

The Business of Buy Now, Pay Later and Point-of-Sale Lending

How payment options can improve liquidity and customer experience
for your business



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Why payment options matter

Payment methods are constantly evolving and so are consumer expectations. Accepting multiple payment methods has historically been critical for business success and payment flexibility expectations are quickly evolving. Payment methods influence where consumers choose to do business.

Using loans to make purchases, whether a vehicle or a new roof, is not a new concept. However, there has been explosive growth in the consumer lending space with new services making the process easier than ever. Consumers can seamlessly finance purchases at the point of sale, and the businesses that offer these integrated financing options to their customers are reaping the rewards.

Offering financing at the point of sale as part of an integrated, seamless payment transaction is already the norm for online transactions, and soon may be expected for more in-person transactions, as well. Offering customers the ability to pay over time via “buy now, pay later” (BNPL) is the fastest-growing trend in the payments space. Globally, the BNPL market is valued at more than \$32 billion and that number is expected to grow to \$3.68 trillion by 2030.¹

As with any growing trend, BNPL and point-of-sale (POS) lending can be confusing. Misconceptions related to managing the various offers, transaction and approval speeds, the role of businesses versus lenders and how businesses benefit from these tools all are common confusion points.

The larger picture still rings true: offering consumers the ability to pay for products and services on their terms is increasingly a purchase-deciding factor.

¹ <https://www.globenewswire.com/en/news-release/2022/7/26/2486253/0/en/Buy-Now-Pay-Later-Market-Size-is-projected-to-reach-USD-3-68-Trillion-by-2030-growing-at-a-CAGR-of-45-Straits-Research.html>

Defining the landscape

The origins of installment loans can be traced back to credit card offerings in the mid-1900s that introduced the concept of buying a product or service today and paying for it at a future date. Over time, that concept evolved from layaway programs where customers make payments over time to infomercials that sold customers the idea of paying for a product in four easy installments.²

While the function of these products has been around for quite some time, it's the digital nature of alternative payment options, a term known as embedded finance, that has grown.

What is buy now, pay later?

BNPL is a broad term often used interchangeably to reference both short- and long-term loans initiated at checkout. Lending providers that offer both BNPL and point of sale (POS) lending products, as we define them here, often do so without differentiation. This document will seek to define the most common aspects of each product.

BNPL offers consumers a check-out option to split a single transaction into smaller payments over a relatively short period of time. BNPL transactions tend to be less than \$800 and fall into the category of “pay in four” where consumers split a single transaction into four bi-weekly installments typically paid over the course of six weeks. BNPL offers may be activated by consumers during a transaction (typically integrated into a merchant’s point-of-sale system) or after a transaction (typically a feature of the consumer’s existing credit card). Transactions are generally offered at 0% APR with only soft credit checks for identity verification.

Businesses pay a fixed percentage (% of total order value) called a merchant discount rate (MDR) and receive funds for the full purchase amount minus fees to the businesses’ bank accounts within one to three days.



Buy Now, Pay Later:
checkout options to split a single transaction into smaller payments over a relatively short period of time.



Point of Sale Lending:
consumers can split transactions into installments with more budget-friendly, longer-term repayment plans.

What is point of sale lending?

POS lending allows a consumer to split a single transaction into installments, but in contrast to BNPL, POS lending purchases tend to be larger with longer repayment terms.

POS lending transactions often involve higher average sales tickets and longer-term loans with 3- to 60-month repayment plans. Because POS lending is a regulatory distinction for lenders, there is more rigor applied than the BNPL “pay in four” option and could include deeper credit verification and interest fees (APRs), depending on the length and terms of the loan.

Similar to BNPL, POS lending transactions are fully funded to businesses within 72 hours, even though installments are paid by consumers to the lender over a longer term.

Although these transactions tend to be larger with more rigorous credit checks, consumers should still receive lending approvals within seconds or transactions may be abandoned, dropping sales conversion rates.

Businesses that have higher average transaction values (\$800+) are more suited for POS lending offerings. While these lending products can be integrated into everyday retail or service purchases, they are more prevalent in field services categories like HVAC repair, custom window installations, medical or dental procedures or even vacation planning, where transaction sizes are more suitable.

² <https://www.consumerfinance.gov/about-us/newsroom/director-chopras-prepared-remarks-on-the-release-of-the-cfpbs-buy-now-pay-later-report/>

Evaluating the Benefits of BNPL and POS Lending

Both lending products offer considerable value to businesses. Consumers who purchase products through one of these embedded finance options tend to convert more often and spend more per transaction, whether a splurge on fine jewelry or a home renovation project. These solutions help businesses improve cash flow, especially for service providers such as roofing and home repair services, who often may find themselves self-funding repayment plans for valued customers and must wait for full payment upon work completion.

Buy Now, Pay Later Versus Point of Sale Lending

	BNPL	POS Lending
Typical Transaction Range	\$100-\$800	\$500-\$25,000
Consumer Repayment Period	4 payments over 6 weeks	Monthly installments; 3 months to 60 months
Application Time	30 to 60 seconds	60 seconds or less
Credit Verification	‘Soft’ credit check	‘Hard’ credit check ³
Fees to Consumer	Typically 0% APR	Varies by provider. Consumer pays rates from 0% APR for shorter loan periods or may have an APR charged for longer-term loan
APR %	0% for 4-6 payments	Can be 0% APR for shorter loan periods but varies by provider
Merchant Funding Speed	1 to 3 days (full transaction amount)	1 to 3 days (full transaction amount)
How Consumers Engage	Integrated at point of sale	Integrated at point of sale

³ ‘Hard’ credit checks typically occur on transactions of \$2,500 or more but this varies by lender.

Shattering myths and misconceptions

Understanding the truth about BNPL and POS lending

Myth: My business is too small to offer installment lending for purchases.

Fact: This type of financing done at the time of transaction isn’t just for large corporations. Small businesses, as well as service providers such as building contractors, floor installers and even dentists, can successfully offer their customers installment lending.

Myth: I’ll be waiting months to receive payment for sales and will have to manage installment payment collections.

Fact: Businesses are not involved in loan collection since they are not the creditor. Instead, business owners are paid upfront, within 1-3 days, for the full transaction amount. The customer repayment plan is then managed by the lender.



Meeting consumer demands

Myth: I'll have to train my staff to explain financial terms because my customers may not understand this payment option.

Fact: These lending products are already popular and are becoming more common every day, with most consumers having used or considered them in the past. It is the lender's responsibility to spell out a loan's terms and conditions to consumers prior to a transaction's completion.

Myth: As a business owner, I'll be forced to guess which customers are most creditworthy.

Fact: The lender decides who qualifies for which installment plan at which interest rate, not the business owner. You can offer the option to all customers, without risk to your bottom line.

Myth: It sounds complicated and will likely require more devices on my counter.

Fact: Offering embedded financing is a plug-and-play solution that works with your existing checkout or invoicing solutions and won't require additional equipment.

Myth: It is too costly to add installment lending to my payment options.

Fact: Point-of-sale lending does indeed come with associated costs. However, the minimal cost of fees is often outweighed by sales that otherwise would not be completed. How much money is walking out the door because you don't have installment lending as a payment option?

Installment loans allow consumers flexibility while maintaining healthy spending habits. Embedded in the checkout process, the loan applications are fast, transparent and can make expensive purchases more affordable. Consumers like the certainty of knowing their payment amount and terms at the time of sale, with easy and instant access to credit.

What the numbers tell us about consumer spending

- ✓ About 60% of embedded finance users are leveraging installment options at least once every three months.
- ✓ Most users prefer the structure to credit cards.
- ✓ More than half are spending \$250 or less per month with these products.
- ✓ Users pay for about 3.8 items, totaling \$883 in installment debt.
- ✓ Installment loans have grown 10-fold from 2019-2021, according to CFPB data.
- ✓ 45% of consumers opt for financing at the point of sale as it increases spending power and offers an option to buy out-of-budget items.
- ✓ It empowers consumers and increases purchase flexibility.
- ✓ The fastest growing consumer lending segment, trends show it is here to stay.

60%

of embedded finance users are leveraging installment options at least once every three months.

45%

of consumers opt for financing at the point of sale as it increases spending power and offers an option to buy out-of-budget items.



How your business is impacted

Why POS lending matters to business owners

Consumers anticipate embedded finance options, and if your business isn't offering installment payments, they may search out a competitor that does. Offering a point-of-sale lending product benefits customers and business owners. Statistics reveal that with point-of-sale lending:*

- ✓ Checkout conversion rates are as much as 30% higher.
- ✓ Increases upsell rates for upper-tier products.
- ✓ Lowers customer acquisition costs.
- ✓ Increases customer loyalty.
- ✓ Results in fewer abandoned sales.
- ✓ Increases average order size by 30% to 40%.
- ✓ Provides customers more options to pay.
- ✓ Results in improved cash flow for businesses.

30%

increases checkout conversion rates



increases average order size by 30% to 40%



increases customer loyalty

For business owners who already offer debit and credit cards as payment choices, embedded financing provides additional value to existing customers and can be the differentiator that attracts new customers.

* <https://paymentstrategy.usbank.com/payments-transformation/>

What you need to know

Ensure the payment products you are offering are beneficial to you and your customers.

You want to meet consumer demand with a simplified payment opportunity without causing confusion. At the same time, offering point-of-sale lending has never been more convenient for business owners of all sizes and types. Together, you can increase your business value, earning more customers and sales.

Installment lending offers a way to provide a payment option without negatively affecting your cash flow. If you produce customer invoices now, you are a creditor. With embedded finance, you can offer the lending product customers want without the risk of nonpayment or the hassle of accounts receivable.

All things considered, there are manageable risks to embedded finance. Because POS lending is a credit offer, not every customer will be approved for every finance offer. As a business owner you should not over-promise and be ready to pivot back to traditional payment options for those customers. Rewards often outweigh risks, but it's up to you to understand the process and any associated fees to determine if installment lending will benefit your business.

“

Business owners need to investigate whether this product has value to their business. Would your customers buy more and spend more if you offer point-of-sale lending options? We know the answer empirically is yes.

ROB SEIDMAN

Head of product, BNPL/POS Lending, U.S. Bank.



Which service is ideal for your business?

How can POS lending improve my bottom line?

By providing more affordable payment options for your customers, you benefit from an increase in sales, volume, repeat customers and average order size to grow your business.

“It’s been proven over and over that when affordable payment options are offered, total sales increase by 20 to 30%,” says Seidman. “Point-of-sale lending also benefits business owners with higher average order values, and less abandoned purchases.”

Depending on your business type, point-of-sale installment lending leads to increased sales in three scenarios:

Scenario A:

Kevin’s air conditioner is on the fritz in the middle of a blistering summer, and he is looking at a \$1,500 repair cost. With point-of-sale installment lending, Kevin could be offered payment plans of \$125, \$250 or \$500 per month depending on the length of the loan. It’s about meeting customers’ needs and allowing them to choose the payment plan that works best for them. Affordability becomes part of the sale.

Scenario B:

Amanda needs dental surgery and having the option to pay for the procedure over a few months with minimal or no interest fees makes the procedure more affordable and allows her to have the surgery now.

Scenario C:

Kerry has budgeted for basic flooring but is now considering a higher-quality flooring choice. The option to pay over a longer period, provides a path to assess the budget and make the best decision for the project.

Several embedded finance products are essentially shopping apps with the goal of convincing customers to start their shopping journey within that online store.

Is your goal to grow internet sales or are you in search of a lending partner that supports and grows your business holistically? Are you interested in a transparent consumer experience with reasonable fees commensurate with the value proposition being offered?

If so, your ideal partner may be a bank or financial institution that can offer full-service solutions for your business and your customers.

Consumers should have affordable payment options whenever and wherever they shop. At U.S. Bank, we want to help businesses improve profitability while ensuring transaction options are fair, transparent, easy and affordable.

Why a bank or financial institution?

Banks can offer a more consolidated and streamlined management experience because they provide a full suite of financial services, including payment processing. Adding a POS lending product offered by financial institutions with scale also decreases risk.⁵

⁵ <https://www.pymnts.com/buy-now-pay-later/2022/sezzle-zip-deal-shows-bnpls-consolidation-trend-may-continue-in-2022/>

Other benefits of partnering with a bank that should be considered include:

- ✓ The financial stability of the bank itself and the federal lending regulations that must be adhered to.
- ✓ Who owns the balance sheet – banks own their own balance sheets, service the point-of-sale loans they offer and may be less likely to sell loan portfolios to investors.
- ✓ A holistic integration of the bank’s offering to business owners along with customer servicing. It’s end-to-end from the business owners’ perspective.
- ✓ A bank that is both the merchant acquirer and issuer of the loans may be able to offer significant pricing advantages.
- ✓ Banks pay business owners for transactions in full, soon after purchase.
- ✓ Banks have relationships with consumers and businesses, and lending money is part of that model.



Predicting the future

What the future holds for BNPL and POS lending

Over the next few years, embedded finance is forecasted to grow by 10-15 times, growing to \$3 trillion globally in annual gross merchandise volume by 2025.⁶

Consumers have quickly adopted many forms of installment lending because of ease and flexibility, a trend that is here to stay. Currently, more than half of consumers say they are interested in using payment plan options, and 41% say they would want a credit option issued by a bank to help them manage and keep track of their spending.⁵

To date, non-bank providers have captured most of the value being created through point-of-sale financing as banks have been slow to respond to consumer demand.⁷ This is quickly changing. In the coming months, banks will rapidly enter the embedded finance sector to give consumers more secure and regulated payment options.

⁶ <https://www.cbinsights.com/research/report/buy-now-pay-later-outlook/>
⁷ <https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete>.

\$3 Trillion

Projected annual merchandise volume by 2025

>50%

consumers are interested in using payment plan options

41%

consumers want credit options issued by a bank

Understanding the regulations

Today, there are few regulations regarding short-term embedded finance loans. However, with unmitigated growth and billions of dollars in play, U.S. and international regulatory agencies are beginning to act.

Among the top concerns is the fear that without regulation, consumers may inherit increasing debt, their personal information may be collected and used to increase the likelihood of future purchases, and current loan terms may not be explicitly clear to consumers.⁷

What will change?

It is expected that more regulations will be placed upon the embedded finance industry in the not-too-distant future. In the U.S., the Consumer Financial Protection Bureau (CFPB) has noted that future regulations would:

- ✓ Ensure lenders adhere to current consumer protections in place for credit card issuers.
- ✓ Ensure lenders are subjected to appropriate supervisory examinations.
- ✓ Identify data surveillance practices to avoid.
- ✓ Address how the industry can develop appropriate and accurate credit reporting practices.
- ✓ Take steps to ensure the methodology federal regulators use to estimate household debt burden is rigorous.⁷

What does this mean for my business?

There are many factors to consider in choosing the right provider for your business. You will want to ensure a safe, secure, and viable solution that creates a frictionless experience and reflects your commitment to your customer base, converting browsers into buyers and repeat customers.

If your average transaction falls under \$300, short-term BNPL options may be a good fit for your customers. It is a quick, easy and convenient option at checkout, which does not require the same credit checks needed for more expensive purchases.

If your customers make larger ticket purchases, from \$300 to up to \$25,000, a bank or financial institution offering longer-term POS lending solutions may be your best option. Customer purchases underwritten by financial institutions offer fast and competitive payment plans that are already subject to current regulations.

Many of the non-bank BNPL providers are playing catch-up to offer the same consumer protections that currently apply to banks and financial institutions. Additionally, banks are beginning to offer lending programs at the point of sale with a goal of ease, flexibility and convenience. Depending on your business model and the average purchase price of your products or services, there are good options that benefit both you and your customers.

Where should I start?

Installment lending at the point of sale is a rapidly evolving financial product, with both increased consumer demand and increased regulations on the horizon. Consumers wanting flexible finance options to live their desired lifestyle with affordability and convenience are driving that behavior. Choosing the right financial partner for your business is crucial to future success. Choose a partner you trust with products and processes that benefit your business and your customers.



Email infoposlending@elavon.com to learn more about how to make meaningful moments happen for your customers.

⁷ United States, Consumer Financial Protection Bureau. "Buy Now, Pay Later: Market Trends and Consumer Impacts." 15 September 2022.



Learn more

About U.S. Bank

U.S. Bank, the fifth largest bank in America, serves millions of customers locally, nationally and globally through a diversified mix of businesses: We have been recognized for our approach to digital innovation, social responsibility and customer service, including being named one of the 2022 World's Most Ethical Companies and Fortune's most admired superregional bank. Learn more at usbank.com/about.

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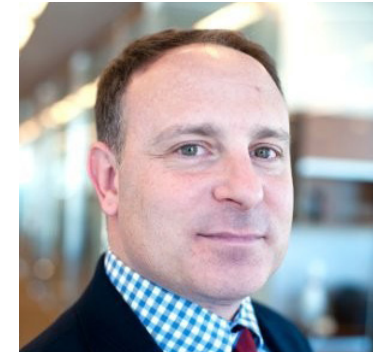
Elavon is owned by U.S. Bank and provides end-to-end payment processing solutions and services to more than 1.3 million customers in the United States, Europe and Canada. As the leading provider for airlines and a top five provider in hospitality, healthcare, retail and public sector/education, Elavon's innovative payment solutions are designed to solve pain points for businesses from small to the largest global enterprises.



Mia Huntington

Executive Vice President, Head of BNPL and POS Lending at U.S. Bank

Mia Huntington leads the BNPL and POS lending business for U.S. Bank and is responsible for delivering customer-centric solutions, leveraging the unique advantages financial institutions can provide through innovative payments technology. With more than 20 years of financial services experience and a background in integrated commerce, Mia understands the need to enable solutions that are simple for merchants to implement while delivering compelling consumer experiences.



Rob Seidman

Head of Product, BNPL and POS Lending at U.S. Bank

Rob Seidman is the head of product for BNPL and POS Lending for U.S. Bank. He oversees the vision and strategic development of new products for BNPL and POS Lending, driving merchant benefits and best in class consumer experiences. Rob has more than 20 years of experience delivering digital products, innovative strategies and superior customer experiences for leading financial institutions and fintechs globally.



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