Macierzyński presented PKO BP's BNPL offer, which involves deferred payment directly debited from the customer's account. This is the first such service in the Polish market, and around 200 thousand customers of this bank are already using it. The process of deferring payment at the bank is extremely simple and fast. The entire operation takes less than a minute and is carried out within the PKO BP online banking service. The customer does not need to disclose their income or the number of dependents. PKO Bank Polski's BNPL service is available in every online store in Poland and worldwide where Blik payments are accepted. This means that customers can use deferred payments in millions of online stores.

### **Characteristics of BNPL Customers in Poland**

According to Credit Information Bureau analyses, BNPL service users in Poland are primarily young people (up to 44 years old), accounting for 75% of all users. Among them, women prevail (60%). Transactions with low amounts dominate: up to 200 PLN (76% of the total) and in the range of 200-500 PLN (18%).

Compared to credit card holders, BNPL customers more often reside in smaller towns. Over 1/3 of them also have a credit card, and 10% of this group uses both forms of payment (a total of 440 thousand people). However, it is worth noting that as many as 64% of BNPL users do not have a credit card.

BNPL services are gaining popularity, as evidenced by the high frequency of their use. In 2023, 27% of BNPL customers made over 20 transactions, and 18% made 10 to 20. Most users (76%) repay their obligations on time, indicating their high financial awareness. By the end of 2023, 45% of customers had one active transaction, and 31% had 2 to 3. The most active age group in terms of BNPL usage is people aged 36-45.

A very positive aspect is that only 0.4% of customers are late in repaying their debt by more than 90 days, which is a very low rate. Both in the loan and banking sectors in Poland, there is a high-quality BNPL customer profile.

As President Grzelczak pointed out, BNPL falls into at least two categories. The first is non-bank loans and a group of targeted loans, which account for over 30% of the value of all loans sold. The second category is installment loans growing as a result of transforming BNPL debts with deferred payment deadlines through the purchase (assignment) of the resulting receivables by banks from BNPL providers. In 2023, there was a significant increase in the number of installment loans in banks, which was due to the process of transforming BNPL into installments. At the time of transition to an installment loan, the BNPL customer is reported by the bank to BIK as an installment customer.

Development of BNPL, both in Poland and in other developed countries, indicates dynamic changes in consumption and the evolution of consumer financial awareness. The data and examples presented by experts, such as PayPo's activities or PKO Bank Polski's offer, illustrate the diversity of approaches to BNPL and its potential in e-commerce. Experts have highlighted the challenges for further BNPL development - related to the risk of excessive indebtedness and the need to balance innovation with the financial security of consumers. The key to further success will be the continuation of work on optimizing business models and introducing effective, yet limited regulations that will ensure a sustainable and balanced evolution of the BNPL sector. It is also important to report and exchange data so that every market participant can make decisions transparently, with knowledge of all consumer financial obligations.

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