

A big year for BNPL

What does the new CFPB inquiry mean for the wider BNPL industry in 2022?

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Over the last few weeks, since the announcement of the Consumer Financial Protection Bureau's (CFPB) probe into five BNPL fintech firms, BNPL stock prices have crashed.

The CFPB has requested information from Affirm, PayPal, Zip, Klarna, and Afterpay to understand their best practices around data collection and determine what consumer protection laws should apply.

The CFPB, with other entities, analyzes the national consumers' debt-to-income ratio on a macro level and aims to increase the oversight of consumer financial products to avoid irresponsible debt.

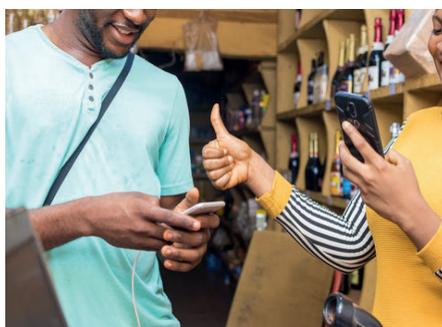
Providers of credit products consistently report their activities so regulators can keep their fingers on a nation's consumer credit pulse, but BNPL services have been left out – until now.

It was just a matter of time before the regulators stepped in

Since the pandemic started, BNPL methods have gained momentum, and the BNPL industry is expected to grow 10 to 15 times larger over the next three years.

And with the proliferation of non-regulated BNPL products, at least from a credit perspective, the regulators are in a position where they have very little visibility into the amassing of consumer debt.

Since BNPL usage is omitted, regulators are looking at a flawed database when trying to assess and direct the debt-to-income ratio of the population. Therefore, the CFPB's action did not come as a surprise to most people in the industry; the US consumer watchdog simply felt the pressure to act.



Whether you view BNPL as a lending or payments product, it essentially boils down to an issue of risk. What is the risk to consumers and – on a macro level – the economy if not reigned in?

However, there are many different types of BNPL models and providers with varying risk implications and reporting practices.

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Which players will survive the regulatory clampdown?

Banks and traditional lenders are positioned to thrive since they are no strangers to operating within federal and state regulatory frameworks. Fintechs have essentially paved the road for banks that offer BNPL services to scale their offerings.

In fact, this CFPB probe presents a massive opportunity for banks to move into and solidify themselves in the space.

Let us say a retailer reads the news about the CFPB investigation.

If they were considering offering a non-regulated BNPL product through a partner, they might put the brakes on it.

But suppose a bank presented its BNPL program to this same retailer – that is a whole different story.

The bank has its balance sheet, credit-decision methodology, years of financing experience, and is not at risk from a regulator's standpoint.

Giant BNPL companies may also survive since they have likely anticipated this move for quite some time.

Affirm and Klarna have publicly announced that they welcome the CFPB's regulatory efforts while affirming that they aim to provide a fair and sustainable alternative to credit cards. The losers will be the smaller BNPL providers who will suffer severe barriers to entry.

Although it might take the CFPB a while to reach a final conclusion, we will see a seismic shift in the BNPL landscape in 2022 as the ramifications of the inquiry will be felt immediately. **CCR**