

BNPL: the next opportunity in Open Banking and Digitalization

White Paper

As Buy-Now-Pay-Later schemes become popular across Europe, financial institutions and merchants should take advantage of Open Banking's power to unlock and grow BNPL for new revenue, better customer service and enhanced customer loyalty.

The growth of Buy-Now-Pay-Later schemes in Europe has had a pronounced effect on financial institutions' payments revenues in recent years. Figures from the latest **Digital and Card Payment Yearbooks** published by PCM¹ show credit card numbers and usage dropped during the pandemic despite a 30% increase in e-commerce spending as customers flocked to BNPL for both physical and online shopping needs.

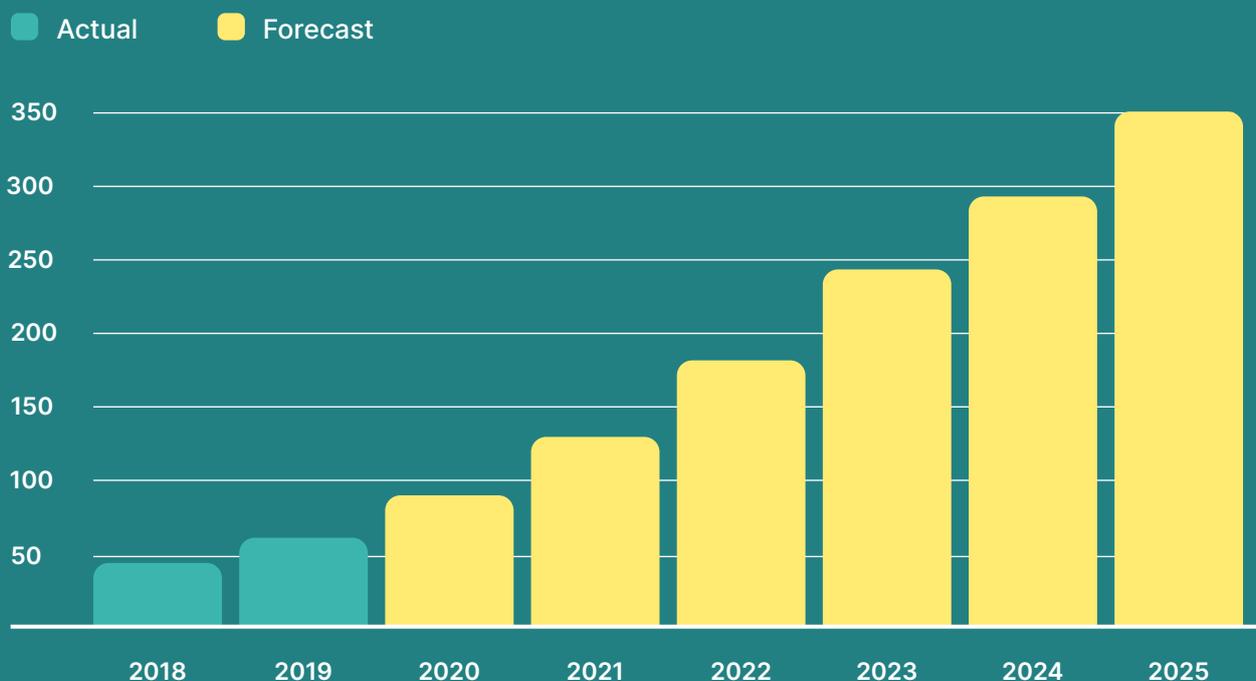
According to PCM's data, the number of credit cards in France remained flat between 2020 and 2021, and declined by 6.4% over the last five years. Other Western European markets such as Spain have witnessed equally dramatic declines (12.9% over the last five years), while those markets that are still in 'growth' mode for credit cards, such as Belgium, Austria and Italy, are recording increases of between 1 and 3%. Across Europe as a whole, the five-year compound growth in credit card numbers came in at just above 1% - only slightly above the continent's overall population growth figure for the same period.

Financial institutions and merchants should offer BNPL – or risk seeing both their margins and customer relationships eroded.

Meanwhile, growth for BNPL players such as Sweden's Klarna and Australia's AfterPay has been spectacular. Kaleido² Intelligence estimate the global BNPL market was worth €125 billion in January 2021, and project total market value of €350 billion by 2025, for year-on-year growth of almost 23% over the next seven years. Individual markets such as France (27.3%) and Germany (59.9%) are expected to post above-trend growth over the next few years, according to Research and Markets³. With figures like these, it's clear financial institutions and merchants should be getting involved – or risk seeing both their margins and customer relationships eroded.

The Relentless Rise of BNPL

Source: Kaleido Intelligence



1 [The Digital and Card Payment Yearbooks 2021-2022](#)

2 See S&P Market Intelligence, "Could banks still get into the BNPL market?"

3 See Research and Markets: "Germany BNPL market growth and opportunities" quoted on Businesswire, 04 February 2022



Growing regulatory scrutiny of the BNPL sector is an opportunity for banks and established merchants that are trusted by customers and know their credit histories.

If BNPL's growth figures sound like a fairytale, then clouds are gathering on the horizon: EU regulators have announced⁴ they intend to treat BNPL more like other credit products such as personal loans and credit cards. This creates an opportunity for regulated financial institutions and established merchants to enter the market as they enjoy

the trust of their customers – and have access to their credit records and purchasing histories. BNPL is an in-demand service that consumers want to use, but the right approach, using a viable business model, is essential.

Open Banking gives financial institutions this opportunity, offering accurate and easy credit checking and payment options such as Payment Initiation Services, which we discuss below. Open Banking has created the opportunity for banks to offer an account-to-account payment method with lower fees, faster funds reconciliation and an easy user experience that is highly secure. As we argue below, the advent of Open Banking will redouble these advantages and make it possible for financial institutions and merchants to offer a wider range of BNPL options at lower cost and risk.



Open Banking unlocks the door to BNPL

Initially conceived as a means of enhancing competition in financial services, Open Banking was launched across Europe in January 2018 as part of the provisions of the EU's second payment services directive, or PSD2. PSD2 mandated banks to open up both their Application Programming Interfaces (APIs) and customer data to trusted third party providers, or TPPs. To date, the growth of Open Banking across Europe has been impressive, with both France and Germany leading the creation of industry groups such as Germany's Berlin Group. These groups have agreed standard API sets for use by both financial institutions and TPPs, and launched the first open banking products such as France's Lyf Pay wallet – a collaboration between banks and major merchant chains.

Open Banking affords banks and merchants the opportunity to reach out to new customer segments with a BNPL offering, even if they do not have existing customer data.

Under the provisions of Open Banking, financial institutions and merchants can make more accurate credit decisions more quickly by making API calls – essentially, digital information requests – on third-party sources for consumer credit records. These third parties can include peer institutions and merchants, credit rating agencies and other sources.

Coupled with their own records of customer purchasing behaviour, this gives merchants and financial institutions the opportunity to make highly accurate decisions about the amount of credit they are willing to offer consumers. Furthermore, by combining API calls on third parties with their own records, merchants and financial institutions can price their BNPL offering according to the creditworthiness of consumers, if desired. Open Banking also affords both banks and merchants the opportunity to reach out to new customer segments with a BNPL offering – even if they do not have existing customer data – by checking applicant's credit scores via an open API call on other financial institutions or merchants.

⁴ See Euromonitor, 18 January 2022, *"The Disruptive Potential of Buy Now Pay Later in Western Europe"*



More than credit scoring: banking advantage in BNPL

Thanks to the robust security provisions of PSD2 and Open Banking, financial institutions and merchants can set up an instalment plan with a single customer approval.

YC credit scoring apart, financial institutions and merchants have other advantages when they launch an own-label BNPL product – not least the fact that their product can run outside card scheme rails, effectively eliminating the expense

of interchange fees, by using a Payment Initiation Service (PIS) as permitted by PSD2. PIS services enable financial institutions and merchants to make requests for payment directly between each other. As well as avoiding interchange, PIS services are also highly secure as they rely on bank-level customer authentication as required of all transactions undertaken under PSD2. This includes, where relevant, two-factor authentication under the EU's Strong Customer Authentication (SCA) scheme, also part of PSD2.

Thanks to these robust security provisions, banks are able to set up an instalment payment plan with a single approval from the customer.



Worldline's Open Banking and Digital Banking capabilities

Worldline's suite of Open Banking and Digital Banking services can help financial institutions and merchants bring BNPL to market rapidly and securely. With experience of working with merchants and financial institutions to develop open API architectures and systems, our services facilitate open API calls on third parties to build up an accurate picture of a customer's credit worthiness. These open API calls confirm customers can afford their BNPL purchases and enable a high acceptance rate for the lender while maintaining strong customer protection and

reducing risk to your company. Fully compliant with the EU's PSD2 legislation, our suite of solutions includes credit checking, ID Proofing, payment processing and integration with your existing systems.

Worldline can help you deploy your BNPL product at physical point of sale, online, via a digital wallet or card and as part of an account-to-account solution. We also help merchants and financial institutions to establish recurring and instalment payments options related to both credit cards and BNPL.



Realise the promise of Open Banking

BNPL represents an outstanding opportunity for Europe's merchants and financial institutions. To retain market share, remain competitive with digital-first banks and BNPL giants while maintaining high levels of customer service, banks and merchants should be looking to offer their own BNPL products as a priority.

By taking advantage of the new powers afforded by Open Banking to offer lower-cost, lower-risk BNPL, banks and merchants can widen the portfolio of services they offer customers, increase customer loyalty and unlock new streams of profitable revenue, attracting new customers and delivering to their existing customer base.

To find out more about how you can offer a low-risk BNPL product that unlocks new revenue and engages both new and existing customers, contact:

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About Worldline

Worldline [Euronext: WLN] is a global leader in the payments industry and the technology partner of choice for merchants, banks and acquirers. Powered by 20,000 employees in more than 50 countries, Worldline provides its clients with sustainable, trusted and innovative solutions fostering their growth. Services offered by Worldline include instore and online commercial acquiring, highly secure payment transaction processing and numerous digital services. In 2021 Worldline generated a proforma revenue close to 4 billion euros.

worldline.com

Worldline's corporate purpose ("raison d'être") is to design and operate leading digital payment and transactional solutions that enable sustainable economic growth and reinforce trust and security in our societies. Worldline makes them environmentally friendly, widely accessible, and supports social transformation.



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