by Ryan McDonald, Ben Brown, and Dylan Thom

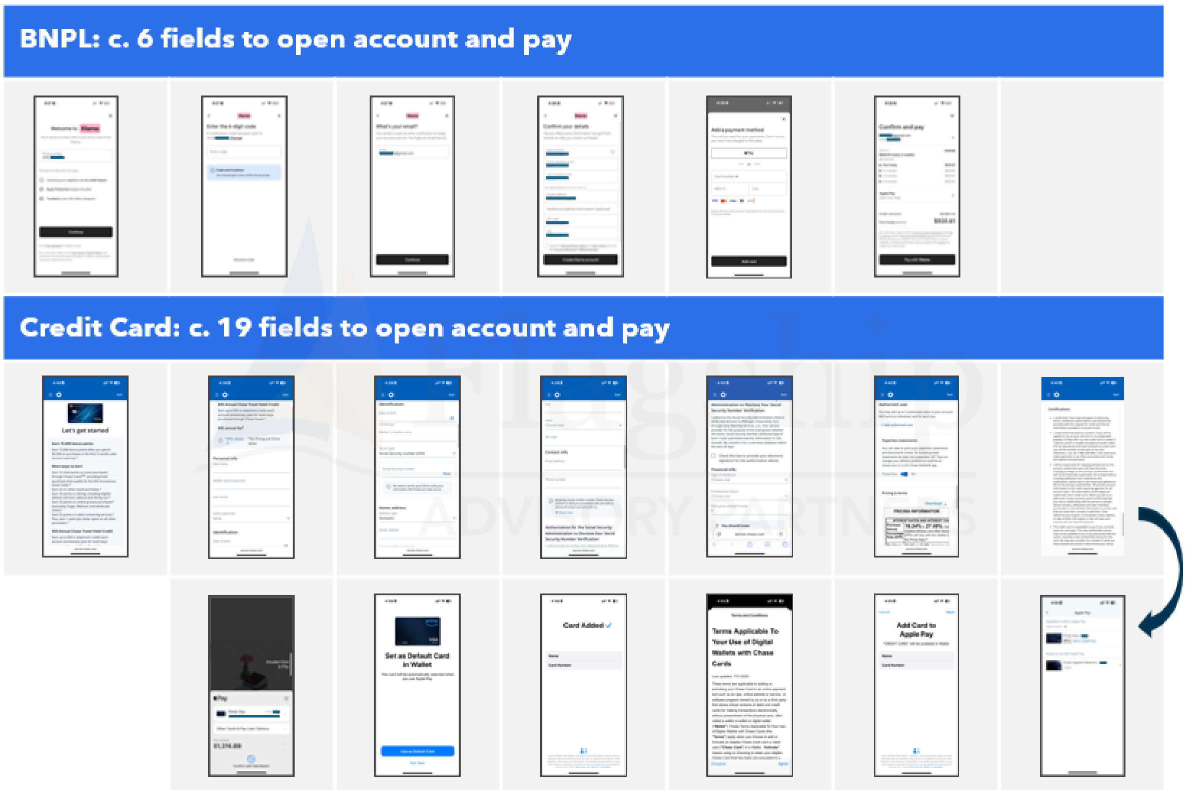
BNPL Landscape & Credit Dynamics

Buy Now Pay Later has moved from being a checkout novelty to becoming one of the fastest-growing forms of consumer credit. In 2025, BNPL originations passed $60 billion in the U.S. and $500 billion globally – with sustained volume growth more than double the rate of credit cards. Retailers love the incremental sales, consumers love the simplicity, and providers love the growth. Credit card issuers and traditional sales financing providers can find lessons in BNPL's success.

Designed for Digital

Customer experience has been an important and visible differentiator for BNPL lenders. Applying for a retail installment loan or credit card has gotten better over the years, but the best credit card issuers still require about twice as much information as BNPL lenders. Companies like Klarna and Affirm use probabilistic identity and third-party data (from data vendors, credit reporting agencies, merchants, and other financial institutions) to prefill forms. With your phone number and email, a BNPL lender has all the information they need to pre-fill your application and make a credit decision in seconds.

Figure 1: Checkout Friction: BNPL vs. Credit Cards



Source: Company Websites, Industry Publications

When necessary, BNPL lenders also do additional identity verification by validating applicants' email and phone number, using open banking tools to log into bank accounts, and using the smartphone's camera to capture a photo ID and video selfie (a liveness check). BNPL lenders have not just innovated by cutting data out of the process; they apply a dynamic approach to collect more information when they need to.

Credit for All

At the heart of BNPL is a fundamentally different approach to underwriting. Credit card issuers are underwriting a persistent, revolving line of credit that could be used for anything a customer wants. Issuers (and other types of consumer lenders) rely on complex models built on first-party (self-reported) and bureau data. BNPL lenders, by contrast, have the opportunity to make transaction-by-transaction decisions on identity, ability to pay, and intent to pay. This enables them to rely on different kinds of data and faster decisioning. These novel practices have enabled tremendous growth and provided BNPL lenders with confidence to lend across the credit spectrum, with good results (in 2023, BNPL charge-off rates were 1.83% in the U.S. vs. 3.49% for credit card issuers).

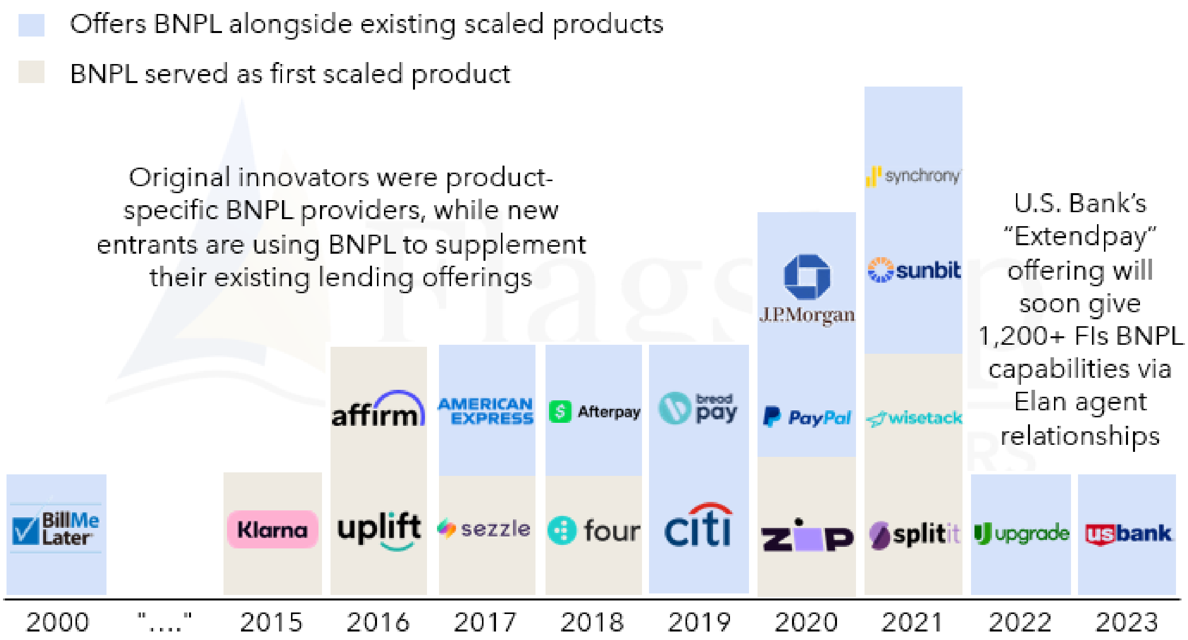
Figure 2: Percentage who use BNPL by Age and Credit Score
(as of December 2024)

Credit Score	18 - 29	30 - 44	45 - 59	60+	All Adults
< 620	31	28	36	20	30
620 – 659	31	31	28	24	29
660 – 719	24	28	25	20	24
> 720	12	12	11	6	10

Source: National Conference on Public Employee Retirement Systems

While the broad accessibility and growth of BNPL is impressive, the resilience of BNPL credit quality has not yet been fully tested. The entire sector has scaled during a benign credit environment with relatively low defaults and steady consumer demand. We have not yet seen how these portfolios perform when net credit losses spike, and that day will inevitably come.

Figure 3: Providers & When They Launched BNPL
(non-exhaustive, coded by BNPL first vs added on)



Source: Company Websites, Program Terms and Conditions, Industry Publications

It would be a mistake to assume BNPL is doomed to fail during a downturn. In fact, BNPL has some real structural advantages over credit cards or personal loans. A revolving card or installment loan balance can linger for years but most BNPL loans resolve in weeks or months. That short duration means providers can adjust exposure quickly when the macro picture changes. If delinquencies rise, approvals can be tightened almost overnight, with losses contained to a narrow window. By contrast, a bank sitting on a portfolio of three-year auto loans, ten-year personal loans, or card receivables with indeterminant duration, has no such agility. This ability to pivot is an underappreciated strength which could allow BNPL providers to ride the eventual tidal shift in credit quality more nimbly than many of their traditional counterparts. This agility could enable BNPL lenders to *gain* market share through the next cycle.

Figure 4: Providers & BNPL Max Term
(non-exhaustive, program max. term length)

Source: Company Websites, Program Terms and Conditions, Industry Publications
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Product Convergence

We are also witnessing the evolution of BNPL beyond its original form: BNPL lenders are providing longer-term loans that overlap with traditional sales financing plans, the largest BNPL lenders have all launched card products, card issuers (including debit card issuers in some cases) are embedding BNPL-like features directly into their products, and A2A schemes outside of North America are incorporating BNPL into their products.

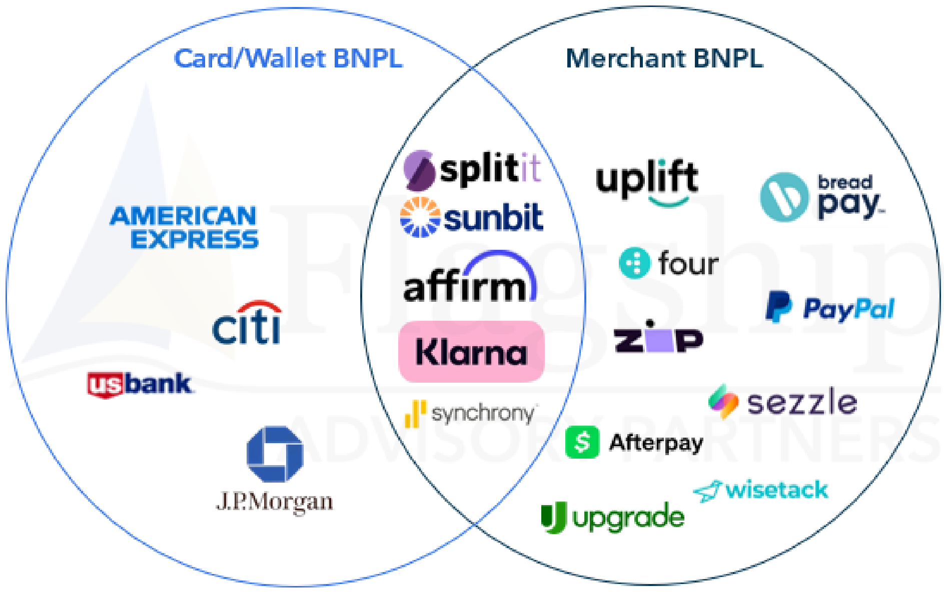
By adding installment plan functionality, issuers are giving consumers the choice of revolving a balance or breaking a transaction into fixed payments. For the consumer, it means flexibility; for the issuer, it means broadening the addressable market to include consumers who may prefer the clarity of installment plans or don't have the credit quality for large revolving lines.

By issuing cards, BNPL providers make their products easier to use across the 175 million merchant locations that accept Visa and Mastercard globally, especially in-store, where BNPL usage today is de minimis. They can also capture everyday spend that consumers don't want or need to finance. Visa and Mastercard have even rolled out new card product types (e.g., Visa Flexible Credential, Mastercard One) to support card programs where some purchases are paid up-front and some are financed over time.

By supporting BNPL/installment credit, A2A schemes (such as Pix and UPI) provide additional purchasing power to consumers who don't have or don't want to use cards -- and create opportunities for banks and PSPs to generate meaningful revenue from payment rails that are otherwise much less attractive than cards.

The competitive implication is that the line between BNPL and credit cards is blurring, and as established issuers incorporate these features into their already ubiquitous card products it may create headwinds for BNPL lenders to continue growing.

Figure 5: Providers, Card/Wallet & Merchant BNPL Crossover
(non-exhaustive, card/wallet initiated vs. merchant initiated BNPL)



Source: Company Websites, Program Terms and Conditions, Industry Publications
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Unintended Consequences

The mass-market adoption of BNPL also raises some challenges for traditional lenders. Underwriting models designed before BNPL assumed that bureau data provided a reasonably complete view of obligations. That assumption no longer holds. Most providers do not report repayment behavior to the credit bureaus, which results in BNPL borrowers appearing less leveraged than they truly are.

As BNPL continues to grow, particularly among lower-credit-tier borrowers, these hidden liabilities may reduce the predictive power of bureau data. A consumer who looks stable under legacy models may, in reality, be servicing multiple installment loans simultaneously. This creates a more optimistic view of credit quality than reality warrants, leaving lenders exposed to higher losses than expected if the credit-loss environment continues trending upward.

A growing number of providers are also beginning to report repayment activity to the credit bureaus, especially for their longer-duration installment plans, which helps close some of the transparency gap that early BNPL models created. FICO announced last year it would explicitly include BNPL data in its FICO Score 10, which it did starting in fall 2025.

Figure 6: Providers & BNPL Credit Reporting
(non-exhaustive, by credit reporting policy)

Source: Company Websites, Program Terms and Conditions, Industry Publications
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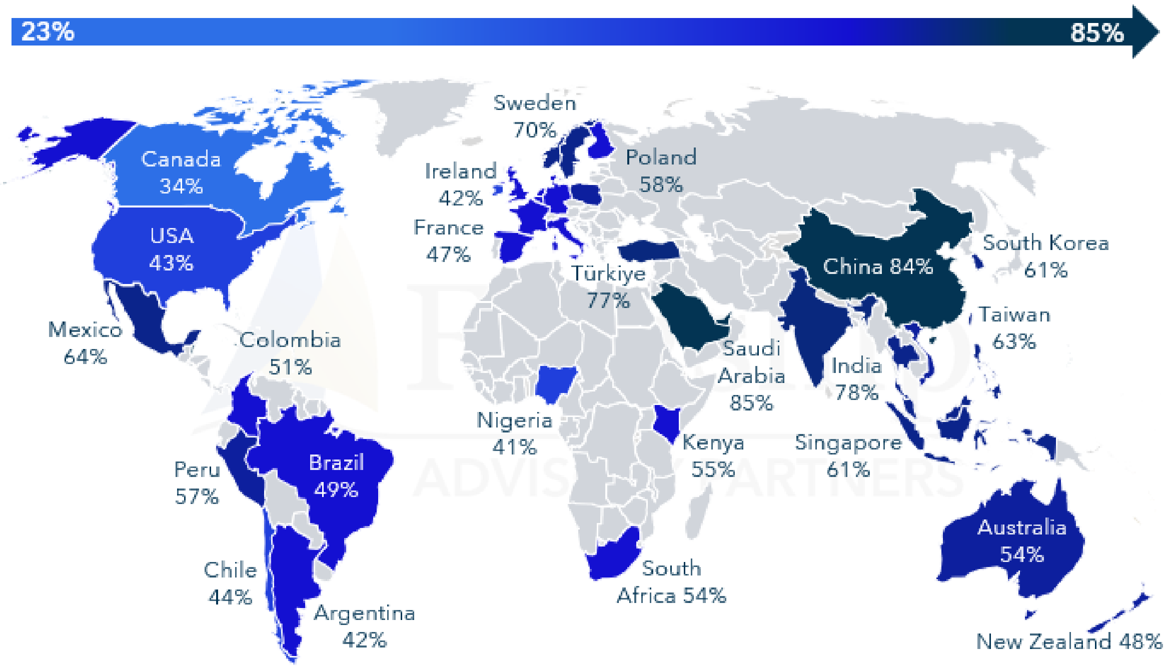
Here to Stay

Looking forward, BNPL is unlikely to reverse course and fade away. If anything, it's clear that BNPL is now a permanent fixture in the payments and lending landscape globally. BNPL seems widespread in the U.S., UK, and Western Europe, but it's actually far more popular in the Nordics (Klarna's home market), the Middle East, and Asia-Pacific. The penetration levels seen in those markets are evidence that there is a long runway for growth in credit-hungry markets like the U.S., which will be achieved through broader adoption, moderate share of wallet gains in e-commerce, and activating BNPL usage in-store for the first time.

Figure 7: BNPL Usage Overview
(Positive response rate to "When buying goods and services, have you used a BNPL service?")



Source: Global Data

We do not believe BNPL will drive wholesale displacement of credit cards in the medium-term future, but issuers should not ignore these products. BNPL's rapid rise should serve as a call to action to credit card issuers to better learn their customer's needs and preferences, reconsider the inherent value of cash flow underwriting to better meet the needs of thin-file customers, and reinvest in UX excellence. For the payments industry, the task is to recognize both sides of BNPL - its vulnerabilities and its strengths – to prepare for a future where installment lending is not a niche alternative to credit cards, but a standard feature of consumer finance.

Please do not hesitate to contact Ryan McDonald at Ryan.McDonald@Flagshipap.com or Ben Brown at Ben@Flagshipap.com with comments or questions.