

CONSUMER RESEARCH

Buy Now, Pay Later

How to tackle the challenges and ever-increasing risk of fraud and scams

SECTION ONE

How to tackle the risks of frauds and scams

Buy Now, Pay Later (BNPL) financing has become hugely popular over the last few years. However, as BNPL grows as an industry, and providers expand their offerings, it is likely to become more of a target for fraudsters.

This report looks at the current state of BNPL, how the benefits for users weigh up against the risks of fraud, and the impact it has across BNPL providers, merchants and banks.



BNPL Providers

For BNPL providers, our research shows that fraud is already a challenge that should be addressed. As more consumers fall victim to BNPL fraud, consumer trust is likely to diminish, leading to a decline in both customers and willing merchant partners in the long run. With only 42% of consumers trusting BNPL providers to protect them from fraud, there is room for improvement.

[Find out why](#)



Financial organizations

The benefits of developing a BNPL position are lucrative for financial organizations, but the risks need to be mitigated. Many financial organizations will be well-versed in robust security, but may lack the streamlined checkout experiences of their BNPL counterparts. With 21% of global consumers citing UX as a reason to use multiple BNPL providers, both security and UX are key to success.

[Find out why](#)



Digital and e-commerce

BNPL brings a host of new revenue opportunities for e-commerce organizations, from greater average basket size to more sales. With consumers willing to blame merchants alongside the BNPL provider for fraud (23% of victims no longer use the retail website where they purchased the goods) it's vital that they apply scrutiny to their potential partners. Focusing on security capabilities is just as necessary as smooth transaction flows. Luckily, both can be achieved.

[Find out how](#)

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 This report is based on research commissioned in 2022 by Callsign



The BNPL boom

BNPL financing is on a significant growth trajectory with benefits for providers and merchants alike. With greater financing options and the ability to pay purchases back in easy instalments (without incurring additional debt), consumers have more avenues of purchase than ever before.

Our research found that globally, 41% of consumers have used a BNPL services. Gen Z and Millennials make up the majority of BNPL users (57% use BNPL services), while Gen X are also avid users with 46% of consumers using the service, indicating that widespread adoption is growing across all under 50s.

What's more, our research found that half (51%) of those who use BNPL services use more than one provider, with almost a quarter (23%) using more than three. Additionally, research from the analyst firm 451 Research (S&P Market Intelligence) found that one in five consumers made a purchase they were not intending to make due to a retailer offering BNPL.

E-commerce and merchant benefits

This not only presents a great opportunity for BNPL providers – with the promise of high adoption and consumers foregoing brand loyalty to sign up to multiple services – but it also benefits merchant and e-commerce businesses.

With more checkout options, merchants are also able to leverage increased sales and easier conversions. So much so that some estimate it to increase rates by 20-30% and lift the average ticket size between 30% and 50%¹.

Banking and BNPL

Given the benefits, it's easy to understand why banks and other financial organizations are now looking at ways in which they can adapt existing offerings or develop new ones to meet this increased demand.

Many banks are seeing how such products provide opportunities for customer retention, acquisition and growth in revenue lines, such as the potential for cross-selling across product lines and building relationships with their merchant base.

¹*Retailers bid farewell to layaway, as shoppers embrace buy now, pay later options.* (2021). CNBC. <https://www.cnbc.com/2021/09/25/why-retailers-are-embracing-buy-now-pay-later-financing-services.html>

SECTION TWO

The BNPL challenge

As with many new innovations, particularly those with high volumes of users and monetary transactions, fraud isn't far behind.

But as the quest for seamless user experience has taken priority, (21% cite it as a reason for using BNPL services), fraud prevention has taken something of a back seat. As the industry grows, this won't be a sustainable approach, as our research shows.

One in eight BNPL users have been a victim of fraud

The figures speak for themselves. Globally, one in eight BNPL users have been a victim of fraud. If we factor in generational breakdowns, those aged between 18-34 are disproportionately more likely to be a victim of fraud (59% - figure 1). And, when the same lens is applied to gender, we also see a considerable shift. While the majority of BNPL users are female (accounting for 58%), 52% of fraud victims are male (figure 2).

Types of BNPL fraud

BNPL fraud is widespread across a number of vectors, as seen in (figure 3). The types of fraud encountered span across synthetic identities (or fake account creation) and account takeover fraud (ATO). When asked about account security, more than three quarters (76%) reuse the same email and password, with 42% admitting to using the same email and password across all providers.

**76%**

of people said they reuse the same password

**42%**

admit to using the same password across **all** providers

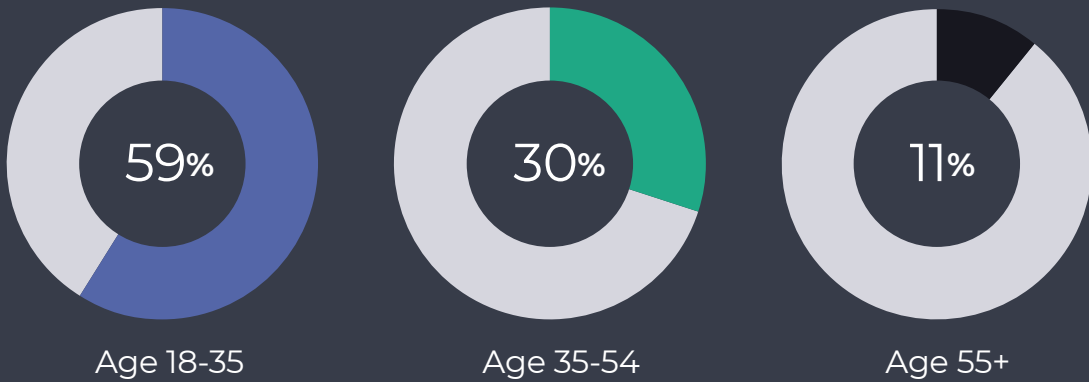


Fig 1. BNPL fraud victims by age



Fig 2. Gender split for BNPL users

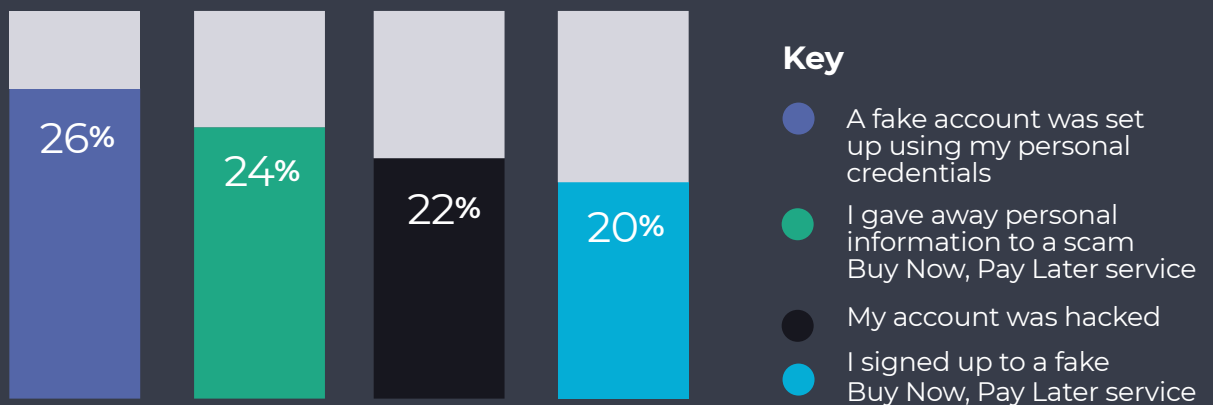


Fig 3 Which of the following best describes the type of fraud you experienced?

Of those who have been a victim of BNPL fraud, almost one in five no longer use any BNPL service. This rises for those aged between 35-54, with a quarter of victims claiming they will no longer use any provider.

The impact of fraud is far-reaching

As our **online scams survey** showed, the consequences of online fraud are more far-reaching than the direct financial impact to the organization. The ramifications from fraud can have a wider impact across entire industries, and result in lost customers.

Of those victims, 20% don't trust retailers as much as they used to and, 23% (almost a quarter) claim that they will no longer use the retail website where they purchased the goods.



23%

claim that they will no longer use the retail website where they purchased the goods

For an industry such as BNPL, getting this right will no doubt lead to long term prosperity. Get it wrong, and the industry is likely to face lower levels of growth and greater scrutiny.

The downstream impact of fraud is far-reaching. With many providers reliant on partnerships with e-commerce organizations, BNPL providers will need to ensure that they are playing a role in supporting and maintaining the reputations of both themselves and any partners. and not opening them up to reputational damage or loss of customers.



SECTION THREE

Building a better BNPL future

BNPL providers

At present, only 42% of consumers trust BNPL providers to protect them from fraud, and the same goes for protecting personal data, with only 44% confident in their capabilities. Trust is intrinsic to consumer confidence and if BNPL providers want to continue to build an established customer base, these challenges will need to be addressed.

For many BNPL providers, looking to prevent risks around account takeover, scams and fake accounts will be key. Solutions such as **Callsign** are designed to ensure they work passively, allowing consumers to get on with their purchasing.

BNPL providers can make huge inroads by establishing digital trust with their customers. Globally, 51% of consumers are more likely to trust in a BNPL service from their bank than they would another provider (in the US alone, this increases to 58%).

While this may not be surprising (many financial organizations are already trusted when it comes to keeping our money safe), it's significant to BNPL providers who will need to consider offering the same assurances around security and privacy to their audiences.

With regulation on the horizon, BNPL can learn a lot from financial organizations who often need to balance security and compliance with user experience. 50% of those surveyed believe that it's the responsibility of BNPL providers to protect them from fraud – that level of responsibility that will be a barrier to entry for many consumers unless they have that assurance.

BNPL providers looking to lead in their field can learn more about these challenges and discover their [pathway to digital trust here](#).

Would you be more or less likely to trust in a Buy Now, Pay Later service from your bank than you would in another provider?



MORE LIKELY TO TRUST



NEITHER MORE NOR LESS LIKELY



LESS LIKELY TO TRUST



I DON'T KNOW / NOT SURE



**20% of fraud victims
no longer use any Buy
Now, Pay Later services**

For financial organizations

On the flip side, financial institutions looking to BNPL propositions can learn a lot from their counterparts. Those BNPL providers streamlining checkout experiences, while also offering seamless and secure registration services, are ensuring that consumers see them as top of wallet.

For banks that are looking to offer BNPL services, they should ensure they adopt the same philosophy to consumer experience, to ensure the same rewards.

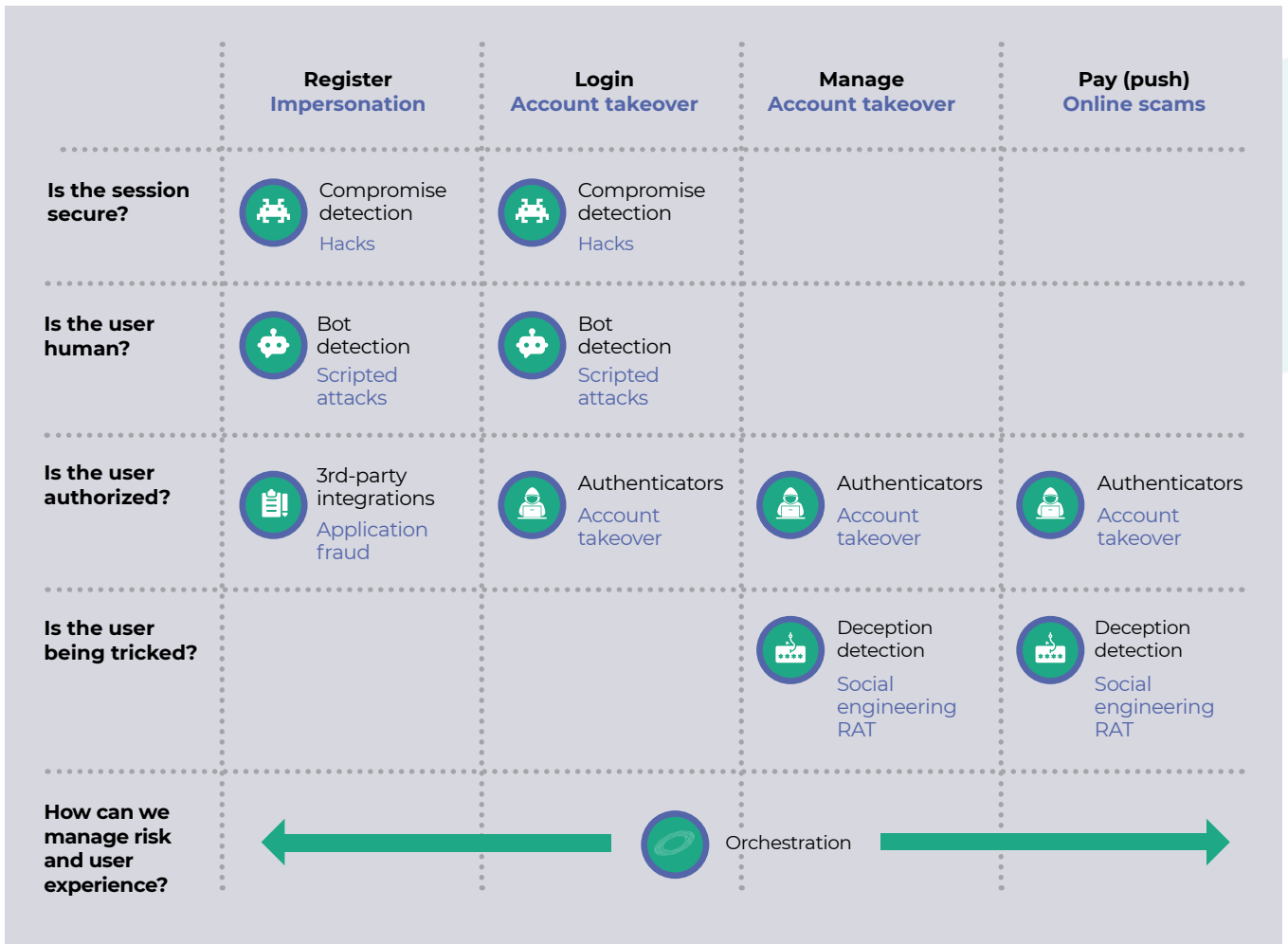
For those who aren't looking to offer BNPL services, there is still a lot to learn when it comes to balancing security and user experience for payment authentication. Organizations looking to lead in their field can learn more about these challenges and discover their **own pathway to digital trust**.

Retailers and e-commerce organizations

For merchants, offering BNPL options at checkout can offer huge benefits. But this shouldn't be at the detriment of reputational damage that is out of their control.

45% of consumers feel the retailer connected to the BNPL service should be responsible for protecting consumers against BNPL fraud. By simply offering such options at the checkout merchants are, by proxy, taking on this responsibility.

Given this, they should ensure that they are pushing providers on their fraud detection and prevention capabilities to ensure that they aren't impacted by any reputational damage and lost revenue. While it's easy to measure the short-term success in increased sales, it can often be equally difficult to measure the reputational impact until it's too late.



How can Callsign help?

Callsign can help banks, merchants and BNPL providers navigate the complex challenge of providing seamless experiences with just as seamless fraud prevention.

Layering device, location, threat and behavioral intelligence, Callsign offers a full suite of fraud protection solutions that span all customer journeys from account creation right through to payment – all under one roof.

We make digital life smoother and safer by helping organizations establish and preserve digital trust, so that people can get on with their digital lives.

The only solution to identify people across every journey, every channel, and every brand, Callsign makes digital identification seamless and secure, so you can offer rich online experiences that drive business growth.



Balancing security, UX & privacy is easier than you think.
Find out how we can help you on your journey to
digital leadership – callsign.com.

Get in touch for a demo of our
capabilities: sales@callsign.com

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