

BNPL, Banks And The Trust Factor: How FIs Can Gain A Competitive Edge In A Growing Market, a PYMNTS and Amount collaboration, evaluates consumers' BNPL usage and their interest in accessing bank-backed BNPL plans. PYMNTS surveyed 2,237 U.S. consumers between Nov. 5, 2021, and Nov. 10, 2021, about the features they want from BNPL providers.

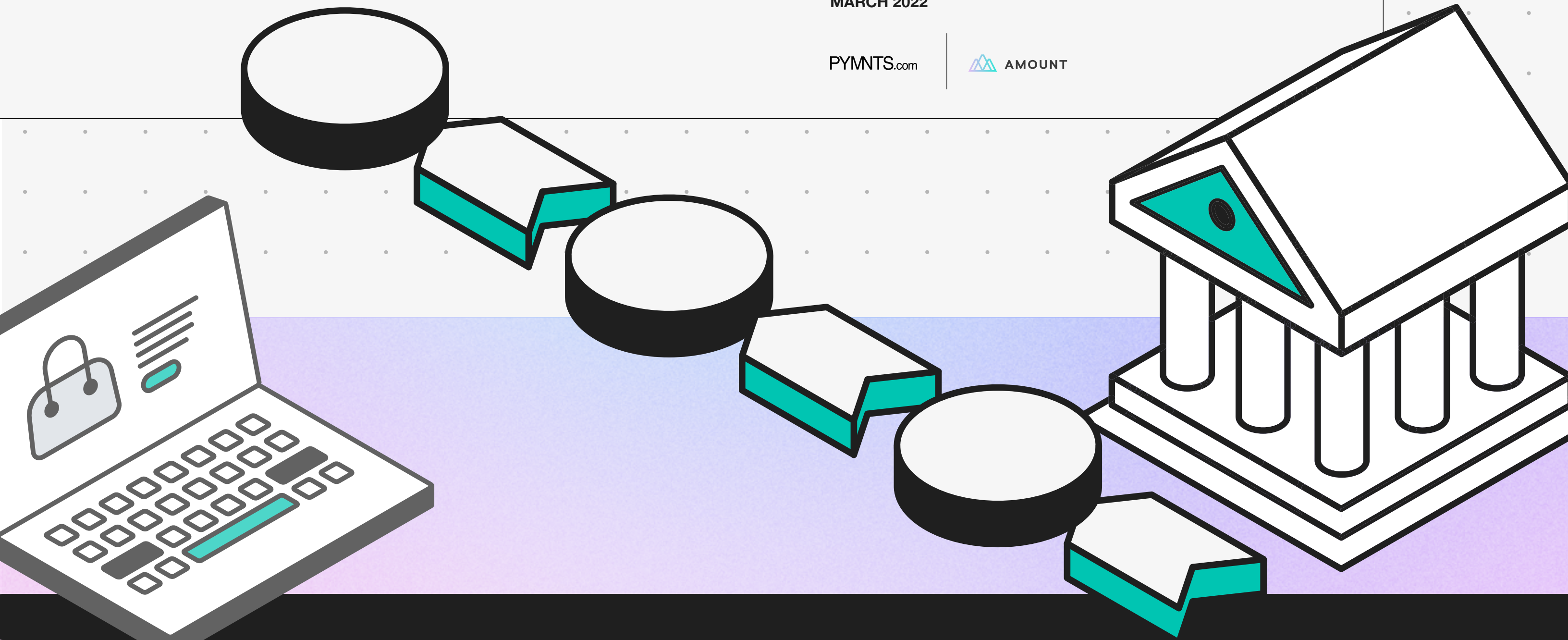
BNPL, BANKS AND THE TRUST FACTOR

How FIs Can Gain A Competitive Edge In A Growing Market

MARCH 2022

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BNPL, BANKS AND THE TRUST FACTOR

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JANUARY 2022
Banking on Buy Now, Pay Later

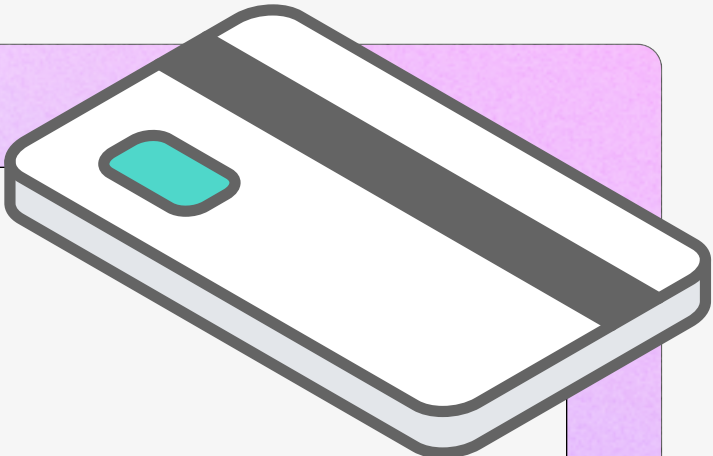


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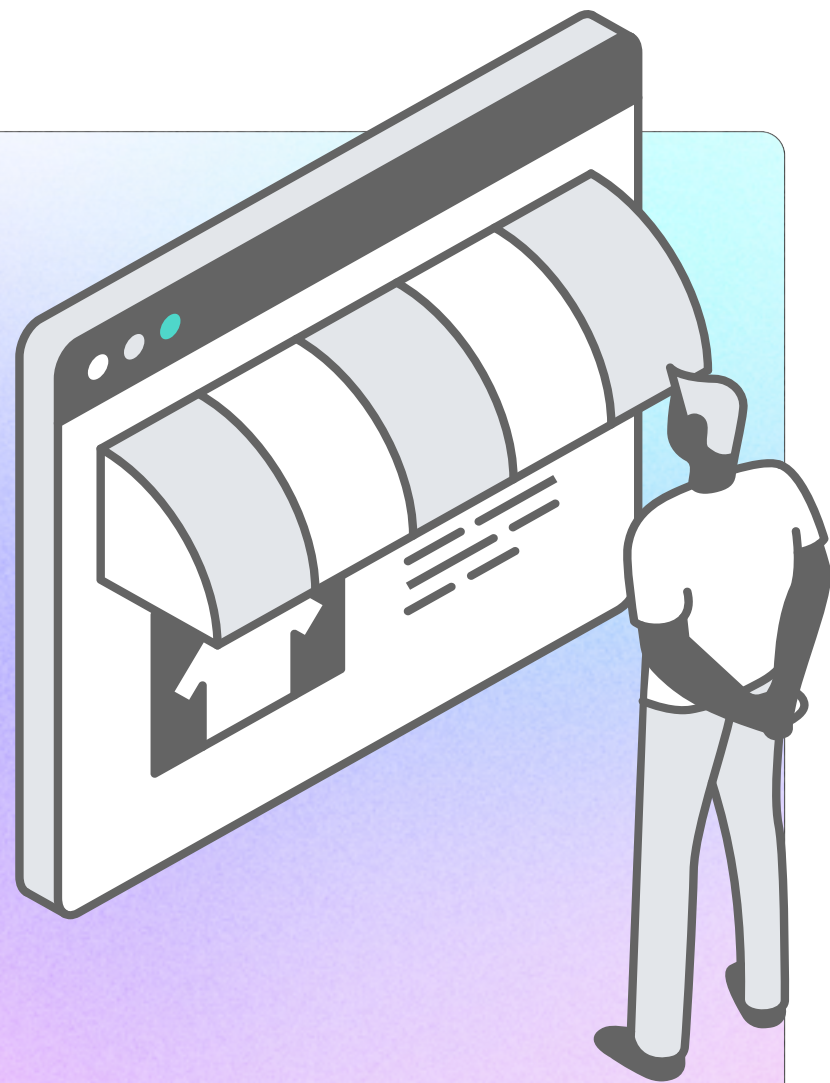
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INTRODUCTION

53%

OF CONSUMERS WHO HAVE USED SHORT-TERM CREDIT SAY IT IS **IMPORTANT TO BORROW FROM LENDERS THEY TRUST.**



Consumer interest in buy now, pay later (BNPL) options is growing at breakneck speeds, creating a massive opportunity for market entrants to gain a foothold. Banks that respond to this consumer interest will be entering a market that already appeals to more than half of U.S. consumers, as 52% say they are interested in using BNPL options. Our data also reveals that usage is rising alongside interest: 65% of the consumers who use BNPL are using it more often now than they did one year ago.

The large number of consumers who are either increasing their BNPL usage or interested in giving it a try highlight the opportunity that exists for banks, which are uniquely poised to compete in this rapidly growing market. PYMNTS' data finds that 53% of consumers who have used short-term credit say trust in the lender is important when picking one, and trust is an aspect of the payments market that has traditionally been a strength for banks. This also underscores the reality that banks can gain a competitive edge through this rapidly growing BNPL market.

These are just some of the findings in BNPL, Banks And The Trust Factor: How FIs Can Gain A Competitive Edge In A Growing Market, a PYMNTS and Amount collaboration. The report is based on a survey of 2,237 U.S. consumers that was conducted between Nov. 5, 2021, and Nov. 10, 2021. Our researchers assessed consumers' BNPL usage and interest in using bank-sponsored BNPL options in the future. We also sought to identify which attributes they might want from such options to learn how banks can maximize their chances of success.

This is what we learned.

Trust in a credit provider is the **factor consumers cite most when listing the items that are important in their decision to use short-term credit.**

Banks can develop strategies for launching BNPL products by using consumers' stated preferences to tailor their offerings. Fifty-three percent of consumers who have used short-term credit say trust in the credit provider is an important factor they consider when deciding to use short-term credit. Fifty percent of the consumers who have used short-term credit say a borrower's ability to spread payments over time is an important factor to consider.

Sixty-five percent of consumers who use BNPL have increased their usage in the past year.

Banks that issue BNPL options will be entering a market where usage is on the rise and consumer interest is high — particularly among younger and upper-income consumers. To succeed, banks will need to tailor their products to the consumers who have used BNPL and increased their BNPL usage during the past year, a share that includes 77% of bridge millennial BNPL users, 75% of millennial BNPL users and 64% of Generation Z BNPL users.

Ease and convenience, the ability to track and manage spending and better security are the **top reasons why consumers are interested in bank-backed BNPL solutions.**

Consumers' preferences provide banks with a blueprint to follow for introducing BNPL options with the highest probability of success. Fifty-two percent of consumers who are interested in using a bank's BNPL offering say they value ease and convenience, with 21% of the consumers interested in BNPL from a bank saying this is the most important factor they consider.

Consumer usage of new payment methods **continues to increase, underscoring the opportunity banks have to enter a significant and growing market.**

Sixty percent of millennial, 57% of bridge millennial and 54% of Generation Z consumers all say they would be more interested in a bank-backed BNPL option than one from a FinTech, which is another indication of the opportunity banks have to roll out products that cater to younger age groups who are in or entering their peak earning years.

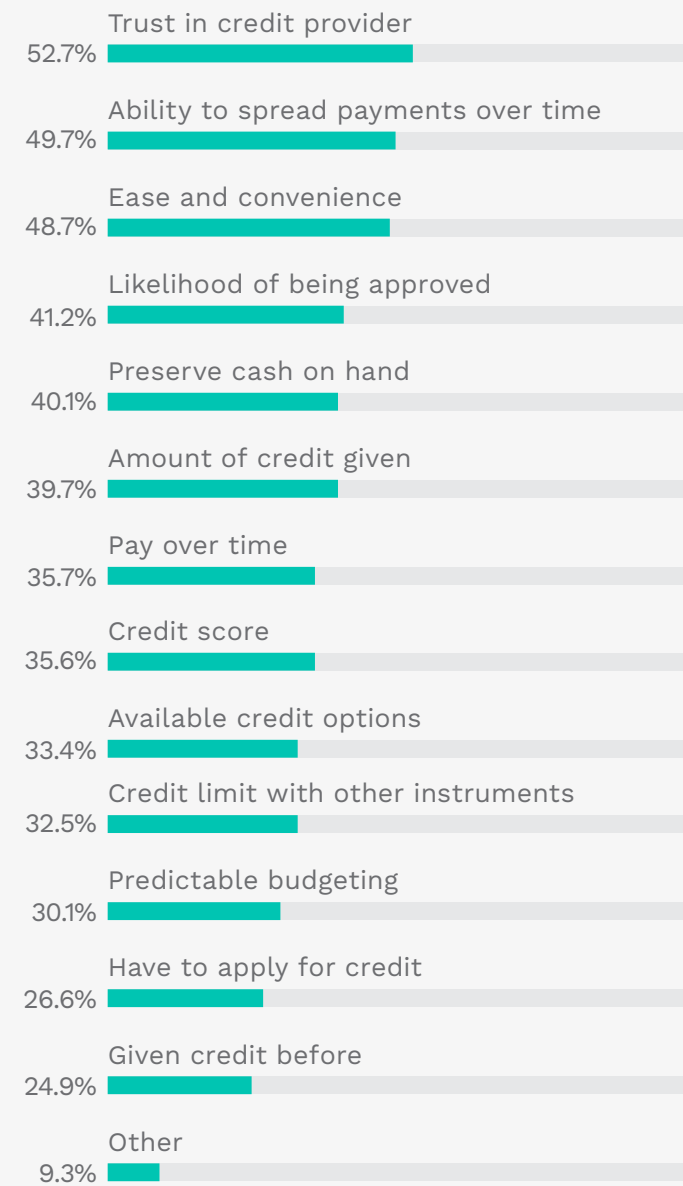
WHAT BORROWERS WANT FROM LENDERS

The banks that leverage the depth of their longstanding customer relationships have a strong chance to win a large share of the BNPL market. Among consumers who have used short-term credit, 53% say the credit provider's trustworthiness is important to them, and 50% say it is important for them to have the flexibility to spread their payments out over time. Other factors that were highly rated include ease and convenience, cited by 49% of borrowers of short-term credit and the likelihood that they will be approved for credit, which was cited by 41%. The ability to preserve cash was cited by 40% of the consumers who have used short-term credit.

Figure 1:

What consumers want from lenders

Share of consumers who cite select factors as important when deciding to use a short-term credit payment method



Source: PYMNTS.com

53%
OF THE
CONSUMERS
WHO HAVE
USED SHORT-TERM
CREDIT SAY THE
**CREDIT PROVIDER'S
TRUSTWORTHINESS**
IS IMPORTANT
TO THEM.

YOUNGER, WEALTHIER CONSUMERS UP THEIR BNPL USAGE

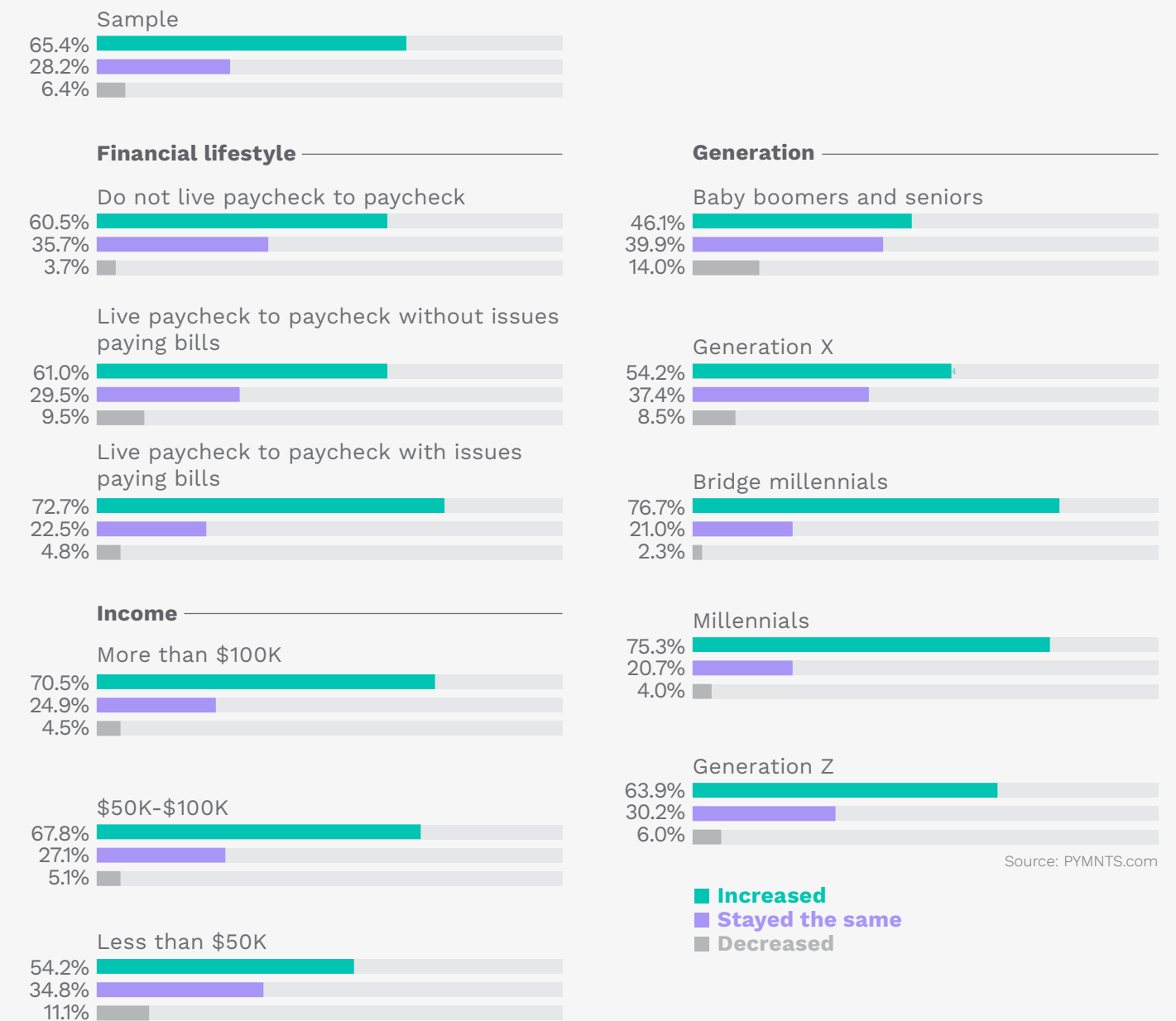
The BNPL market is rapidly expanding for several reasons — not only because more consumers are using BNPL but also because users are calling upon the method more often. Sixty-five percent of the consumers who have used BNPL in the past year are using it more often than they did one year ago.

Millennial consumers use BNPL more often than other consumer age groups. Seventy-seven percent of bridge millennials who have used BNPL previously increased their usage in the past year, as did 75% of millennial BNPL users and 64% of Generation Z BNPL users.

Higher income BNPL users are also more likely to have increased their usage over the past 12 months. Seventy-one percent of BNPL users whose incomes exceed \$100,000 and who used BNPL options in the last 12 months increased their usage of them, as did 68% of BNPL users with incomes between \$50,000 and \$100,000 per year. Fifty-four percent of BNPL users with incomes of less than \$50,000 per year also increased their BNPL usage in the last 12 months. Appealing to these consumer segments will be key for banks looking to position themselves for success in the BNPL market going forward.

Figure 2:
How BNPL is making gains with younger, wealthier consumers

Share of consumers who increased or decreased their BNPL usage in the last year, by demographic



THE BENEFITS OF BANK-SPONSORED BNPL

Consumers discussing the features that appeal to them most about BNPL often single out factors that are typically associated with banks. Fifty-two percent of consumers say a bank-sponsored BNPL option should offer them ease of use and convenience, in fact, and 41% say they would want a BNPL credit option issued by a bank to help them manage and keep track of their spending. Notable shares of consumers also believe bank-offered BNPL solutions will be appealing if they provide better data security (34% cite this), quicker credit approvals (32%) and help for their credit scores (32%).

Figure 3:
What consumers say a bank-sponsored BNPL option offers

Share of consumers who cite select benefits as making them interested in a bank-sponsored BNPL option, by importance

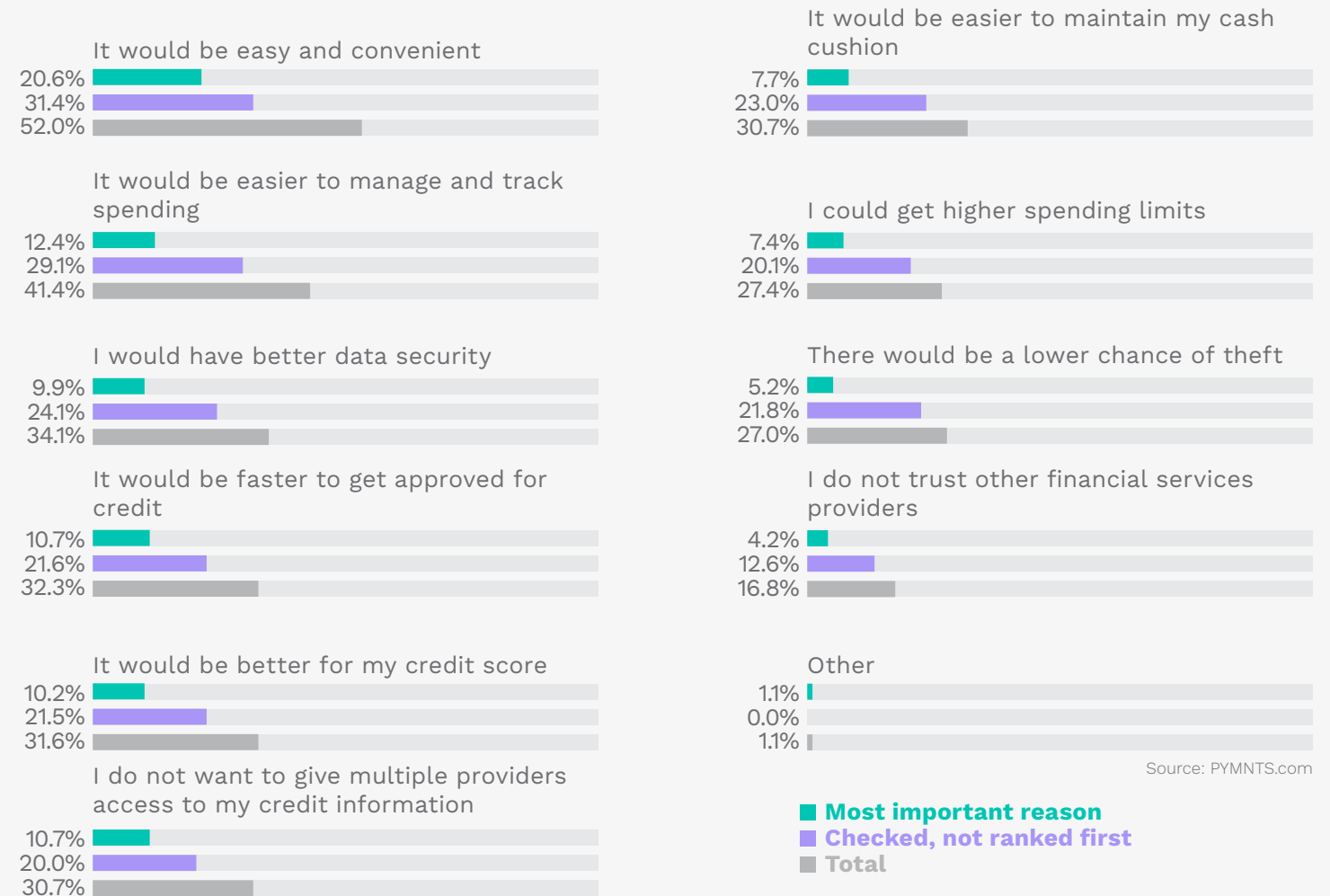


Figure 4:
What consumers say BNPL offers

Share of consumers who cite select benefits as making them interested in BNPL, by importance



Many consumers also cite convenience as a reason for their interest in using BNPL options. Thirty-three percent of the consumers who have used BNPL in the past year cite the ease of use and convenience of using a BNPL as a reason for their interest in using it more. Thirty-two percent cite their trust in the credit provider when deciding to use BNPL, and 31% say the likelihood of getting approval for the short-term credit is important to them when deciding to use BNPL.

42%
OF CONSUMERS WHO
USED BNPL IN
THE PAST YEAR SAY
THEY **LIKE BEING
ABLE TO SPREAD
THEIR PAYMENTS
OVER TIME.**

PAYMENT-METHOD PREFERENCES AND AN OPPORTUNITY FOR BANKS

Table 1:
Popular payment methods

Share of consumers who used select payment methods for in-store/online purchases over the last year

	Total	In-store only	Both in-store and online	Online only
• Debit cards	69.4%	14.6%	47.9%	7.0%
• Credit cards	69.0%	9.8%	51.7%	7.5%
• PayPal	53.1%	5.8%	25.7%	21.6%
• Store cards	25.2%	10.0%	9.5%	5.7%
• BNPL	19.7%	2.8%	14.8%	2.1%
• Digital wallets	19.1%	6.7%	8.5%	3.9%
• Electronic bank transfer	14.0%	4.6%	4.1%	5.3%
• Peer-to-peer payment apps	12.4%	4.0%	3.2%	5.2%
• Cryptocurrency	7.9%	2.8%	3.5%	1.6%
• Other	2.5%	0.4%	0.4%	1.7%

Source: PYMNTS.com

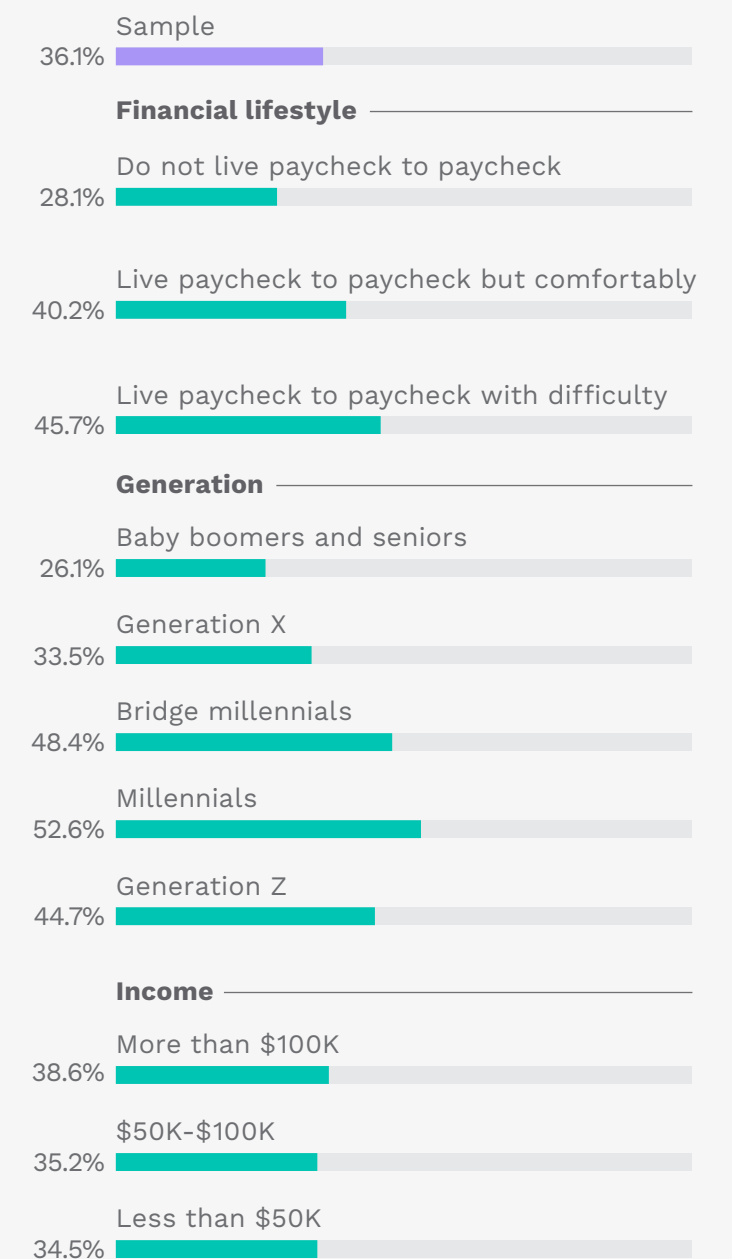
Among the consumers who do not use BNPL, those who are earning more than \$100,000 annually show the most interest in bank-issued BNPL plans of any income level at 39%. Interest also is high among non-users of BNPL at other income levels, which demonstrates the widespread appeal of these products. Thirty-five percent of consumers with annual incomes less than \$100,000 also are interested in bank-backed BNPL options.

Interest in bank-issued BNPL plans also is high among younger generations of consumers who are not BNPL users, including 53% of millennials, 48% of bridge millennials and 45% of Generation Z consumers who say they are interested in using bank-issued BNPL plans.

In addition, there is fairly strong interest in bank-issued BNPL plans across the three categories of financial lifestyles tracked in the survey. Among the non-BNPL users, 46% of consumers who live paycheck to paycheck and have issues paying their bills expressed the most interest at 46%. Forty percent of the consumers who do not use BNPL, live paycheck to paycheck and are able to pay their bills without difficulty are interested, and 28% of nonusers of BNP who do not live paycheck to paycheck are interested.

Figure 5:
Which consumers want to use banks' BNPL options

Share of BNPL nonusers who are more interested in a bank-backed BNPL offering than that of another company, by demographic



Source: PYMNTS.com

WHY BNPL USAGE FREQUENCY MATTERS

Banks can position themselves for a successful entry into the BNPL market by tailoring their products to the consumers who have been using BNPL on a regular basis. PYMNTS' research finds that consumers who have been frequent users of BNPL are likely to continue using the method, and the banks that tailor their BNPL options to appeal to the consumers who have already used BNPL have the best chance to position themselves for success in this growing market.

Most consumers who have not used BNPL or use it infrequently have only moderate interest in using it going forward. Our research shows that 71% of the consumers who have never used BNPL say they have little to no interest in using it, while 13% are very or extremely likely to use BNPL.

Interest in using BNPL is even higher among frequent BNPL users. Ninety-two percent of the consumers who use BNPL more than once a week say they are highly interested in using it again. Thirty-six percent of consumers who use BNPL once

92%

OF THE CONSUMERS WHO USE BNPL PAYMENT OPTIONS MORE THAN ONCE A WEEK SAY THEY **PLAN ON USING THEM AGAIN.**

a year say they are somewhat interested in using it again, and 43% of the once-a-year users are highly interested in using it again. Among BNPL users who use BNPL once per month, 65% classify themselves as highly interested in using it again, while 25% say they are somewhat interested. This suggests that banks can increase their chances of winning over more users if they focus their marketing on consumers who already have experience using BNPL.

CONCLUSION

Banks have an opportunity to capture a substantial share of the rapidly growing BNPL market, provided they play to their traditional strengths. Consumers say they want to be able to trust their credit providers, and trust has traditionally been an asset for banks in terms of how they are viewed by consumers. Many banks have long-standing relationships with their clients, and these relationships can make customers more open to accepting and using the products banks offer them. Leveraging that trust and offering the flexible payment options that appeal most to BNPL users can help banks build inroads and position themselves for long-term success in the BNPL market in the future.

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METHODOLOGY

BNPL, Banks And The Trust Factor: How FIs Can Gain A Competitive Edge In A Growing Market a PYMNTS BNPL options. and Amount collaboration, examines banks' prospects for entering the growing BNPL market. We surveyed 2,237 U.S. consumers from Nov. 5, 2021, to Nov. 10, 2021, about their usage of BNPL products and services from existing providers. We also sought information about their interest in BNPL options.

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