Boom in BNPL models leads to reinforcement of security in client onboarding

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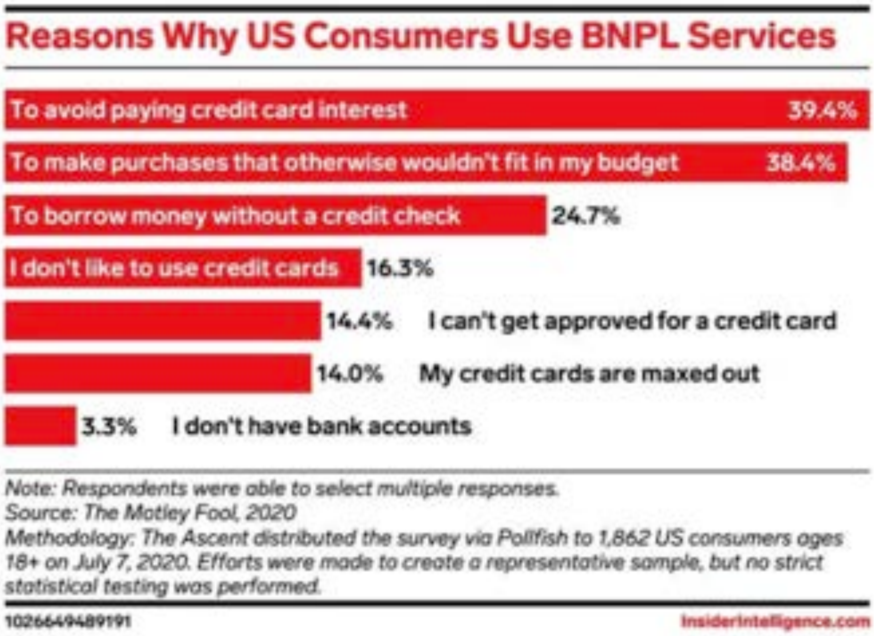
The buy now, pay later (BNPL) model, which is leveraged by the new consumer trends of young millennials, is emerging as an alternative to traditional debt, while creating challenges in the area of identity verification for customer onboarding, according to the U.S. company Preventor, a specialist in this field.

Leveraged by the global e-commerce boom, the BNPL model has gained relevance in the world thanks to a wave of digital consumers who opt for this alternative to finance their purchases in an installment scheme, giving rise to a global industry of about US$100 billion.

According to a survey conducted in 2020, and cited by Insider Intelligence, among the main reasons for the use of BNPL mechanisms among U.S. consumers are to avoid paying interest on credit cards (39.4%) or to make purchases that otherwise would not fit into the budget (38.4%).



Although buy now, pay later is not entirely new, as similar models have been popular in the past, the fact that people can purchase the product instantly and pay in installments, often without having to assume costly interest rates and without having to commit to credit cards, appeals to many consumers.

On the one hand, consumers are satisfied by obtaining their items in advance, while retailers in many cases obtain benefits with BNPL by obtaining better conversion rates in their e-commerce, at the same time they manage to close sales with a higher average ticket than usual.

Preventor analyzes that the pandemic was a trigger for this model among many digital buyers, who overwhelmed with the economic crisis opted for this type of alternative financing, which generated a wave for which many businesses were not yet prepared from their technological infrastructure and much less from the field of security.

The challenges are at all levels of organizations, impacting from the smallest merchants to the largest, which have had to deal with the high flows of these transactions globally. An example of this is Swedish bank Klarna, which pioneered BNPL operations and posted losses of some US$748 million in 2021 due, in part, to the difficulties it faced in mass customer onboarding.

According to the international press, the company added 46 million new consumers to its brand and expanded its reach to new countries, so Klarna's CEO and co-founder, Sebastian Siemiatkowski, projected that they will reach 147 million active users, which could pose additional challenges for the organization.

The global BNPL market

Among the large firms that have adopted this model are, among others, the retail giant Walmart, the department store Macy's or even the e-commerce company PayPal, while on the side of the providers of these solutions there are players such as Klarna and Affirm.

Afterpay, another of the main providers of this service, published a report in association with Coresight in which it explains that the coronavirus pandemic and the high inflation faced by different economies around the world pushed 39% of millennials and generation Z consumers to use more BNPL services.

In line with the above, they project that by 2030 the share of consumers of both generations in retail spending will increase to 48%, so it is key for retailers to focus on taking advantage of the opportunities that are opening up in this segment. This involves "exploring value-seeking solutions such as BNPL and leveraging them as a marketing channel to acquire new customers during this challenging period," the paper notes.

A focus on onboarding

The growth of this market poses challenges for organizations in terms of customer onboarding to ensure that transactions are fully traceable, while at the same time blocking fraud attempts that can generate millions of dollars in losses for businesses that in many cases could be avoided.

Since many of these transactions are not conducted face-to-face, there are associated risks that can be mitigated through identity verification solutions, which integrate rapid responses ranging from personal document verification to biometric facial recognition.

Founded in 2017, Preventor specializes in automating and streamlining the digital onboarding process in cases such as merchants adopting BNPL, allowing to optimize times and complete these tasks in a few seconds, with a customer-centric approach.

These tools are based on flexible workflows which enable organizations to combine different tools according to the profile and dynamics of each organization, offering solutions such as integrated electronic forms, proof of address or electronic signatures.

Continuous monitoring

By 2023, it is expected that so-called synthetic identity fraud in online payments will cause annual losses equivalent to US$48 billion, according to figures released by Experian. This type of attack, according to Preventor, occurs in most cases on the existing customer base, who suffer identity theft in transactions through a combination of real user information with false attributes.

To avoid these situations, Preventor performs all the traceability of the onboarding process, which begins with the full identification of users at the beginning of the relationship by combining different tools, and is complemented with constant monitoring in order to minimize fraud that may occur during continuous operations.

With continuous authentication, the users of these services have more support and the companies manage to reduce fraud throughout the customer's life, generating learning about their habitual behaviors to reinforce their identification strategy with the support of tools adopted by Preventor such as automation.

Adopting a tool that is as secure as it is efficient is crucial in order to reduce abandonment rates in companies in the current digital era, driven by this new generation of consumers who seek almost instantaneous answers to their demands in the onboarding services of financial entities or other sectors such as telecommunications.

The opportunity for those who adopt these tools is ample, given that models such as BNPL's will continue to grow strongly. In fact, it is estimated that this industry will reach a transaction volume equivalent to US$680 billion globally by 2025, as fraud risks become increasingly complex and tools such as automation become critical for customer onboarding.