

# Low friction, compliant BNPL on-boarding options and the impact of regulation



# Experian are the world's leading global information services company

We use data to help people and organisations to assess, predict, plan and protect themselves

- We are custodians of data on **over 1.3 billion people** globally
- We have a diverse and growing **range of clients and geographies...**
- ... and **multiple and growing** uses for our data
- We are **the market leader** in this growing market...
- ... and we are securing **new types of data, and finding new uses** for our data



# At Experian **we believe**

Everything should be **valuable, personal and efficient**

Journeys should be **friction and risk free**

Everyone should have **fair access to credit**

**Everyone** should be included

**Digitisation can transform businesses**, from processes to people – outputs to outcomes

Innovation should be an ongoing **strategic driver for success**

“Data can improve lives, and analytics can make the complex simple. Together they have the instrumental power to transform societies.”

Jonathan Westley  
Chief Data Officer, Experian UK&I

# Experian; how we help



## BUSINESS-TO-BUSINESS

**We help organisations and businesses to grow their businesses and engage with their customers.**

**We can help them to:**

- lend effectively, manage their customer accounts, manage credit risk and minimise the risk of fraud;
- better understand and communicate with customers;
- enhance their customer's experience with them;
- better understand their markets and allocate resources.

**They benefit from easier and faster access to more information, more accurate results, and more precise decisions.**



## CONSUMER SERVICES

**We help people and families to:**

- better access financial services;
- understand and improve their financial position;
- better protect against fraud and identity theft;
- know that their data is correct, and
- learn more about credit.

# Why understanding your customers is important and how this can be used to drive compliant journeys



**The UK economic downturn** is putting increased pressure on people's finances. Inflationary pressures are affecting people's finances in different ways which means better insight is required to understand risk



**Understanding a consumer's financial well-being and future outlook** is essential to manage risk, protect the vulnerable and deliver better outcomes



**Consumption of credit is changing.** Growing desire amongst UK consumers to access 'credit' at the point of purchase and the growth in embedded/Retail Finance reflects this



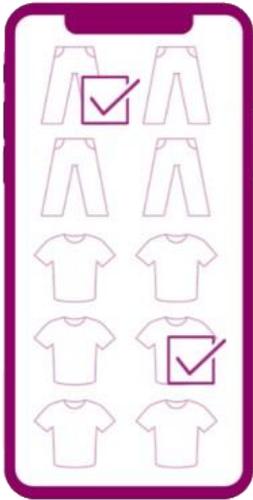
**Regulatory focus on the role of BNPL** and measures being deployed to understand consumer's credit and affordability risk. BNPL must demonstrate its ability to adequately assess affordability to avoid consumer detriment

**Embedded Finance providers need to:**

- **Identify the market opportunity** by understanding which customers are most likely to respond to a particular offer
- **Assess risk** accurately amongst customers to better inform who you should acquire
- **Put the customer at the heart of everything you do.** Identify vulnerability, treat customers fairly and responsibly. Ensure you adhere to CONC rules and minimise conduct risk to avoid fines
- **Understand the best ways to deploy different data sources** by optimising the use of bureau data to drive friction free lending journeys and to introduce Open Banking once a value exchange has been identified



# Buy Now Pay Later: What is it and how does it work?



## Step 1

Customer shopping online, on BNPL app, or offline selects items



## Step 2

Customer goes to checkout and chooses BNPL



## Step 3

Customer logs in or registers with BNPL provider (unless already logged in)



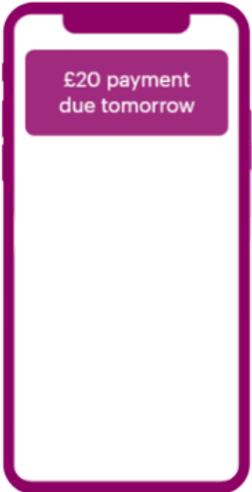
## Step 4

Customer is approved for BNPL, is shown terms of purchase, and agrees to payment plan



## Step 5

Customer receives goods



## Step 6

Customer is prompted to make repayments before each instalment is due



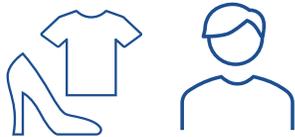
## Step 7

Customer makes repayments until purchase price fully repaid

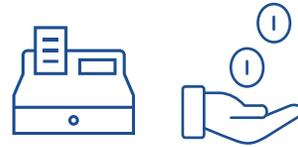


# How does BNPL create value for consumers, lenders and merchants?

## CONSUMER



## MERCHANT



## PROVIDER



**+ VS**

Quick, easy access to goods/services with cost of payment spread in instalments.  
Zero interest on the loan

Increased sales, higher order value, differentiated online customer experience

Drives sales growth, generates revenue from merchant fees & builds customer loyalty

**- VS**

Multiple transactions with different due dates means customers can lose track of their spending.

Merchants becoming more reliant on BNPL. Growth in providers and uncertainty of outcome can create confusion at the checkout

Tight margins leave little room to carry debt, profitability dependant on critical mass and ability to differentiate

# Buy Now Pay Later: How do we support onboarding?

- Credit data for 92% of applications
- 90% of customer identities confirmed in real-time
- Use of CATO data to evidence affordability for 95% of customers
- Increase accepts up to 10% using bureau data

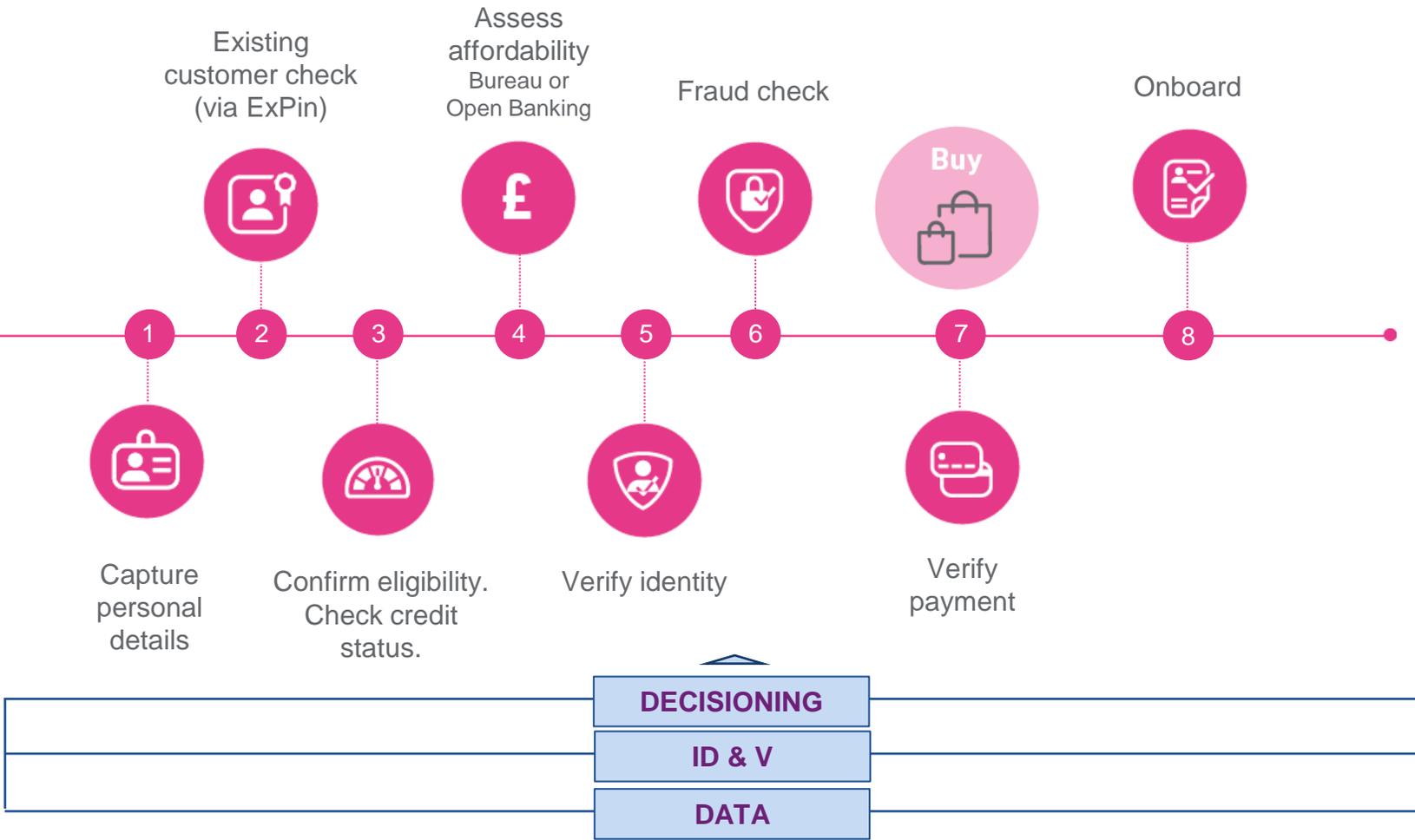
Profile for targeted retail offers (eligibility lite)



Existing (Merchant) customer



New customer



# Woolard, HMT Consultation & Impact of Regulation?



## Credit Brokers

Merchants offering BNPL options will not be considered as Credit Brokers as doing so and making them all apply to the FCA for authorisation would be disproportionate.



## Credit Agreements

It is highly likely that the government will legislate on the form and content of agreement but will tailor this given the lower risk of BNPL products.



## Creditworthiness

The proportionate regulation of agreements will include the application of the FCA's rules on Creditworthiness and Credit files.



## Arrears, Default & Forbearance

CCA requirements in relation to Arrears, defaults and forbearance i.e. Financial Difficulty will be applied to all BNPL agreements.



## FoS

It is expected that consumers will be able to make complaints to the FOS in relation to the conduct of BNPL providers.

## Financial Promotions

BNPL products will fall under the Financial Promotions rules and this also applies to the merchants that they partner with meaning all promotions need to be approved

## Improper Execution

Section 61 of the CCA will apply to BNPL products. This means that a BNPL product will not be properly executed unless done so in the prescribed form and content and signed as such

## Credit Files

The paper states there will be no regulatory obligations on how they use or report to the CRA's but there is a clear steer that reporting will be an 'important' part of the provision of BNPL products

## Section 75

Section 75 of the CCA will be applicable. This will allow claims against the creditor where there has been a breach or misrepresentation by the supplier

## Dear CEO

The 'Dear CEO' letter highlighting the rising cost of living, its associated impact on customers and expectations of the FCA was sent to the BNPL providers despite many of these organisations not yet being regulated

# Our data & insights provide a better understanding of risk

Our Retail Finance and BNPL partners are taking advantage of changes in customer preferences to build customer loyalty and increase revenue

Experian's insights provide:

- **Granular insight** on a customer's financial status
- **Underpin fair, transparent and responsible** treatment of customers
- **Demonstrate and validate a lender's accountability** for responsible decision-making, and evidence this in line with internal and external standards
- **Identify and reduce the risk of fraud** when onboarding a customer

## Transparency

A mature and evolving credit scoring service that accurately reflects the behaviour of UK consumers with bespoke model builds aligned to brand requirements

## Affordability

Access to bureau and Open Banking affordability metrics that you understand exactly what a customer can afford through the compliant use of CATO data

## Vulnerability

Identify potential vulnerabilities such as excess gambling, reliance on HCST lending, healthcare commitments, over-reliance on benefits using bureau data and Open Banking

## Resilience

Balance insights which evaluate customers' financial management and ability to absorb shock



# Buy Now Pay Later: Fast Facts

## RAPID GROWTH

>17m users

£10bn+ spend

## POPULAR

37% of UK  
Adults

49% online shop  
aged 25-34

## SPEND

Average spend is  
comparable to credit  
cards

£75-£100

## CREDIT RISK

66%

People under 45 want  
BNPL transactions to  
contribute to their credit  
score

## CUSTOMER SATISFACTION

NPS = 30

Credit cards = 6  
Overdrafts = -15

## MERCHANTS

20k retailers  
offer BNPL

76% see it as a growth  
driver  
46% saw uplift in order  
value



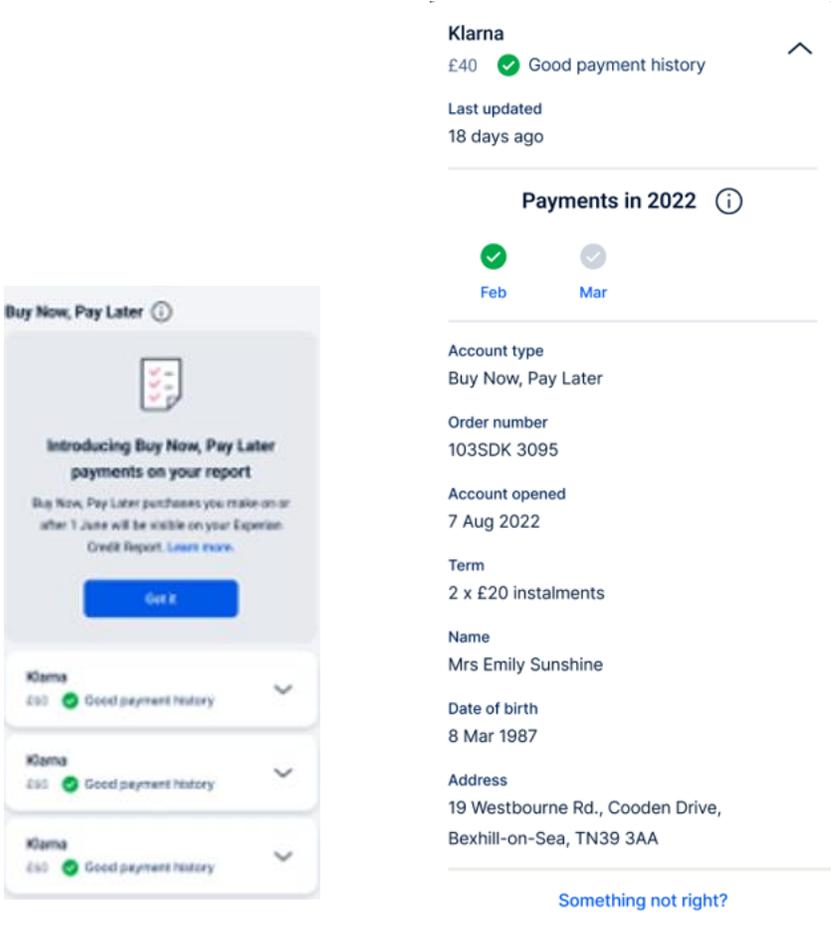
# BNPL Data – How will it be viewed?

Payment data is being made available, reciprocally, to all lenders that contribute to Experian's bureau. It is being provided in two formats:



Detailed transaction information for each BNPL account/transaction.

Summarised and aggregated transaction data formatted into a set of easy-to-use, decision ready metrics.



**Klarna**  
£40 Good payment history ⬆

Last updated  
18 days ago

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**Payments in 2022** i

Feb Mar

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Account type  
Buy Now, Pay Later

Order number  
103SDK 3095

Account opened  
7 Aug 2022

Term  
2 x £20 instalments

Name  
Mrs Emily Sunshine

Date of birth  
8 Mar 1987

Address  
19 Westbourne Rd., Cooden Drive,  
Bexhill-on-Sea, TN39 3AA

[Something not right?](#)

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**Buy Now, Pay Later** i

**Introducing Buy Now, Pay Later payments on your report**

Buy Now, Pay Later purchases you make on or after 1 June will be visible on your Experian Credit Report. [Learn more.](#)

[Get it](#)

**Klarna**  
£40 Good payment history ⌵

**Klarna**  
£40 Good payment history ⌵

**Klarna**  
£40 Good payment history ⌵

Each transaction will also be made available for display within our Credit Expert product

