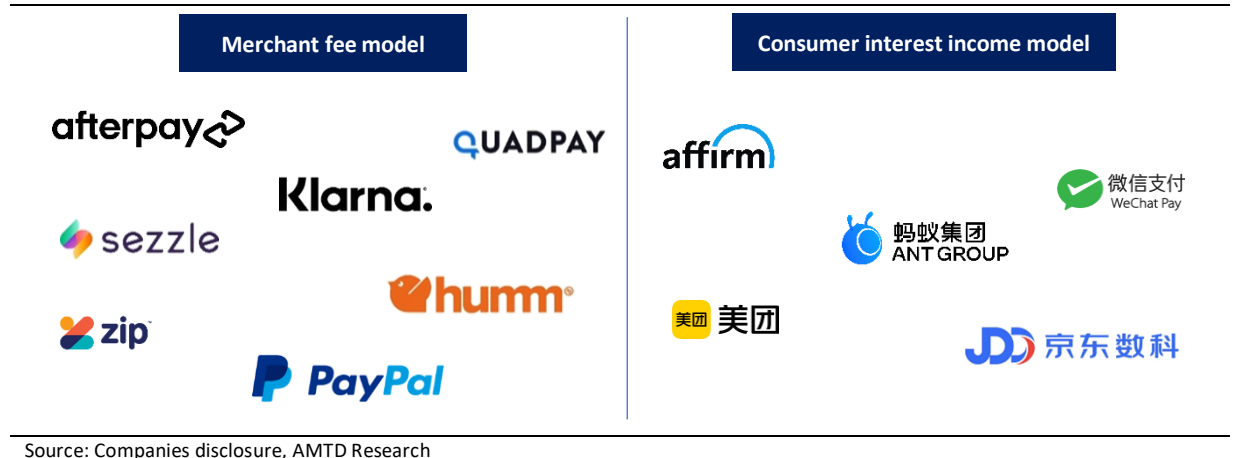




Highlight of this issue – Deep dive into the Buy Now Pay Later market

Figure 1: Two typical BNPL revenue models: Merchant fee model vs. Consumer interest income model



Source: Companies disclosure, AMTD Research

Buy Now Pay Later – the hottest vertical in FinTech space

Buy Now Pay Later (BNPL), point of sale loans that allow consumers to fund their purchase by installment payments, gained tremendous momentum in 2020. BNPL company Affirm has listed its shares at US\$49 on Nasdaq, and the share price rocketed by 98% on the first day, lifting its market value to US\$23.6bn. The company just completed a US\$500mn Series G round in Sept 2020 with a valuation of around US\$5bn. Australian BNPL pioneer Afterpay's stock price has surged 12x since the beginning of the pandemic. Swedish Klarna's valuation tripled in 6 months to US\$31bn after the US\$1bn venture funding round in March 2021 and became the largest FinTech unicorn in Europe. FinTech giants and traditional financial institutions are actively joining the race; these include PayPal, Mastercard, Chase, Fiserv, Razer, etc.

BNPL services gained popularity during Covid-19: from online to offline, from young people to older generation

Increasing ubiquity of BNPL services amid pandemic. With Covid-19 placing more financial pressure and banks reining in credit to control risks, BNPL services gained tractions for its easy, instant, and pure online experience. Pymnts' November survey showed that 48% of BNPL users would not purchase without the BNPL option. Afterpay's global underlying sales surged from AUD2.6bn in 1Q20 to AUD 4.1bn in 3Q20, and its number of annual active customers doubled from 5.1mn in 1Q20 to 11.2mn in 3Q20.

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We have witnessed two important trends in BNPL sector:

- 1) **BNPL going in-store.** BNPL providers such as Afterpay and Sezzle expanded their BNPL offerings into brick-and-mortar shops in 2020. As of Sept 2020, 36% of Afterpay’s merchants offered in-store BNPL options in Australia and New Zealand.
- 2) **Age cohorts shift.** Older generation is catching up with BNPL. According to Afterpay, Baby boomers’ (aged 57-75) BNPL purchases recorded a robust growth of over 75% in July 2020, the highest growth among all age groups. However, Millennials (aged 25-40) remained the dominant force of BNPL services as reported by major BNPL providers, including Affirm and Ant Group.

According to Coresight Research’s Oct 2020 survey, Afterpay, Affirm, QuadPay are the three most popular BNPL providers in the US.

Why do consumers and merchants chase after BNPL: extra credit line, cost, cash flow management
Consumers are choosing BNPL options for various reasons:

- 1) **Extra credit line – A supplement or alternative to bank credit:** More than half of BNPL users have seen their credit card limits decreased in 2020 – Banks have strict credit scrutiny, while BNPL providers offer speedy approval of credit at the time of purchases;
- 2) **Cost control – Avoiding paying high interests of credit cards:** The average interest rate for credit card accounts were 16.61%, according to US Federal Reserve report in Feb 2020, while BNPL services usually have a lower interest rate or are even interest-free;
- 3) **Cash flow management – Paying by installment to fit in monthly budget:** It is interesting to find that 80% of BNPL users said they always paid the bills in full and on-time, according to Cornerstone. Those users choose to pay later to better manage their cash flows.

For merchants, offering BNPL option is a method to increase **consumer conversion** and **encourage impulse purchases**. BNPL services help **increase average ticket size** and **boost overall sales**.

Two typical BNPL revenue models: generated from merchant vs. consumer

- **Merchant fee model:** Under this model, BNPL providers mainly generate revenues from the merchant side, which are the differences between consumers’ payment and the amount BNPL providers pay to merchants. E.g.: Afterpay, Klarna, PayPal, Sezzle, etc.

Figure 2: Merchant fee model: Purchases are generally split into 4 payments with a payback period of 6 weeks

	Afterpay	QuadPay	Klarna Pay Later in 4	PayPal Pay in 4	Sezzle
Interest rate	0%	0%	0%	0%	0%
Down payment	≥ 25%	25%	25%	25%	≥ 25%
Installment payment frequency	Every 2 weeks	Every 2 weeks	Every 2 weeks	Every 15 days	Every 2 weeks
Payback period	6 weeks	6 weeks	6 weeks	45 days	6 weeks
Overdue charge (US\$)	\$10 (a further \$7 added 7 days after the due)	\$7	up to \$7	Vary by state	\$10
Ticket size (US\$)	\$0-1,500	\$35-1,500	\$35-1,000	\$30-600	\$50-2,500
Merchant fee rate	3.90%	Not disclosed	\$0.30 + up to 5.99% (ave. 2.1%)	\$0.30 + 2.90%	5.60%
Payment processor	Afterpay	QuadPay	Klarna	PayPal	Sezzle

Source: Companies disclosure, AMTD Research

- **Consumer interest income model:** Under this model, BNPL providers charge both merchant fees and interests from consumers. Merchant fee rate will be higher for low APR products. For on-balance sheet loans, BNPL providers record interest income; as for loans sold to bank partners, BNPL providers receive a servicing revenue. E.g.: Affirm, Ant Huabei, JD Baitiao, etc. Late payment fees, reschedule fees and other transaction-related fees are charged under both models. Consumer interest income model products usually have a longer payback period and higher credit limits with no down payment required.

Figure 3: Consumer interest income model: Longer payback period, higher purchase cap, usually no down payment required

	Affirm	Ant Group Huabei	JD Digits Baitiao	Meituan Yuefu	WeChat Pay Fenfu
Interest rate	0-30%	14.94%- 15.86%	6%-14.4%	12%	14.6%
Down payment	0	0	0	0	0
Installment payment frequency	Every month	Every month	Every month	Every month	Every month
Payback period	3/6/12 months	3/6/9/12 months	3/6/12/24 months	3/6/12 months	≤ 10 months
Overdue charge (US\$; RMB)	\$0	18.25%	10.95%	18.25%	21.90%
Ticket size (US\$; RMB)	\$0-17,500	¥500-50,000	¥10-15,000	¥300-3,000	¥0-20,000
Merchant fee rate	5.50%	Not disclosed			
Payment processor	Third-party vendor	Alipay	JD Pay	Meituan Pay	WeChat Pay

Source: Companies disclosure, AMTD Research

POS integration and virtual card are the two critical technologies in BNPL

There are two key technologies for the two different use cases in BNPL sector:

- 1) **Point of sale integration**, usually offered for integrated merchants:
 - Online checkout system consolidation: 1) Platform plug-in, to integrate with high traffic ecommerce platforms; 2) Direct API, to integrate into merchant's own infrastructure, designed for full control across front-end and back-end systems; 3) Mobile app integration software development kit, designed for a mobile web browser or application.
 - Offline checkout system consolidation: For in-store payments, BNPL providers have to support multiple payment mechanisms, including mobile wallets, bar-codes, virtual cards and so on, with consideration of occasional return, online orders, etc.
- 2) **Virtual card technology**, with which consumers could use BNPL services at any marketplace.

BNPL providers in general use machine learning and AI technology to evaluate user credit and assess risks, and cloud and blockchain to improve security. Most of BNPL providers have edge payment processing technology but they still partner with payment processors to enable stable and comprehensive payment processing.

News of the week

13 Jan 2021

BNPL

Affirm

Affirm stock price nearly doubled in Nasdaq debut

Affirm's shares ended their first day of trade at US\$97.24, a 98% pop from its IPO price of US\$49, and its market cap reached US\$23.6bn. It raised US\$1.2bn in the offering, with the pricing coming in above the original target range of US\$41-44. The company listed its shares on the Nasdaq Global Select Market under the symbol AFRM on 13 Jan. It most recently raised a US\$500mn Series G round led by Durable and GIC in September 2020. (Source: [TechCrunch](#))

11 Jan 2021

Lending

Walmart

Walmart to create FinTech startup with Ribbit Capital

Walmart will launch a FinTech startup with Ribbit Capital targeting the underbanked population. Walmart plans to develop unique and affordable financial products for its employees and customers. The startup will be majority-owned by Walmart, and Walmart may acquire or partner with other FinTech companies. Walmart has been offering financial services including Walmart Credit Card, Walmart MoneyCard, check cashing, money transfers, installment financing and so on. Ribbit Capital has rich experience in FinTech investment, with its portfolio including Affirm, Robinhood, Credit Karma, etc. (Source: [Bloomberg](#))

10 Jan 2021

Digital bank

Revolut

Revolut filed for UK banking license

Revolut has applied for a UK banking license to offer FSCS-protected deposits and lending services for customers. It was granted a European banking license by the Bank of Lithuania in 2018, but in the UK has operated as an FCA authorized e-money institution. The UK banking license will allow Revolut to provide full-service current accounts with essential products such as overdrafts, loans and deposit accounts. The banking license would provide every customer in the UK with £85,000 of cover from the Financial Services Compensation Scheme. (Source: [The Times](#))

8 Jan 2021

Lending

SoFi

SoFi nears deal to go public via SPAC

Online lender SoFi is nearing a deal to go public through a merger with SPAC, Social Capital Hedosophia Holdings Corp V – a blank-check acquisition company led by venture capital investor Chamath Palihapitiya. The deal would value the SoFi at US\$8.65bn, including US\$2.4bn in cash, encompassing US\$1.2bn from a confirmed private placement, US\$805mn in funding from the SPAC's balance sheet, and additional funds from a prior investment into SoFi closed last month led by T. Rowe Price. SoFi was valued at US\$4.3bn pre-money in the last US\$500mn PE funding round in May 2019 led by Qatar Investment Authority. (Source: [Reuters](#))

8 Jan 2021

Digital bank

Simple

Digital bank Simple is being shut down

Digital bank Simple is being shut down and customer accounts will be moved to the parent BBVA USA. In Nov 2020, PNC agreed to buy the US unit of the Spanish giant BBVA at US\$11.6bn. Founded in 2009, Simple was acquired by BBVA at US\$117mn in 2014, continuing to operate as a standalone business, and at that time it had around 100,000 users. (Source: [TechCrunch](#))

7 Jan 2021

BaaS

Mambu

Mambu raised €110mn in Series D funding round, hitting €1.7bn valuation

Banking-as-a-service platform Mambu raised €110 million in Series D funding round, bringing the company's valuation to €1.7bn. The round was led by TCV, and included participation from Tiger Global and Arena Holdings, as well as existing investors Bessemer Venture Partners, Runa Capital and Acton Capital Partners. The fresh capital will be used to expand to new markets like Brazil, Japan and Mexico and to double its staff numbers to 1,000. Launched in 2011, Mambu helps FinTechs and incumbent build modern banking and lending platforms easily. (Source: [Pymnts](#))

7 Jan 2021

Digital bank

Green Dot

Green Dot launched mobile bank GO2bank

Green Dot launched a mobile bank, called GO2bank, targeting the two in three Americans who are unbanked or using expensive methods like cheque cashiers, money orders, and bill pay services to access the cash they need. GoBank has no overdraft fees, no penalty fees, no minimum balance requirements, and no required monthly fees. GO2bank customers will get up to US\$200 of overdraft protection, access to their pay or government benefits early, high-interest savings, and the chance of a credit card with no credit check. (Source: [Green Dot](#))

6 Jan 2021

Payment

Grab

Grab's FinTech arm raised US\$300mn

The Southeast Asian ride-hailer Grab's FinTech unit, Grab Financial Group, has raised over US\$300mn in fundraising led by South Korea's Hanwha Asset Management. Launched in 2018, the financial arm offers services including micro-investment, payment, insurance, and loans for merchants, consumers, and drivers. It is the first time that Grab has raised money from outside investors for the unit. Grab still owns a majority stake in Grab Financial Group. The move suggests that the financial arm may go public separately from its parent company. (Source: [The Information](#))

6 Jan 2021

Expense mgmt

Divvy

Expense management firm Divvy raises US\$165mn

Divvy, an American company offering businesses a combination of free expense management software and corporate credit cards, has raised US\$165mn at a valuation of US\$1.6bn. The Series D investment includes new investors Hanaco, PayPal Ventures, Whale Rock, Schonfeld, and participation from previous backers NEA, Insight Venture Partners, Acrew, and Pelion. Divvy's centralised platform helps businesses manage their spend with real-time visibility and control over their budgets. Divvy reported a 500% increase in monthly sign-ups since March 2020. (Source: [TechCrunch](#))

5 Jan 2021

Payment

Gojek/Tokopedia

Gojek, Tokopedia in US\$18bn merger talks

Indonesian ride-hailing and payments firm Gojek and e-commerce leader Tokopedia are in advanced talks for a US\$18bn merger ahead of a potential dual listing in Jakarta and the United States. The deal would be the biggest yet for Indonesia. The firms are currently discussing merger ratios. The two Indonesian home-grown tech pioneers have common investors, including Google, Temasek Holdings Pte and Sequoia Capital India. Tokopedia is also backed by Alibaba. Financial services would be a particular focus, as Tokopedia is a major shareholder in digital payment service OVO and owns millions of shoppers, while Gojek operates GoPay. (Source: [Bloomberg](#))

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