



**EQUIFAX**<sup>®</sup>

# Insights into the Future of BNPL: A Deep Dive into the Views and Perspectives of Australian Merchants

An Equifax Redpaper

August 2023

# Foreword

Innovation brings change. The Buy Now Pay Later ('BNPL') industry takes a leading role in today's changes and financial innovation.

The Australian government and regulators have been debating on how best to regulate BNPL. The recent decision is to have BNPL regulated under the credit laws, and a Bill is expected to be introduced to the parliament around the end of the year.

In this Paper, we explore some of the trends merchants are noticing, including the potential for BNPL to increase the purchase value size in a responsible way. The Equifax BNPL Merchant Survey has shown that the impending regulation of BNPL has generally been considered a positive move to protect younger BNPL users.

Equifax sees that our commitment to enabling financial inclusion for consumers aligns with the intentions of this incoming regulatory change for BNPL. We envisage that our role for the consumers in this changing landscape is to increase awareness about how the usage of BNPL may potentially impact their credit profile after these legislative changes are in force, and this can in turn help improve financial inclusion.

Equifax also takes a holistic approach when developing our solutions for our business customers. Our solutions aim to incorporate data security, fraud protection and identity verification which can help your BNPL business prepare for the impending legislative changes.

Together, these provide a market that supports and protects all BNPL participants.

As a leading global data, analytics and technology company, we embrace pursuing advanced analytics, and cloud-first technology. We welcome the impending changes to the BNPL space and we look forward to the new innovation that these changes may bring.



**Moses Samaha**, General Manager, Equifax

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# Introduction

**Regulations are coming to the BNPL industry as the Australian Treasury prepares to release draft legislation for consultation later this year.**

To get a sense of what lies ahead post-legislation once consumer protections are in place, **we surveyed 300+ merchants** on their usage and attitudes towards BNPL. Despite representing less than half a percent of payment transactions across our economy, BNPL contributed over \$14 billion to Australian GDP and supported almost 100,000 jobs in FY2021<sup>1</sup>. With merchant acquisition driving much of BNPL's rapid development in recent years<sup>2</sup>, the views of this stakeholder group are very relevant to the future of this sector.

## Themes from our survey

We asked our survey respondents to consider the future of the BNPL industry after legislation is introduced. These four themes emerged based on the views and perspectives of Australian merchants:

**Theme #1:** There is an opportunity to increase the purchase value size responsibly

**Theme #2:** 100% of merchants want better service and fees

**Theme #3:** Brandtrust needs a reboot

**Theme #4:** It's time to diversify to unlock new revenue streams.

In this whitepaper, we dive into these themes to help BNPL players in the market prepare for the opportunities and challenges post-legislation.

**NB:** For the purpose of this whitepaper, our definition of BNPL is a form of credit that allows a customer to split a retail transaction into a series of low- or zero-interest instalments and repay them over time.

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<sup>1</sup> The Economic Impact of BNPL in Australia, June 2022, Australian Finance Industry Assoc.

<sup>2</sup> As above

# The Move to a More Regulated BNPL

The Australian Finance Industry Association Limited launched a Code of Practice in 2021 to set best practices to drive a fair and transparent BNPL market. But with BNPL transactions not included under the Australian Credit Act, regulators want to ensure BNPL does not push more people into financial difficulty. ASIC research from 2022<sup>3</sup> showed that 19% of BNPL users cut back or went without essential items in order to make BNPL payments on time.

In May 2023 the government declared it will regulate BNPL as a credit product. The following six regulatory changes were announced by the Minister of Financial Services, Stephen Jones with the detail for each expected to be released and discussed with industry in the coming months<sup>4</sup>:

- Hold Australian Credit Licence
- Comply with Responsible Lending Obligations
- Meet statutory dispute resolution and hardship requirements
- Comply with statutory product disclosure and other information obligations
- Abide by existing restrictions on unacceptable marketing; and
- Meet a range of other minimum standards in relation to their conduct and in relation to their products

Following a consultation with industry and consumer groups, a Bill is expected to be introduced to Parliament later this year, where it must pass both Houses before it passes into law.

Ensuring BNPL providers evaluate consumer creditworthiness and aren't enablers of debt are vital concerns for regulators across the globe. BNPL will soon face regulation in the United Kingdom, and regulators in the United States are also considering tighter restrictions.

While some existing BNPL products already require credit and affordability checks, introducing legislation would level the playing field for all BNPL providers. The challenge for legislators is how to strike the right balance between consumer protection and innovation.

Equifax believes the reforms should cover these key goals:

1. Recognise BNPL is credit
2. Maintain BNPL's automated, low-friction origination experience
3. Ensure lenders can see which consumers are, or are at risk of, becoming overcommitted. This has already been recognised by BNPL providers in Australia with their contribution of current credit liability and repayment history information.

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<sup>3</sup> ASIC Consumer Monthly survey report, Q1 2022, Regulating BNPL in Australia Options Paper, Treasury

<sup>4</sup> <https://ministers.treasury.gov.au/ministers/stephen-jones-2022/speeches/address-responsible-lending-borrowing-summit>

# A Note on Merchant Profile Demographics

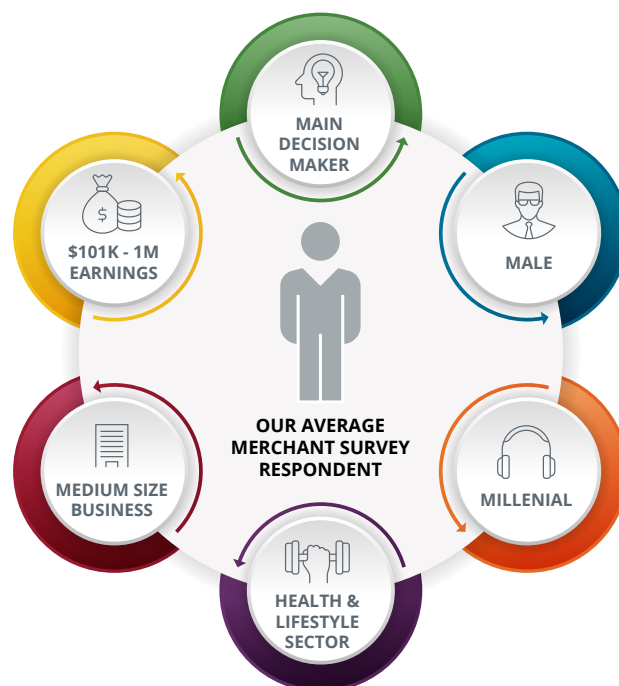
**Our Insights into the future of BNPL Survey had 313 respondents, representing owners and directors from Australia's medium size merchant businesses.** Two-thirds were the primary decision-makers, and over 92.5% reported substantial influence over the BNPL solutions at their business.

Respondents were aged primarily between 35 to 44 years and were predominantly male. Millennials comprised 77.7% of the respondents, with only 16.3% aged above 45.

We surveyed merchants across Australia, with the majority of respondents coming from NSW (41%), Victoria (26%) and Queensland (19%). The company size with the largest representation was 11-250 employees (65% of respondents), followed by 1-10 employee segments (19.5%). Business value was reported as predominantly within the \$101K-\$1M range (52%) and the +\$1M range (35%).

Of those surveyed:

- 30%, nearly one-third of merchant businesses were from the health, fashion, beauty or lifestyle sector,
- Approximately a quarter, 26%, were from the technology, mobile devices or home appliances sector,
- 13% of other business categories represented included hardware, outdoor, home, garden or construction businesses,
- 8% of the businesses were active in the areas of fitness, leisure, sport, hobby, entertainment, travel or accommodation,
- 5% of the businesses were from the education, learning, school supplies or book selling segments
- The remaining 19 % represented a variation of businesses in the categories of finance, retail, manufacturing, construction, IT, events or transport businesses



# A Note on the Usage of BNPL

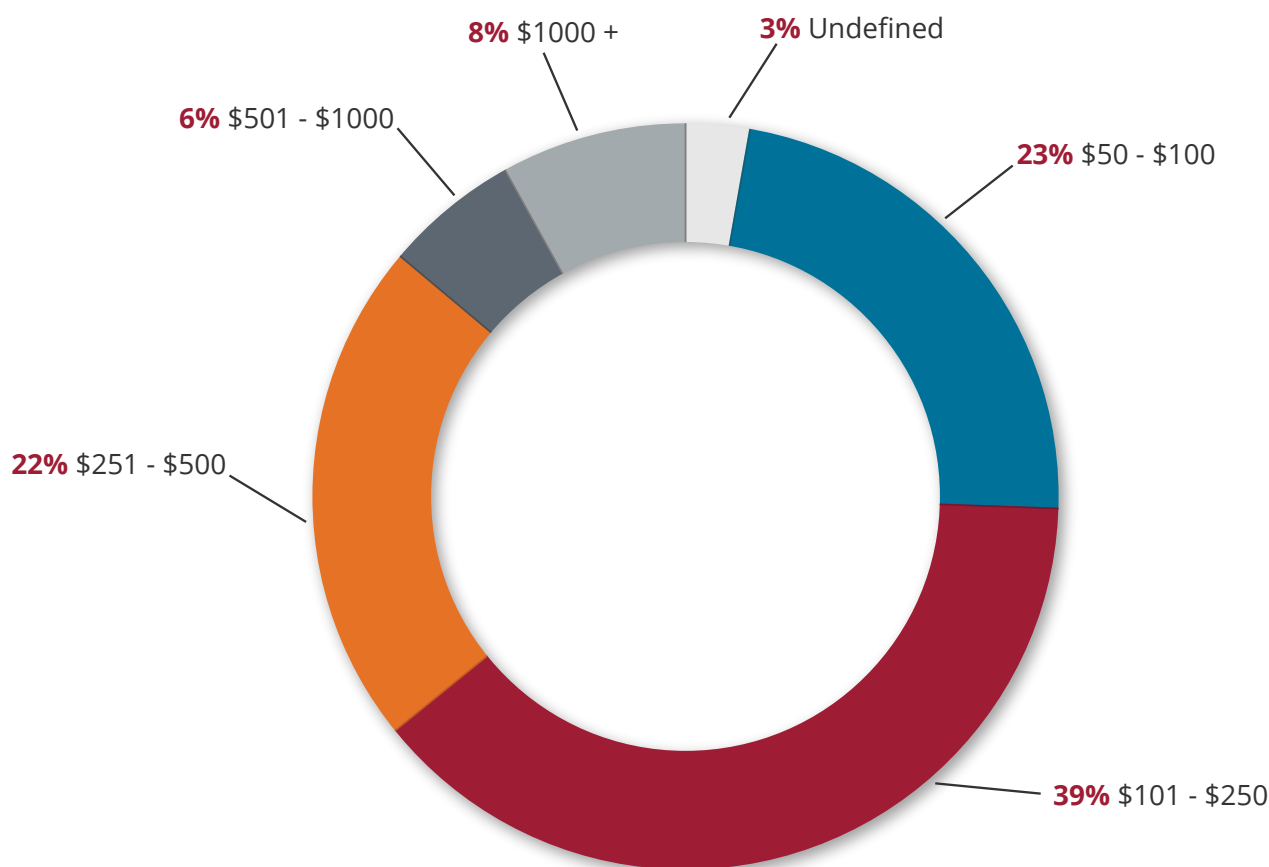
## Most survey respondents offered their customers multiple payment options.

Nearly half of the respondents (44%) adopted BNPL over the 12 months to October 2022, and a third within the past 13-24 months.

Two-thirds of respondents offered a wide range of payment options across most devices and with multiple providers. Only 5% of respondents were still developing their digital payment capabilities across a single device and BNPL payment option.

Merchants are adopting more innovative electronic payment solutions alongside growing consumer demand for greater convenience. The merchant takeup of e-wallets (72%) and BNPL (100%) rivals their use of other payment options like credit cards (92.3%), debit cards (84.7%) and direct bank transfers (72.5%). Respondents reported that most credit purchases (86%) fell within the range of \$50 to \$500. 62% were in the \$50 to \$250 range.

## Value of average BNPL transactions



# A Note on the Usage of BNPL

## BNPL is growing in popularity with consumers

With the majority of transactions in Australia now made using electronic payment methods rather than cash<sup>5</sup> BNPL meets consumer demand for a seamless, streamlined online experience. Indeed throughout FY 2021-22, the number of Australian BNPL active customer accounts rose from around 5 million to 7 million<sup>6</sup>. The value of BNPL transactions increased to \$16 billion over the same period, an increase of 37% over the previous year<sup>7</sup>.

We asked our survey respondents to report what payment methods are used most by their customers. They said most had used BNPL (98%) and e-wallets (90%) at least once or multiple times. However, credit cards and debit cards remain the most frequently used payment methods for recurring use. Regular use of credit cards was reported at 81%, debit cards at 70%, compared to BNPL at 65.8%, and e-wallets at 64%.

Although Equifax Consumer Credit Demand Index insights detected a slowing in BNPL demand over the second half of 2022<sup>8</sup>, the merchants in this survey reported a 57% growth in BNPL demand over the same period. This contrast suggests that consumer enthusiasm for BNPL is still rising among mid-sized merchants, even if it is flattening in the overall market.

## A high-interest, high-inflation market

We asked our respondents how the inflationary environment affected BNPL sales compared to a year ago. We found that most had seen either an increase in BNPL credit sales (48%) or no change (40%) over 2022. Only 12% reported a decrease.

Consumers might be attracted to BNPL in a high interest rate environment for its flexibility and interest-free periods. And as the cost of living continues to bite, consumers might look to BNPL to assist with consumer cash flows by spreading payments over a prolonged period.

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<sup>5</sup> The *Evolving Retail Payments Landscape*, Payment System Board Annual Report, 2022, Reserve Bank of Australia

<sup>6</sup> As above

<sup>7</sup> As above

<sup>8</sup> BNPL demand slowed over the second half of 2022 and marginally declined (-0.2%) year-on-year in Q4 2022, according to Equifax Consumer Credit Data.

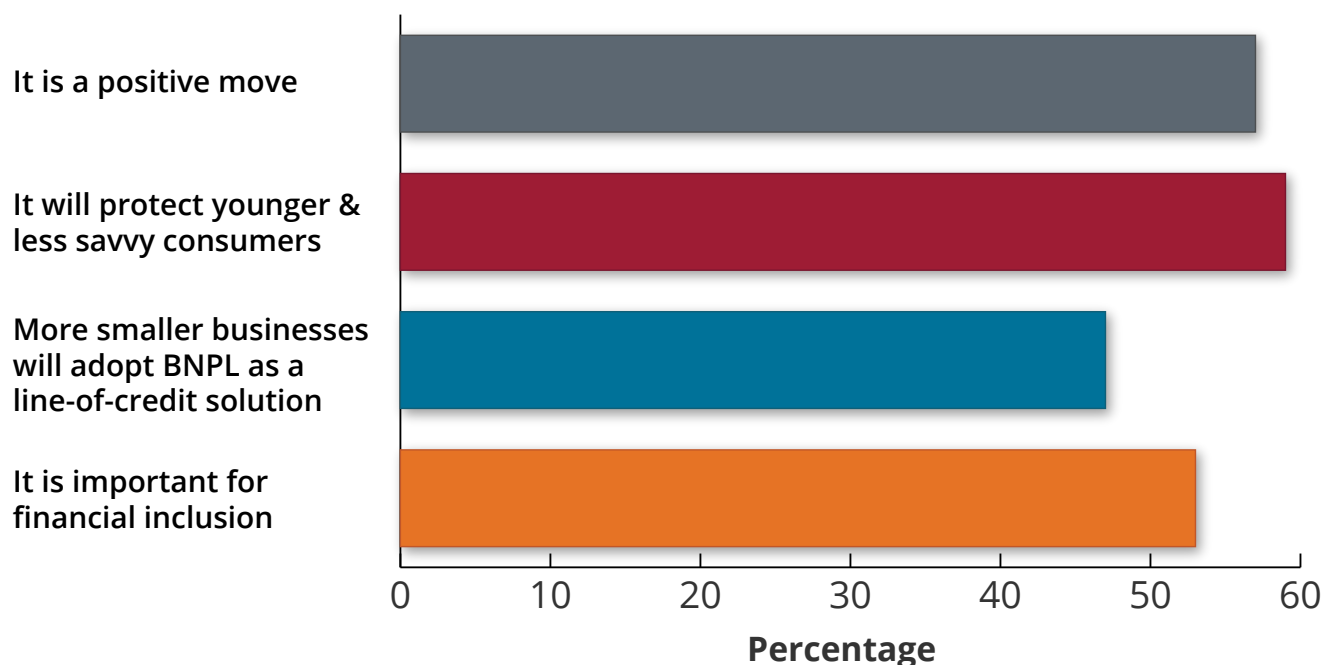
# The State of Play for BNPL Providers Post-Legislation

## How merchants view BNPL reforms

Our survey respondents anticipate that BNPL legislation will have downsides. But most believe that it could be a positive development for sustained BNPL growth and profitability in the long run. 57% of merchants responded positively to its impact, and 59% agreed it would protect younger and less savvy consumers. Over half the respondents believe that BNPL will replace other credit offerings like credit cards, and two-thirds agree that smaller businesses will adopt BNPL as a line-of-credit solution.

There are also conflicting views on whether immediate, low-cost financing is a valuable tool of credit or whether it encourages impulse purchasing and overspending. When asked whether BNPL contributes to a destructive debt cycle, 42% of respondents agreed it did, 40% were ambivalent, and 13% disagreed. But on the flip side, 53% view BNPL as important for financial inclusion. For those Australians not eligible for mainstream credit due to limited or non-existent credit history, BNPL can act as a stepping stone into the credit system.

## Percentage of respondents who agree with the following statements regarding BNPL legislation



# The State of Play for BNPL Providers Post-Legislation

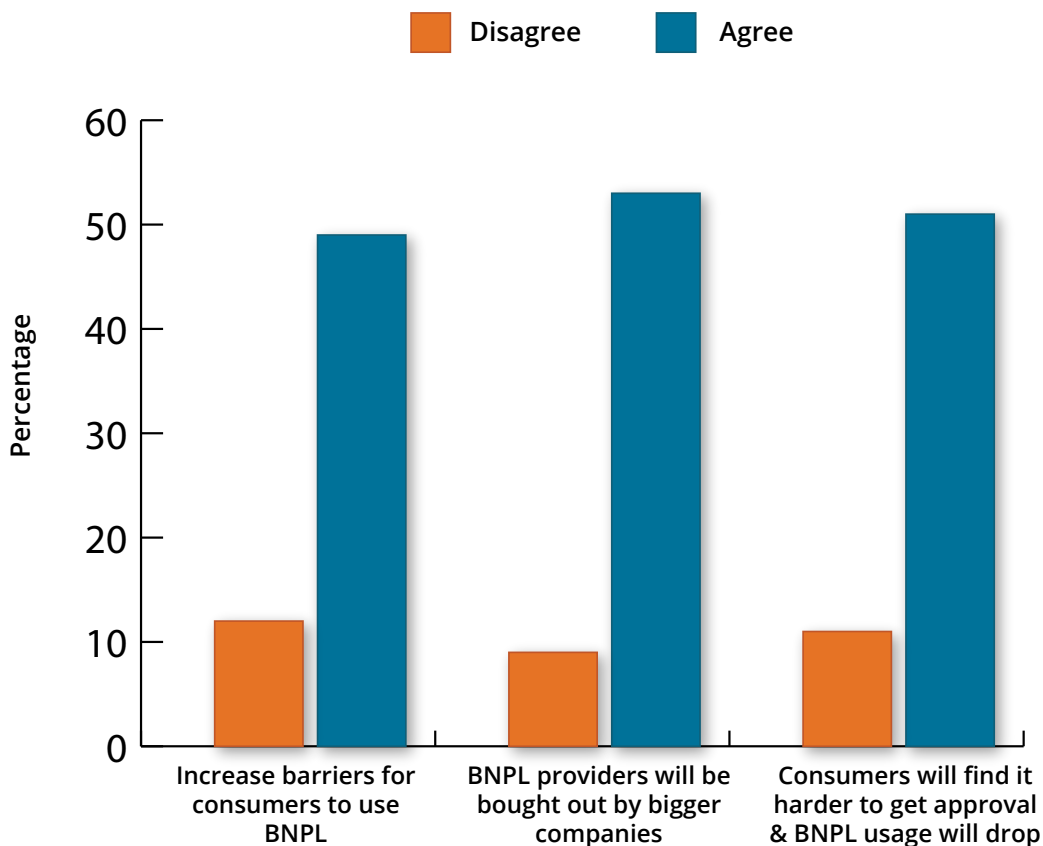
## What merchants believe are the challenges of BNPL reforms

While two-thirds of respondents agree that reforms would encourage more merchants to adopt BNPL, there was less certainty about how reforms will impact customer sales. When asked if demand for BNPL will stay the same, 42% of respondents believe it will, while 34% disagree.

If it becomes harder for customers to get approval to use BNPL, 51.5% of respondents envisage usage dropping. Nearly half of the respondents were concerned that legislation would increase barriers for consumers to use BNPL, and 46% believed it would cause a loss of momentum in using BNPL.

Over half the respondents agreed that reforms might lead to the closure of some BNPL providers, while banks and more prominent BNPL companies will buy smaller BNPLs and dominate the market. If a global brand enters the market, 56.5% of respondents agree it will gain traction over local BNPL brands.

## What do you believe are the challenges of BNPL legislation?



# Merchants expect these themes to emerge in the post-reform BNPL landscape

We asked our survey respondents to consider the future of the BNPL industry after legislation is introduced. These four themes emerged:

**Theme #1:** There is an opportunity to increase the purchase value size responsibly

**Theme #2:** 100% of merchants want better service and fees

**Theme #3:** Brandtrust in data security needs a reboot

**Theme #4:** It's time to diversify to unlock new revenue streams.

## Theme # 1

# There is an opportunity to increase the purchase value size responsibly

Merchants told us the number one reason they are attracted to BNPL is its ability to increase the average cart size, with buyers willing to spend more when they know they can split up payments to manage their cash flow better. In times of economic uncertainty, paying off large purchases in smaller instalments over time can help consumers manage the spending and saving constraints of their tighter budgets.

Merchants are also attracted to BNPL for its new customer appeal and ability to make larger purchases more affordable, both crucial factors in increasing sales volumes. They are less interested in using BNPL to build customer loyalty or encourage impulse buying.

As legislative reform strengthens confidence and trust in the BNPL brand, more consumers may be ready to expand their purchases with BNPL and boost their cart size. Supporting this growing user base will require lenders to design propositions that appeal to different categories and consumer segments. Using data and risk analytics to identify profitable micro-segments of customers allows lenders to increase the purchase value size responsibly to the right consumers.

### Reasons BNPL appeals to merchants in ranking order of importance:

- 1 Increase average sale size
- 2 Attract new customers
- 3 Make larger purchases more affordable
- 4 Higher conversion rate
- 5 Decrease cart abandonment rate
- 6 Improve customer experience
- 7 Build customer loyalty
- 8 Pass on chargebacks to BNPL provider
- 9 Encourage impulse buys

## Theme # 2

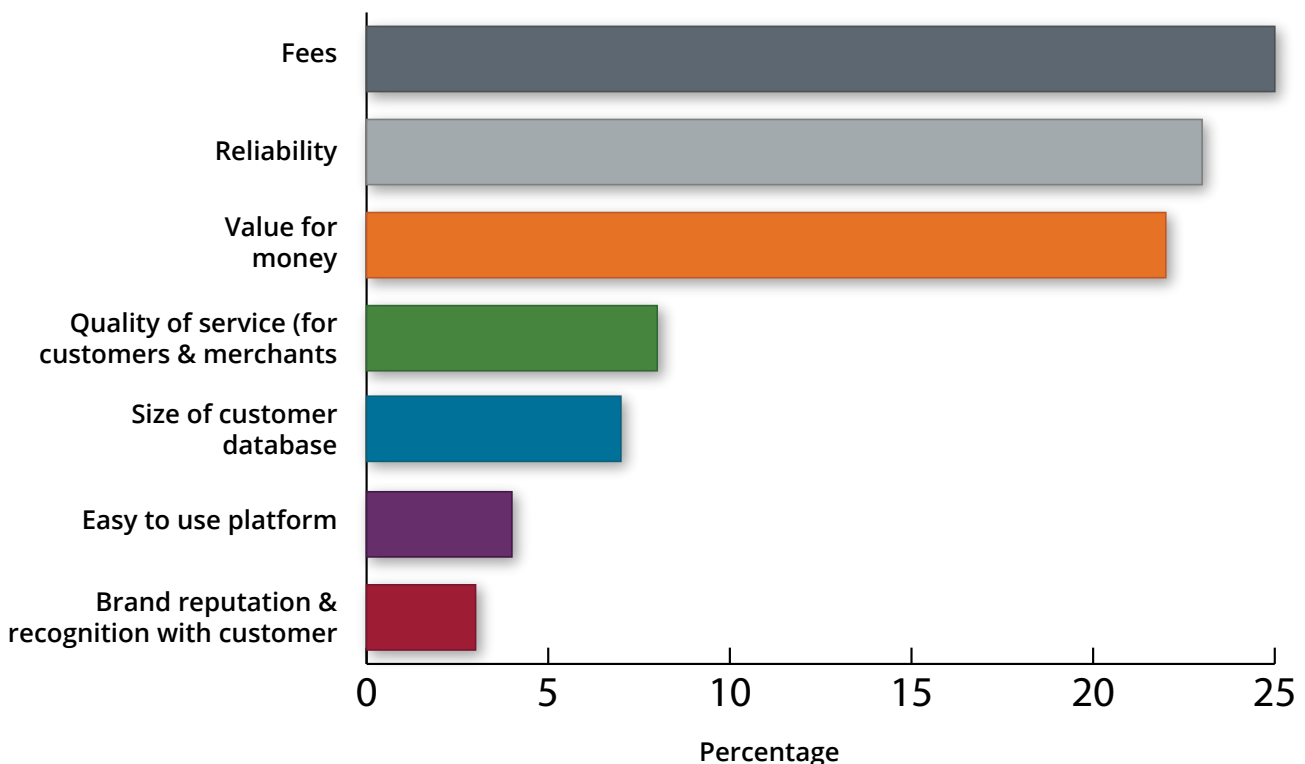
# 100% of merchants want better service and fees

When merchants select a BNPL provider, our survey showed that fees and service top their priority list. When asked about their biggest concerns with BNPL providers, it was a similar theme: 55% wanted improved service, 49% wanted flexibility in fees, and 47% wanted better packages.

Also important are other functional factors like reliability, value for money and quality of service for both customers and merchants. We learned that merchants place less value on marketing capabilities and technical processes like integration with point-of-sale systems and e-commerce platforms due to the assumption that these processes are already taken care of.

As BNPL providers look to build and strengthen their relationships with small and mid-sized merchants, comprehensive business firmographics and credit data can help lenders offer category-specific value propositions. Using data segmentation, BNPL providers can find trustworthy merchants with the right economics to partner with. Sustained profitability is more achievable with service delivery models that provide value and reliability at the right price.

### Top 7 Most Important Features Merchants Seek in a BNPL Provider



## Theme # 3

# Brandtrust in data security needs a reboot

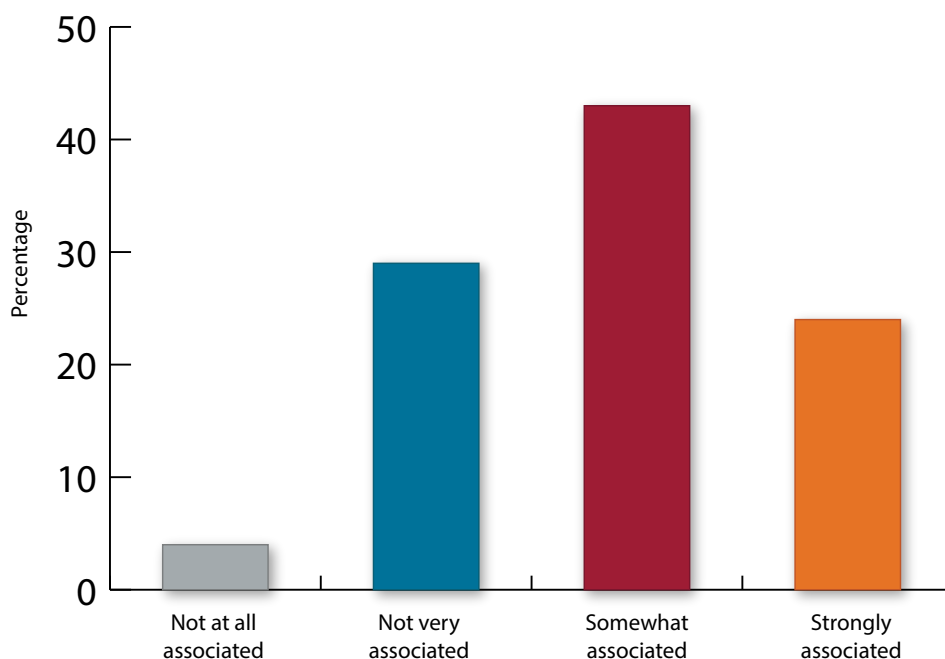
Today, more than ever, customers want fast-approval digital systems and for these systems to protect their personal information. Yet trust in BNPL safety and security is lacking at a time when data breaches, identity theft and fraud are growing problems across e-commerce. In our survey, only 23.6% of merchants 'strongly associated' BNPL with safety and security, 42.8% considered it to be 'somewhat associated', and 29.4% found it 'not very associated'.

Given this low trust perception with data security, legislative reforms open the way for BNPL to become synonymous with data protection while maintaining a low-friction experience. Consumers and merchants will favour trusted BNPL providers who are for the prevention of fraud, responsible lending and consider the best interests of their users. Lowering customer hesitation towards BNPL can drive user loyalty and profitability.

To create trust more effectively, lenders can demonstrate to regulators that they have appropriate safeguards in place against fraud, data loss and consumer defaults. Here data assets coupled with technologies like machine learning and artificial intelligence can be extremely helpful in confirming the identity and assessing the affordability risks of users.

Credit and alternative data assets, for example, can provide highly predictive measures of payment risk across the entire customer journey, helping to forecast delinquency, reduce second-pay default rates and identify creditworthy prospects. And the use of digital ID verification and risk scoring in fraud prevention can detect abnormal login or account activity and enable fast approve/decline decisioning for seamless onboarding.

### Do you associate BNPL with safety & security in payments?



## Theme # 4

# It's time to diversify to unlock new revenue streams

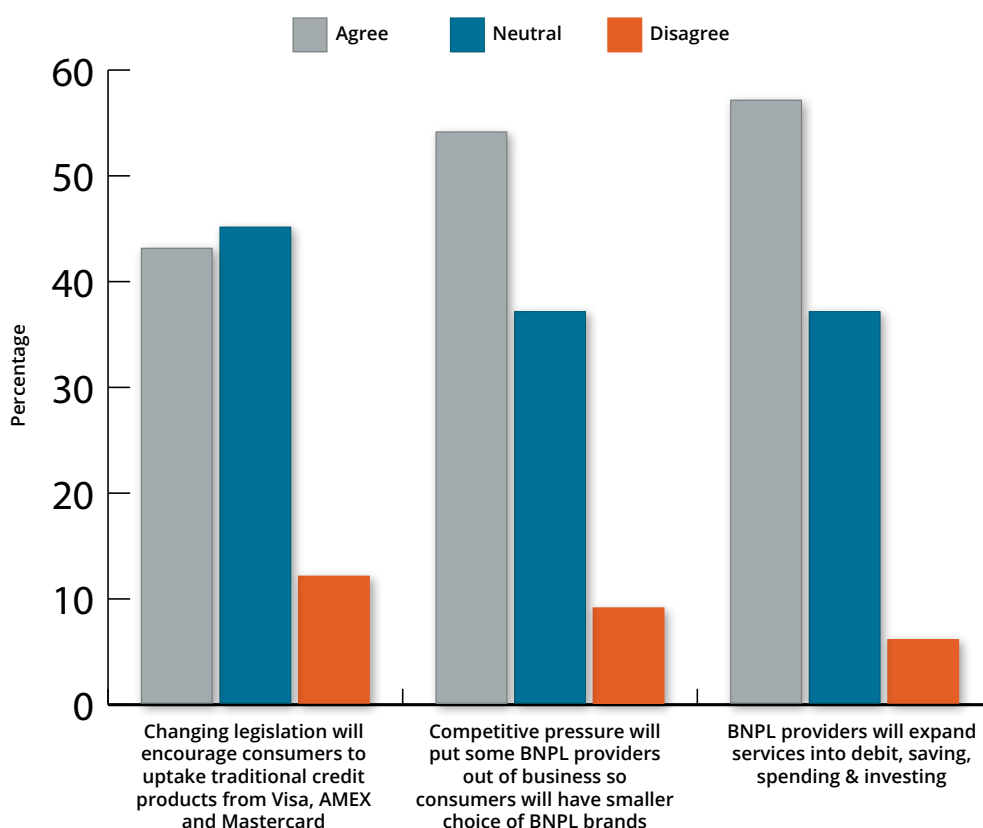
As consumer preferences evolve and short-term financing demand increases, innovation beyond a one-size-fits all approach will be a key growth driver. Merchants perceive players in the BNPL market who can challenge the status quo and meet customer needs will be the leaders of tomorrow. 57.2% of respondents in our survey predict that BNPL will expand into new areas of saving, spending, debits and investing.

As lenders diversify to unlock new revenue streams, having a holistic view of the market and target audience is beneficial. Using advanced data and analytics to gain insights into consumer behaviours, BNPL providers can better identify customer lifetime values, life stages, next-best product for cross-selling and upselling and other valuable indicators of growth opportunities.

While developing and diversifying their services, BNPL providers can strengthen their contribution to customers' financial education and literacy. For the segment of the population previously excluded from mainstream credit, BNPL platforms can provide budgeting tools that, if appropriately used, can assist to manage finances and stretch limited funds a little further.

When asked whether BNPL will enable greater financial inclusion for consumers over the next 12 months, 53% of merchants agreed it will. An increase in consumer financial health and inclusion can bring greater spending potential.

### How much do you agree or disagree with the following statements in relationship to how Buy Now Pay Later usage will evolve over the next 12 months?



# Summary

Despite the challenges that lie ahead for BNPL, the future is promising for players who deliver on the needs of their ever-evolving customer base. Merchants in this survey have said that once the stronger protections of legislation are enacted, the new confidence with BNPL has the potential to attract new users, increase buying power and create long-term value.

For a brand that began by delighting customers with convenience, the future growth of this sector may well depend on its ability to build customer confidence, trust and loyalty. Increasing safeguards against fraud, helping customers live their financial best and minimising the risk of delinquency will be crucial to BNPL embracing the best interests of its users.



**There is an opportunity to increase the purchase value size responsibly**



**100% of merchants want better service and fees**



**Brandtrust in data security needs a reboot**



**It's time to diversify to unlock new revenue streams**

# Equifax BNPL Solutions

## Supporting BNPL growth while promoting responsible lending with positive customer outcomes.

Powerful data-driven BNPL solutions that help you make more informed lending decisions, reduce fraud, lower operational costs, support frictionless digital interactions and develop more profitable transactions.

### ✓ Prevent Consumer Fraud

Provide a safe digital credit experience where fraud risk is assessed instantly and accurately without disrupting your customer's point-of-sale experience.

### ✓ Prevent Merchant Fraud

Strike the right balance between accurately vetting fraud risk and maintaining a smooth onboarding process for new merchants.

### ✓ Mitigate Default Risk

Protect against the risk of non-payment by better assessing your customer's repayment ability and finding consumers who share characteristics with your best customers.

### ✓ Nurture Loyalty

Identify and target specific audiences to better tailor your offerings and connect with buyers across a diverse product range.

### ✓ Improve Consumer Financial Health

Champion financial wellness and tap into a market segment of consumers who may otherwise have been denied credit.

### ✓ Balance Responsible Lending with Smooth Onboarding

Make accurate credit assessment decisions to provide customers with services that meet their financial needs and verify identity in seconds for low-friction onboarding.

### ✓ Account Manage for Profitability

Proactively manage your portfolio risk and engage with customers throughout the loan lifecycle to reduce the risk of late/non-payments.



**1899**

Company  
Founded



**\$5.1B**

2022 Revenue



**14,000**

Employees



**24**

Countries

**Equifax maintains data, worldwide,  
on more than:**



**820M**

Consumers



**91M**

Businesses



**6,600**

Employer  
Contributors

# Point of Sale | ID verification | Credit check | Account Management | Maintain Customers | Manage Recovery

Equifax powers the world with knowledge so that people can live their best life.

- ★ Useful information you can trust
- ★ Better decisions you can act on
- ★ Insights integrated into your workflow.

## Supporting - Australian consumers and businesses



Consumers



Small  
Businesses



Mid to Large  
Businesses

## Leveraging - deep data assets and expertise across key domains



Income & Employment  
Verification



ID &  
Authentication



Fraud



Analytics



Collections

## Servicing - multiple industries



Financial  
Institutions



Credit  
Unions



Fintech



Telco



Auto



Government



Insurance



Mortgage

Connect with our sales team today to find out how we can partner with you to accelerate your success in the BNPL market.

Get Started Today