Buy Now, Pay Later:
A Revolutionary Payments Innovation or A Risky Scheme?

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Overview

Over the past year, COVID-19-related news has been dominating the headlines with extensive coverage worldwide on the rate of infections, deaths, and its impact on the travel and aviation industry. Aside from this, the pandemic has also left a trail of destruction to the global economy, contracting 3.3 percent in 2020 after a prolonged period of growth, according to the April 2021 World Economic Outlook Report published by the IMF[1]. The knock-on economic impact has invariably disrupted jobs and the incomes of people as countries remain in lockdown, upending many of their personal financial goals and their purchasing power, as the rate of *discretionary expenditures* shrank by as much as 90 percent[2] in some of Asia's largest economies at the height of the pandemic in 2020 – a sign of anaemic optimism in the retail sector as more consumers are tightening up their purse strings and avoiding purchasing big-ticket items.

Buy Now Pay Later - A Growing Phenomenon in Retail Payment Services

Amidst this backdrop of economic uncertainty lies a growing trend that is fast catching on with retail consumers; *Buy Now Pay Later* schemes, or in short, BNPL. This payment service allows the consumer to pay by instalments over time without paying interest on the purchase, instead of paying the full amount upfront. The catch is that there will be fees incurred such as late payment fees and monthly account-keeping fees amongst others, which can add up rather quickly should it be accumulated. However, this mode of deferred payment is not new to consumers and retailers. What is making this method of payment resurgent is the incorporation of mobile technologies and innovative businesses which leverage on new capabilities that make this method of payment seamless in the ever-evolving retail payment landscape.

With a younger, more tech-savvy population, Asia will be the engine for accelerated growth for BNPL payment services with a forecasted year-on-year growth of 21.2% to reach a valuation of US$33.6 billion by 2027[3]. A heady mix of young consumers who may not be as financially literate and are more accustomed to using mobile and app-based payment services, along with rising youth unemployment, have gotten regulators raising the alarm bells.

Rising Concerns Around the Use of BNPL Services

Earlier this year, Mr. Tharman Shanmugaratnam, the Minister-in-charge of the Monetary Authority of Singapore (MAS) - the central bank and regulatory body in the city-state, provided a response to address the growing concerns posed by BNPL services. Singapore,home to many of the region's fintech companies and a host to numerous financial institutions, weighed in on this issue in a calculated manner, despite BNPL payment schemes not under the MAS' regulations on credit that traditionally applies to banks and financial companies[4]. The central bank is looking to assess before addressing the growing concern around BNPL schemes for distorting the affordability of items purchased that may potentially lead to excessive consumer borrowing as BNPL services possess lower barriers of entry for prospective consumers due to a lack of regulatory framework that govern such services.

Many of these BNPL service providers are targeting mobile-savvy Gen Z consumers who may not possess strong finances and adequate financial awareness[5]. With the current youth unemployment rate in Singapore standing at 10.6 percent - its highest compared to previous economic downturns such as SARS in 2003 and the 2009 Global Financial Crisis[6], this uneasiness is shared by other governments and regulatory bodies amidst a fragile post-pandemic economy. In order to allay fears regarding a lack of oversight and framework to regulate BNPL payment schemes, governments such as in the UK have recently announced that there will likely be regulations in the name of consumer protection[7], an action which is closely watched by other regulators.

What is the Future Regulatory Outlook for BNPL Schemes?

It is clear that innovative payment solutions such as BNPL schemes are here to stay. With the global ecommerce market seeing an acceleration due to a pandemic-induced frenzy making up 19 percent of retail sales share over the past year[8], payment schemes like BNPL benefits both consumers and merchants, and it is expected that this payment method will only exponentially grow in adoption. Hence, proper regulatory measures are expected to supplement this with better measures that safeguards consumers and their purchases.

Drawing upon UK's experience, the Treasury announced in early February 2021 that the Financial Conduct Authority (FCA) will be looking to regulate interest-free BNPL schemes[9] as the regulatory agency is reviewing such credit agreements in the scope of its unsecured credit market. These recommendations given to the FCA were part of the broader terms broached by the Woolard Review[10] whilst the FCA consults with its stakeholders before bringing forward legislation to ensure that the regulatory measures on BNPL schemes would be enacted proportionately. Elsewhere in Asia, regulators like the Monetary Authority of Singapore (MAS) have yet to publish a timeline to review BNPL platforms and its offerings. The MAS is currently relying on publishing via local media and digital channels to inform consumers and highlight the risks of overspending when using BNPL services[5]. Such awareness is critical, albeit takes on a soft touch approach since a recent study in Singapore found that about 38 percent, or more than a million people of its 5.7 million population, have used a BNPL service[3].

Conclusion

The scale and number of innovations seen in the retail payment sector over the past few years is a harbinger that regulators are playing catch up with fintech companies, urging a need for regulators to move beyond reactive approaches and adopt more sustainable practices. It would be encouraging to see more regulators coming up with frameworks for providers of financial and fintech services to rethink their business models while putting social utility as its core business objective[11]. In the case of BNPL schemes, regulators are still taking a more cautious approach for want of policies that may be seen as reactive and stifling to the innovative retail payment space, thus the onus falls on fintech companies and BNPL platforms to ensure its consumers are protected, and that its products do not put them on a path of financial ruin whilst the shadow of the pandemic still looms over the global economy.

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