

# **IMPACT OF CHANGING BANKING PRACTICES ON THE INDIAN ECONOMY**



Indian Council of  
Social Science Research

**ICSSR Sponsored Two Days National Level Seminar  
(28.03.2023 to 29.03.2023)**

**Editors**

**Dr. R. Sathya**

**Dr. Padmaja DV**

**Organized by**

**Department of Commerce (Financial System)**

**PSG COLLEGE OF ARTS & SCIENCE**

An Autonomous College, Affiliated to Bharathiar University

Accredited with A++ Grade by NAAC (4th Cycle)

College with Potential for Excellence (Status Awarded by UGC)

Star College Status Awarded by DBT-MST

An ISO 9001:2015 Certified Institution Coimbatore - 641 014



**Since 1947**

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*Associate Professor & Head of the Department of Commerce (Financial System)  
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## **IMPACT AND USAGE OF BUY NOW PAY LATER APPLICATION AMONG ONLINE CONSUMER BEHAVIOUR**

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### **Abstract**

Buy Now Pay Later (BNPL) is a micro-credit model where customers pay little or no interest for purchases over online or offline channels. The Indian BNPL market is expected to grow to \$50 billion by 2026, compared to \$3-3.5 billion today. This is primarily driven by a large population of youth who may find BNPL convenient as it offers microlending in an informal way, without the cumbersome paperwork that traditional banks demand. Since its introduction in the market, BNPL has garnered popularity among financial institutions, merchants, and consumers alike. Today, BNPL providers have tied up with not just consumer durables chains but even with food delivery companies, travel booking players, and even grocery delivery platforms. The pandemic-induced economic changes led consumers to shop online. People took to the internet to order groceries, clothes and other essential items. Buy Now Pay Later emerged as more than just a simple payment mechanism; it essentially reduced borrowers' financial stress by delivering no-cost EMIs. Furthermore, the symbiotic link between e-commerce and BNPL has a bright future. According to Goldman Sachs, the Indian e-commerce business is set to become a \$99 billion market by 2024, driven by consumer demand. At the same time, BNPL will become the fastest-growing online payment method, increasing from 3% in 2020 to 9% in 2024.

Keywords: Banks, Financial institutions, Merchants, Consumers, Internet,etc...

### **Introduction**

Buy now pay later (BNPL) is an emerging lending tech sector in India due to the advent of e-commerce and digital payments, and a rapid increase in the number of Fintechs. Moreover, because of the simplicity of access to credit, BNPL is the most popular product among GenZ consumers, young millennials, and first-time credit borrowers, who are frequently neglected or overlooked by traditional banks. According to a survey, India's BNPL market would grow to \$45-50 billion by 2026, up from \$3-3.5 billion today. According to the research agency, the number of BNPL users in the country might increase to 80-100 million by then, up from 10-15 million now. This has prompted more companies to enter the Buy Now Pay Later (BNPL) market. In India, there are about a dozen BNPL players. Traditional banks are also joining the BNPL bandwagon by collaborating with new age Fintechs. Digital natives and tech-savvy

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customers, millennials and Gen Z, are increasingly shifting to the concept of micro-credit and purchase now pay later services for a more seamless user and merchant experience. Credit cards have been around for decades and have gradually but surely found their way into the internet purchasing ecosystem. The difficulties of documentation, credit score requirements, many rounds of identification, and so on, on the other hand, cost time and effort. BNPL has stepped up to remove these friction points as millennials and Gen-Zs lose patience with traditional paperwork and demand for flexibility and transparency grows. There are a few reasons colleges and universities should pay attention to BNPL trends. First and foremost, it highlights how younger generations think about finances and payments. Access to multiple payment options – especially flexible ones – is important to these consumers. It signals to the higher industry that it may be time to revamp legacy systems and expand payment options beyond checks and credit cards. While the jury is still out on whether BNPL is more helpful or harmful, it's worth a look for colleges and universities that want to offer more choices in how students pay for purchases across campus. BNPL can be offered for things like textbooks, computers, and other school supplies related to consumables. With the right financial mindset, this flexibility can empower students to make purchases that support their education without breaking the bank in one fell swoop. While there are many factors to consider when determining whether BNPL may be a good payment option to offer, it's not something to completely write off. However, the good news is, because of the surge in mobile wallet uses across the world, lenders are developing risk score cards that can enable them to go into the lending business much more astutely. This is further catapulting the BNPL model. Similar to open banking trends, and direct debit functionality for bank accounts and cards, mobile wallets can also be debited to automatically collect the payment against the items purchased using BNPL.

### **Conceptual and framework of the study:**

#### **Banks are financing BNPL**

In the Banking-as-a-Service (BaaS) age, BNPL has revolutionised consumer credit and instalment loans by being entirely integrated into the customer buying cycle to give consumers a seamless digital experience and convenient access to finance at the point of purchase. Some banking technology providers are beginning to combine the power of BNPL solutions and virtual cards, thereby helping banks kill two birds with a stone – drive revenue and strengthen customer loyalty. However, rather than flipping a card transaction into BNPL afterwards, banks can drive more sales conversions when they present a pre-purchase BNPL option to customers. Since banks already have data on their customer's financial behaviour, they can tailor BNPL offerings based on the risk profile.

#### **The future lending in India**

According to data from a recent survey, "The Future of Financial Services report," India leads the world in its intent to use "Buy Now Pay Later" services in the future. The pandemic-induced economic changes led consumers to shop online. People took to the internet to order groceries, clothes and other essential items. Buy Now Pay Later (BNPL) emerged as more than just a simple payment mechanism; it essentially reduced borrowers' financial stress by delivering no-cost EMIs.

Furthermore, the symbiotic link between e-commerce and BNPL has a bright future. According to Goldman Sachs, the Indian e-commerce business is set to become a \$99 billion market by

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2024, driven by consumer demand. At the same time, BNPL will become the fastest-growing online payment method, increasing from 3% in 2020 to 9% in 2024.

### **BNPL as a mode of payment**

Buy now pay later (BNPL) is an emerging lending tech sector in India due to the advent of e-commerce and digital payments, and a rapid increase in the number of Fintechs. Moreover, because of the simplicity of access to credit, BNPL is the most popular product among GenZ consumers, young millennials, and first-time credit borrowers, who are frequently neglected or overlooked by traditional banks.

According to a survey, India's BNPL market would grow to \$45-50 billion by 2026, up from \$3-3.5 billion today. According to the research agency, the number of BNPL users in the country might increase to 80-100 million by then, up from 10-15 million now. This has prompted more companies to enter the Buy Now Pay Later (BNPL) market. In India, there are about a dozen BNPL players. Traditional banks are also joining the BNPL bandwagon by collaborating with new age Fintechs.

### **BNPL a better option than credit cards**

Digital natives and tech-savvy customers, millennials and Gen Z, are increasingly shifting to the concept of micro-credit and purchase now pay later services for a more seamless user and merchant experience. Credit cards have been around for decades and have gradually but surely found their way into the internet purchasing ecosystem. The difficulties of documentation, credit score requirements, many rounds of identification, and so on, on the other hand, cost time and effort. BNPL has stepped up to remove these friction points as millennials and Gen-Zs lose patience with traditional paperwork and demand for flexibility and transparency grows.

### **E-commerce platforms are raising funding rounds to expand BNPL services in India**

To help small and medium-sized businesses in India expand their operations, several players, including B2B e-commerce firms, are entering into the BNPL space, the segment which has been growing in popularity among both consumers as well as businesses. Consequently, to expand their B2B BNPL service to more and more businesses, firms are raising funding rounds in India.

In June 2022, Solv, the e-commerce marketplace for suppliers and buyers in the MSMEs segment, announced that the firm had raised US\$40 million in its Series A funding round, which was led by SBI Holdings. Notably, the firm is planning to use the funding for further expanding its BNPL loans to more merchants in the country. As of June 2022, the firm has more than 220,000 KYC-verified MSMEs registered on its platform.

The firm has also developed a Solve scoring system, an alternative credit score, which allows thin-filed MSMEs to access loans on-demand. The e-commerce platform sells groceries, fast-moving consumer goods (FMCG), electronics and accessories, and home furnishing products, among others. As the BNPL market, both B2C and B2B continues to grow in India, the publisher expects more firms to raise funding rounds. Moreover, as foreign players eye an expansion into the Indian market, consolidation trends will lead to more investment from global BNPL players in India over the next three to four years.

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**Banking firms are forging strategic alliances with BNPL providers to offer deferred payment services to their customers in India**

Globally, an increasing number of traditional banks are entering the BNPL segment, either through launching their own service or partnering with pure-play BNPL providers. In India, similar trends are visible, where banking institutions are forging strategic alliances with BNPL providers. In June 2022, ICICI Bank, one of the leading private banks in India, announced that the firm had entered into a strategic partnership with ZestMoney to add a BNPL feature for its customers. Under the partnership, ICICI Bank is integrating the BNPL service offered by ZestMoney into its cardless EMI product. Consumers using the cardless EMI product offered by ICICI Bank can use the BNPL service to make purchases of up to US\$12,900 or INR 10,00,000. Initially, the service is made available for online transactions; however, the bank is expected to launch the same for in-store purchases soon.

**BNPL service provider in the Indian markets are**

- ZestMoney
- LazyPay
- Simpl
- Amazon Pay Later
- Ola Money Postpaid
- Paytm Postpaid
- Flexmoney
- EPayLater
- Capital Float
- Flipkart pay later
- 

## **BNPL TRANSACTION PARTIES**

### **1. For consumers**

Programs that allow to buy now and pay later are not all the same. Each company has its terms & conditions, but in general, point-of-sale installment loans work.

### **2. For merchants**

Merchants are always looking for ways to raise the average ticket price of their customers. Besides that, e-Commerce merchants in particular frequently face abandoned shopping carts, indicating that the consumer did not complete the purchase after all. Customers appear to complete a purchase more frequently and for larger dollar amounts when merchants offer BNPL, so there is a strong business case for merchants to take this option into account.

### **3. For BNPL providers (Fintechs)**

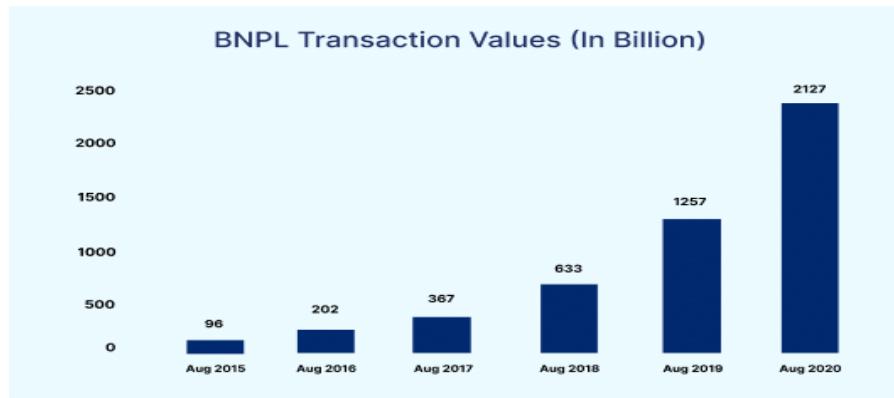
The financial services provider (lender) pays the merchant at the time of the transaction, taking on the ownership of extending credit and collecting payments from the customer over the BNPL term. As both a payment processor and lender, BNPL providers assume the risk of consumer non-payment. To compensate for the risks, they pay merchants a percentage of the total purchase price. The lender then collects instalment payments from the customer in an amount equal to the full purchase price.

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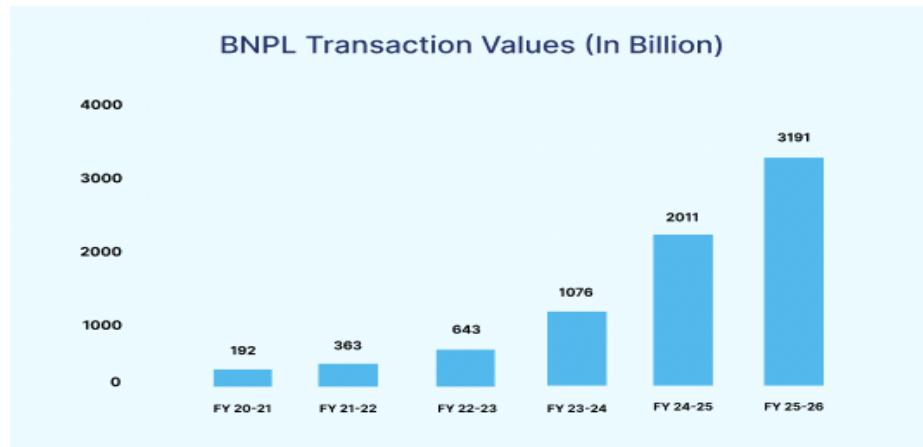
## FUTURE GROW OF BNPL

### 1. BNPL transaction value to grow 779% by FY 25-26



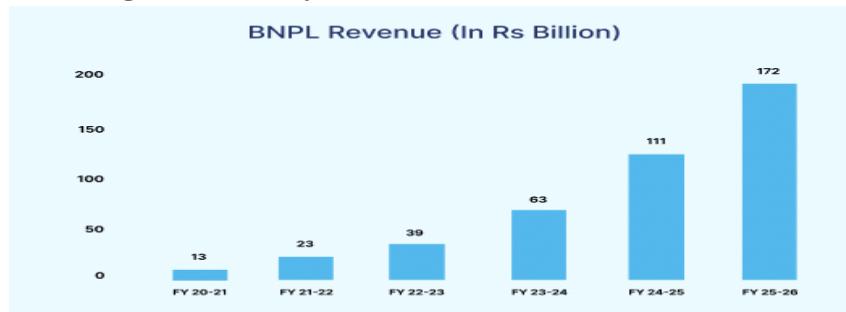
BNPL is expected to grow exponentially over the next five years. BNPL, which is currently valued at Rs 363 billion, is expected to grow to Rs 3,191 billion by the end of 2025-26.

### 2. BNPL transaction volumes to grow 953% by FY 25-26



BNPL users are expected to reach 202 million by the end of this financial year, with total transaction volume increasing at a CAGR of 67% since inception. It is expected to reach 2 billion by FY 2025-26.

### 3. BNPL revenues to grow 648% by FY 25-26



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With the increased adoption of BNPL, the revenue for Fintech is also expected to grow over the next few years. The total revenue will increase at a CAGR of 54% since FY 20-21. It will reach Rs 172 billion by FY 25-26.

## **Conclusion**

BNPL has become more than a credit instrument; it has become a way of life. It will soon become India's principal engine of credit expansion. The BNPL revolution in India is only getting started; it will change the face of credit in the country over time. Also, as smartphones and internet connectivity spread across India, the reach of BNPL payment providers is only anticipated to grow. According to a report by Redseer Consulting, BNPL segment is growing by 65%. By 2025, it is anticipated to reach \$40 billion.

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