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The costs of using Buy Now, Pay Later (BNPL) products

Understanding the different kinds of costs Indian customers can incur in using BNPL products.

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Summary

Buy Now, Pay Later (BNPL) products have become one of the popular modes for customers to finance their retail purchases. BNPL products are being postured as challengers to credit cards that can make credit more accessible to customers at little to no cost. Yet, the actual costs customers may incur have not been documented. This report studies the BNPL market in India to understand the costs customers can incur in using them based on (i) analysing publicly available information, (ii) recording experiences of using BNPL products, and (iii) seeking expert legal opinion on BNPL products in the market. We specifically study ten BNPL providers including Ola Money Postpaid, Amazon Pay Later, PayTM Postpaid, LazyPay, Unicard, FlexMoney, Zestmoney, Slice, Simpl, and Kissht.

Our findings suggest that customers using BNPL incur monetary costs comparable to costs of using credit cards, and are susceptible to adverse risks emerging from gaps in customer protection–

i. Customers incur different costs that materialise both before and after defaulting on BNPL repayments, with APR between 0-36%.

ii. BNPL providers' terms and conditions are misaligned with key customer protection regulations, contravening key conduct obligations. Customers are at a risk of (a) unknowingly incurring debt, (b) borrowing credit that is unsuitable for them, and (c) being subject to aggressive debt collection practices.

iii. The promise of credit inclusion appears to be weakened by unexplained application rejections, and contingent on the sustainability of BNPL business models, sustainability of costs incurred by merchant, and on providers following accurate credit reporting practices.

The methodology used to examine the BNPL market in this report presents itself as an effective tool to monitor and identify customer protection concerns in nascent markets.

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I. Introduction: Motivations behind the study

Buy Now, Pay Later (BNPL) products have become one of the popular modes for customers to finance the products and services they purchase from merchants (Live Mint, 2022). This is because BNPL products primarily target customer segments with little to no credit history to offer seamless access to small-ticket credit. In this way, BNPL products could offer a more accessible substitute to credit cards for customers who traditionally find accessing credit difficult (Morgan Stanley, 2021). BNPL products could also help induce credit behaviour among these customers and help them build credit profiles. However, there is increasing evidence that this access can come at dire cost for unsuspecting customers (Wang, 2021).

BNPL products are broadly defined as a point-of-sale financial product that allows customers to purchase products and defer payments over a predetermined number of instalments (Reserve Bank of India, 2021; Prasad & Stanley, 2022). In a typical BNPL transaction, a bank or NBFC (financier) finances a customer's purchase at the point of sale.[2] The customer is expected to repay the amount to the financier according to a set of terms and conditions, including the interest and other charges customers must pay before and after defaulting on their repayment. The interactions between banks, merchants and customers are often intermediated by third party Lending Service Providers (LSPs)[3] through a mobile app, web platform, a virtual or a physical card (Prasad & Stanley, 2022; Manikandan, 2022).[4] LSPs are the customer-facing entities that help customers access BNPL products.[5] In some cases, LSPs themselves finance a BNPL transaction by settling payments with merchants (Reserve Bank of India, 2021).[6]

BNPL providers provide their services to customers subject to certain key terms and conditions defining customer eligibility, personal data access, the identity of the financier, repayment tenure, and various penalties and charges (Prasad & Stanley, 2022). Unfortunately, the terms and conditions can be long, indiscernible, and onerous for customers to read. In some cases, customers may find it difficult to locate and access the terms and conditions. The difficulty in locating the terms and conditions gets further exacerbated by the fact that many BNPL products are embedded as a payment option that customers

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[2] According to the Report of the RBI's Working Group on Digital Lending released in November including lending through online platforms and mobile apps released in November 2021, 37% of loans originated by banks and 11.91% of loans originated by NBFCs were offered through BNPL channels

[3] We use the terminology of Lending Service Provider (LSP) as laid out by a Reserve Bank of India (RBI) Working Group in 2021. It characterises LSPs as unregulated entities in the financial sector which partner with REs to provide different services including customer acquisition, underwriting support, pricing support, disbursement, servicing, monitoring, collection, liquidation of specific loan or loan portfolio for compensation from the balance sheet lender (Financier). *See* Reserve Bank of India, *Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps*, 2021.

[4] The RBI, at the time of writing this report (June 2022), issued directions stating that LSPs cannot provide credit lines through pre-paid payment instruments (PPIs). This may affect BNPL delivery through virtual and physical PPIs like mobile wallets and cards. For instance, LazyPay is reportedly looking to change its BNPL card offering to a credit card to comply with the RBI's directions. *See* LazyPay stops buy-now-pay-later payment product amid PPI concerns, 05 July 2022, The Economic Times.

[5] In this report, we refer to financiers and LSPs together as "BNPL providers".

[6] Admittedly, BNPL products are functionally similar to credit cards offered by financiers through LSPs (like co-branded credit cards) (see Annexure C) or short-term EMI financing at the point-of-sale. Some BNPL providers (like Amazon Pay Later) in fact provide credit cards, EMI facilities and BNPL products. However, a key difference that this report draws between BNPL products, credit cards and EMI facilities for its analysis is the degree of regulation they are subject to. All credit cards and EMI products are regulated directly by RBI. The RBI regulates card issuers and credit card provision through the Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022. Similarly, the RBI regulates EMI providers and provision directly through different regulations governing banks and NBFCs (For example, the Master Direction – Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016). Another distinction that this report records is that credit cards and EMI facilities are financed by a single financier selected by the customer. BNPL products, on the other hand, are more dynamic where the financier can be different for different customers.

can use to make payments at the point of sale. This can be misleading for customers who are likely to follow the interface to make payments without fully understanding their obligations. As a result, customers are likely to ignore these terms and conditions to access credit quickly and complete their transaction. Even where customers do access the terms and conditions, they are likely to misunderstand them as found in studies conducted in Kenya, Nigeria and India (Busara Center for Behavioural Economics, 2021; MicroSave Consulting, 2019). By overlooking the implications of using a BNPL product, customers risk incurring high costs in making repayments, paying penalties, and losing creditworthiness (BEUC, 2022). Customers may also become distressed with repayments, or default and incur high penalties, or become trapped in evergreening their loan (ASIC, 2020) These costs and customer experiences are well-documented in markets like Australia, United Kingdom and the USA where BNPL products are more mature (BEUC, 2022; ASIC, 2020; Financial Conduct Authority, 2021; Wang, 2021).

Similar experiences and customer protection concerns are being encountered by BNPL borrowers in India. News reports on the BNPL market in India suggest that customers are sanctioned lines of credit without their knowledge and even where there is consent, customers do not fully understand their obligations (Busara Center for Behavioral Economics, 2021; Ramanathan & Kalyanaraman, 2022). Customers also face potential data protection harms due to the variety of data collected by the BNPL providers. Apart from the data required for KYC purposes and traditional credit assessment, some BNPL providers process other kinds of data indirectly accessed through third parties, including customers' transaction history, social media data, and educational qualifications (Kaushal & Adhikari, 2022). Collection and processing of such personal data can make customers vulnerable to a variety of data protection risks (Prasad S. , 2021).

This report aims to bridge the knowledge gap due to a dearth of systematic studies on the BNPL market in India. The report identifies and quantifies the monetary costs, and provider conduct-related customer protection concerns for BNPL customers (what we characterise as non-monetary costs) in India. The insights in this report are derived from (a) a review of the Terms and Conditions of ten BNPL providers in India, (b) the volunteering researchers' experiences with using these BNPL applications, and (c) the professional opinion of legal experts with expertise in FinTech services.

II. Methodology

In this report, we attempt to quantify the monetary costs customers incur in using BNPL products and identify key customer protection concerns emerging from BNPL services. To do this, we adopted five approaches to collect relevant information viz.–

A. Analysing publicly available terms and conditions, and terms and conditions accessible after downloading BNPL applications, to identify potentially illegal or unfair clauses that raise consumer protections concerns.[7]
B. Using different BNPL products to empirically validate the costs.

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[7] This report at times relies on different RBI regulations governing unsecured customer loans for analysing providers' terms and conditions. Admittedly, the regulations may not apply uniformly to all BNPL providers. For instance, some regulations may only apply to a bank and not to an NBFC. Therefore, the provisions of the regulation may be irrelevant when an NBFC is financing a BNPL transaction. However, an analysis based on these regulations is important for two reasons–

i. The report recognises that BNPL products are functionally similar to other unsecured customer loan products including credit cards. As such, similar customer protection provisions should apply to each of them.
ii. This approach helps us account for gaps in the customer protection safeguards afforded to customers depending on the entity they approach for similar products. Our analysis relies on the deeper principles that support customer protection in highlighting the gaps in customer protection for customers of banks and NBFCs.

C. Comparing the costs associated with similar but mature financial products like entry-level credit cards (obtained through publicly available information on the costs of different no-frills credit cards).
D. Gleaning information from public sources on the monetary cost customers incur in using BNPL products.
E. Seeking professional inputs on BNPL market practices and the applicability of existing regulations.

We elaborate on the first three approaches (A to C) below –

i. **Identifying BNPL providers:** We identified 10 popular BNPL providers who are serving customers in India. Given the lack of official data on the BNPL industry in India, we relied on publicly available market research reports for identifying these providers. The initial scoping exercise identified 12 providers – Ola Postpaid, PayTM Postpaid, Amazon Pay Later, LazyPay, Slice, Simpl, FlexMoney, PostPe, EPayLater, ZestMoney, Unicard, and Capital Float. We reviewed two more BNPL providers subsequently – KreditBee and Kissht. After filtering the fourteen popular providers for relevance to retail customers and accessibility by volunteers, we finalised 10 BNPL providers whose terms and conditions we reviewed under this study. These 10 providers include Ola Money Postpaid, Amazon Pay Later, PayTM Postpaid, LazyPay, Unicard, FlexMoney , Zestmoney, Slice, Simpl, and Kissht.

ii. **Building a cost matrix:** We reviewed publicly available terms and conditions (T&C) and information provided on the website of the BNPL providers to identify the monetary and non-monetary costs that customers may incur in availing the BNPL product. Using this information, we developed a cost matrix that captured the different cost heads, both, monetary and non-monetary,[8] and the types of information that was collected for onboarding/credit appraisal.[9] The T&Cs were reviewed between March and June 2022 (See Annexure A).

iii. **Analysing the T&Cs of the BNPL providers:** In addition to reviewing the T&Cs of the BNPL providers for identifying monetary costs, we reviewed the T&Cs to identify clauses that diverged from regulations or raised consumer protection concerns.

iv. **Understanding user experience:** After subscribing to some BNPL services, we documented the onboarding and repayment processes on their mobile and web applications. We also assessed the impact of subscribing to the BNPL service on our credit reports (See Annexure B for details of the process followed).

v. **Refining the cost matrix:** To ensure robustness of process and to understand costs in practice, volunteers from Dvara Research personally subscribed to select BNPL services of providers and availed the service through the purchase of a good. The BNPL providers chosen were those on whom there was a dearth of public information. Through the usage of the services, we obtained the T&Cs of these providers and empirically validated the charges levied for using the service.[10] To verify non-monetary costs, we relied on (a) consumer reports from foreign markets with more mature BNPL products, (b) analysis of the T&Cs (see (v) below), and (c) volunteering researchers' experiences in using BNPL products.

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[8] Monetary costs refer to the cost customers incur in monetary terms. These may include on-boarding or administrative costs, interest costs, late fees and other penalties involved in using BNPL products. Non-monetary costs refer to negative outcomes that customers experience which can affect their well-being and their access to financial services in the future. These include credit information-related harms, data protection-related harms, harms from misconduct of providers, and so on.
[9] See Appendix A
[10] It should be noted here that in some cases we were denied the credit line by BNPL providers, and we were not able to validate the late fee/default charges of the BNPL providers as none of us defaulted. To that extent, our ability to validate the costs was constrained. See Appendix A for the detailed process

vi. **Cataloguing costs from comparable products:** We catalogued the costs customers can incur in using similar products like entry-level credit cards. BNPL is a new and emerging credit product which is functionally similar to credit cards. To contextualise the monetary costs associated with BNPL service, we performed a brief comparison of the same with a select set of credit cards that were targeted at customer segments comparable to those addressed by BNPL providers.[11] However, unlike our process for BNPL providers, the costs of using these cards were taken only from publicly available information.

III. Findings

Our exploration of BNPL providers' onboarding processes, T&Cs, and user experience revealed significant findings that could have a bearing on customer protection. Our major findings are set out below.

1. Monetary Costs for customers using BNPL products and comparison with credit cards

Customers can incur different kinds of monetary costs when using BNPL products. The various monetary costs associated with BNPL services can be broadly divided into those occurring pre-default and those occurring post-default. Pre-default costs include those described as interest costs, processing fees, autopay fees, carry forward interest, joining fees and card-related charges. Post-default charges include late fees and Electronic Clearing Service (ECS)/National Automated Clearing House (NACH)/cheque bounce fees. A breakdown of the monetary costs charged by different BNPL providers is set out in Appendix C to this report.[12]

The quantum of costs, and their application, varied across providers. On the pre default costs, the Annual Percentage Rate (APR) advertised for BNPL services varied between 0-36%. It is unclear if this also includes processing fees, which some providers charged on a flat basis, the amount varying from INR 0 to INR 199, while others charged it as a percentage of transaction amount, upto 3%, and other charges. The other pre-default costs were charged on a flat basis and their quantum varied between INR 0 and 500.

It is unclear how these pre-default charges are shared between LSPs and financiers. For instance, it is difficult to conclude if the late fees charged by the LSP are fully transferred to the financier or if they are only partly shared with the financier. Such an assessment would need to include an examination of agreements between LSPs and financiers and is vital as it may reveal more insights relevant for customer protection. For example, the RBI Circular on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs) prohibits BCs "*from charging any fee to the customers directly for services rendered by them on behalf of the bank*" (Cl.9) (Reserve Bank of India, 2010). It is currently unclear if there are LSPs that are providing services to financiers in the capacity of a BC. In cases where LSPs are serving as BCs, steps must be taken to ensure LSPs do not charge customers for their services. In a similar vein, RBI's Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services are silent on when the entity to whom the bank or NBFC has outsourced an activity can charge directly to the customer, and if so, how.

On the post default costs, the major cost was the late fee charges. These charges usually varied between INR 0-INR 2000, exclusive of taxes. Unicard-Northern Arc Capital customer agreement, however,

[11] We selected 9 credit card providers based on their minimum income requirement criterion. The minimum income criterion varied between an annual income of Rs. 3 and 6 Lakhs. The providers were – (1) Axis Bank Ace Credit Card (2) SBI SimplyCLICK Credit Card (3) Flipkart Axis Bank Card (4) HSBC Cashback Credit Card (5) Citi Cashback Credit Card (6) Amazon Pay ICICI Card (7) HDFC MoneyBank Credit Card (8) YES Prosperity Rewards Plus and (9) Standard Chartered Platinum Rewards Credit Card

[12] Providers may change the costs they charge customers depending on changes in their business model. For instance, Slice updated its terms to levy an interest of 36% for repayments made in more than one instalment. The earlier terms levied no interest on repayments made in three instalments. *See* Slice updates terms, will levy 36% interest if repayment not done in one instalment, Money Control, 27 June 2022.

mentions charges up to INR 3,000 for amounts due between INR 2 lakhs and 10 lakhs. The schedule of late fee charges varied among providers but can be broadly classified into two categories –

i. Late fees charged as a fixed percentage of the amount outstanding. BNPL providers, Kissht and LazyPay follow this approach.
ii. Flat fees charged according to the amount outstanding buckets. Providers like Ola Money PostPaid, PayTM PostPaid, Amazon PayLater, Slice, Simpl and Unicard follow this approach. For instance, Unicard charged up to INR 3,000 (including taxes) when dues were between INR 2,00,00-10,00,000.

The implied interest rate of late fees varied between 0% to 50% p.m. across providers[13]. In comparison, the implied interest rate on comparable credit cards were much higher and could go up to 100% p.m.[14] The other post default cost customers incur are cheque/NACH/ECS bounce charges that are charged as a flat fee. These charges varied from INR 0 to INR 350. The different costs that BNPL providers levy on customers may be construed as a form of interest charged to customers. The RBI does not define 'Interest'. However, money lending laws like the Usurious Loans Act, 1918 (ULA), Maharashtra Money-Lending (Regulation) Act, 2014 (MMLA) and the Karnataka Money-Lenders Act, 1961 (KMLA) provide a definition. These statutes define interest as an amount repaid in addition to the principal amount irrespective of the form these amounts may take (interest rate, late fees etc.) (s.2(1) of the ULA, s.2(9) and s.32 of the MMLA, s.2(6) and s.29 of the KMLA). The Income Tax Act, 1961 (ITA) also defines interest as including any service fees and other charges related to any borrowed money, incurred debt or credit facility that has not been utilised (s.2(28A)). Therefore, late fees and other costs imposed on customers may be construed as interest even when it is not explicitly labelled as interest.

The pricing policies of BNPL providers and credit card providers were similar, but the quantum of interest and other charges were much higher for credit cards. The APR for credit cards varied between 40%-53% while the processing or joining fee varied between INR 500-INR 1000. However, in many cases the processing fee was waived or reversed if the customer spend through the card was beyond a threshold. Therefore, considering the APR, processing fees and other charges charged by BNPL providers, the costs in using BNPL products may not be significantly lower than that for credit cards. However, this cannot be confirmed without a more rigorous examination of the exact cost customers incur when using these two products over a period of time.

2. Onboarding of customers

The entire onboarding process, including KYC, for all BNPL providers studied, was completely digital. The purchase experience using the BNPL service was seamless and required only few steps to complete the purchase. At a user experience level, the onboarding process for all the BNPL providers, except Amazon Pay Later, began with verifying the customers' mobile number through One-Time-Password (OTP). This was followed by KYC verification usually through the customers' PAN Card. Customers had to mandatorily provide their PAN Card number. In some cases, customers were required to provide only partial PAN card information. For instance, when our volunteer signed up with FlexMoney, the volunteer was asked to verify themselves by entering only the four numerical digits of their PAN Card instead of the complete PAN number.

[13] The following method was used to calculate the implied interest rate for providers applying late fees on a slab basis: 1) The monthly implied interest rate was arrived at using the late fees applicable for a particular slab for late fees as laid out in Appendix D as the monthly interest, and the upper and lower bounds of the slab as the principal; 2) This process was repeated across providers and for all slabs; and 3) Abnormal interest rates, due to base effect, were excluded and the highest and lowest interest rates obtained were used to arrive at the range.

[14] Refer Appendix E for the late fees cost matrix of Credit Card providers.

Customers had the option of providing their Aadhaar number for completing KYC verification. Some providers, like ZestMoney, asked for additional personal information (like educational and occupational information) that was mandatory for customers to share.

3. Customer verification and credit assessment

All the BNPL providers queried the credit bureau for credit information before sanctioning the credit limit. Providers used customers' PAN card along with other information like customers' mobile number, to retrieve the customers' credit bureau reports.

Some providers requested additional personal and financial information to make a credit decision. In addition to mobile number, all except FlexMoney required such additional information.[15] The additional information providers sought varied widely across providers. At a minimum, providers sought the customers' name and date of birth (DOB). Slice asked for educational qualifications of the customer, education fees receipts, employment details, work location, educational or professional IDs, and social media data.[^]

In our experience of using the ZestMoney, the provider required the following additional information from the customer –

- Current Address
- Occupation
- Marital Status
- Monthly Income and Expenses
- Persons living with the customer
- Bank statements

However, it should be noted that the volunteer who used ZestMoney did not have a credit history. It is possible that ZestMoney sought additional information in lieu of formal credit history. A pertinent point to be noted in the collection of income, educational qualifications and other data is that the BNPL provider did not seek the submission of any documents, except bank statements, to verify the information provided by the customer.

Our experiences with signing-up with BNPL providers revealed that access to BNPL services is not guaranteed upon sign-up. BNPL providers can reject BNPL applications or keep applications on hold indeterminately. Some of the volunteers who tried to sign-up were either declined service or were put on hold, in each case without being given reasons for the outcome and despite their having appreciable credit scores. The BNPL providers used by the volunteers did not provide a reason for doing so.

4. Terms and conditions of BNPL providers

The terms and conditions (T&Cs) of the BNPL service varied across providers on dimensions such as length, scope and level of detail covered. All providers displayed their T&Cs either on their websites or during the onboarding process. In addition to their own T&Cs, providers like Unicard, ZestMoney and Amazon PayLater provided T&Cs specific to each of their financiers i.e., Northern Arc Capital, Capital Float and Hero Fincorp respectively. However, FlexMoney only had a general set of T&Cs and our volunteer did not receive any financier specific T&C or the credit contract even after the volunteer was sanctioned the credit line. The name of the financier was mentioned at the end of the onboarding process after the credit line was sanctioned. Barring Amazon PayLater, the financier specific T&Cs were made available to the customer post the sanctioning of the loan.

[15] FlexMoney required only the customer's phone number and the numerical digits of their PAN for authentication during transaction

[^] The following sentence published in the original report was redacted in November 2022 based on consultation and feedback obtained from BNPL providers after the Report's publication: "*Capital Float, which finances Amazon Pay Later, asked for information about purchases customers made on partner websites.*"

In the latter case, the T&Cs contained provisions that governed the sanctioned credit. Customers may be confused especially when the provider does not differentiate between the terms and conditions for their BNPL products and other products. For instance, Kishht offers four different credit products, out of which one is a BNPL product. However, Kishht provides only one terms and conditions document without demarcating how the provisions may alter between different credit products.

Our analysis of the T&Cs revealed that some provisions deviate from what the RBI's regulations require, unduly burden customers or are potentially unlawful, adversely affecting customer protection. In reviewing the T&Cs of the BNPL providers and their financiers, for highlighting potential regulatory violations, we have, on occasion, relied on RBI circulars specific to banks. However, the financier to a BNPL transaction can be a bank or an NBFC. Thus, in the instances where we rely on circulars specific to banks, the NBFC would not be in violation of any regulation applicable to it (while not compliant with that applicable on banks), the customer protection risk, sought to be mitigated by the referenced circular, will still be applicable. Some key findings are as follows –

i. **Key Facts Statements and important terms are not always available or reliable:** While most BNPL providers provided a Key Facts Statement (KFS), some BNPL providers did not do so. In some cases where KFS was provided, the KFS omitted key details like pricing, customer obligations and penalties. This could contravene the RBI's Circular on Display of Information by banks (Reserve Bank of India, 2015).[16] Customers have to go through the long-form T&Cs to understand the product better. However, as observed with FlexMoney, the long-form document may also omit important information on charges and repayment procedure. This leaves customers without accessible information about the BNPL product they are purchasing.

ii. **Some providers, in their T&Cs, do not mention clearly who the financier is:** Some providers, like Amazon PayLater,and Ola PostPaid clearly disclose the name(s) of the bank or NBFC that will provide credit. However, some providers, like ZestMoney and Unicard, do not disclose the financier's identity until the customer's loan is sanctioned – considering the timestamps indicate that the sanction letter is issued before the customer signed on the loan agreement.[^] This can contravene the RBI's circular on loans sourced by banks and NBFCs through digital lending platforms (Reserve Bank of India, 2020).[17]

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[16] See clause 2 of the Circular on Display of Information by Banks, RBI–

"*In order to further enhance transparency in pricing of credit, based on the recommendations of Working Group on Pricing of Credit, banks are advised to adhere to the following additional instructions:*

(a) Banks should display on their website the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans. The total fees and charges applicable on various types of loans to individual borrower should be disclosed at the time of processing of loan as well as displayed on the website of banks for transparency and comparability and to facilitate informed decision making by customers.

Banks should publish Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan to an individual borrower on their websites so as to allow customers to compare the costs associated with borrowing across products and/ or lenders.

(b) Key Statement/ Fact Sheet: Banks should provide a clear, concise, one page key fact statement/fact sheet, as per prescribed format in Annex, to all individual borrowers at every stage of the loan processing as well as in case of any change in any terms and conditions. The same may also be included as a summary box to be displayed in the credit agreement."

[^] The portion of the sentence after the hyphen (-) was added in November 2022 based on consultation and feedback obtained from BNPL providers after the Report's publication.

[17] See clause 4 of the Circular on Loans Sourced by Banks and NBFCs over Digital Lending Platforms: Adherence to Fair Practices Codes and Outsourcing Guidelines, RBI –

iii. **Most financiers do not display the names of their digital lending partners:** Barring financiers like Hero Fincorp, Quadrillion Finance, Aphelion Finance and PayU Finance, most other financing partners, like HDFC Bank, Northern Arc Capital, IDFC First Bank did not display the name of their digital lending partner in their websites. This not only contravenes RBI's circular on loans sourced by banks and NBFCs through digital lending platforms (Reserve Bank of India, 2020),[18] but also makes it difficult for BNPL customers to verify if their BNPL provider has in fact tied up with the advertised financier.

iv. **Financiers obtained right to reject credit applications without disclosing reason:** The financier's right to reject any credit application without disclosing the reasons for the rejection featured in all the providers' T&Cs. Some providers, like UniCard, ZestMoney and LazyPay, gave customers an indicative list of variables used for making credit assessments. These variables might help customers understand some of the reasons for rejection, albeit very vaguely. Provisions like these violate the RBI's Fair Practice Code for Lenders which requires financiers to provide reasons for rejecting small loans.[19]

v. **Financiers place the burden of ensuring suitability on the customer:** Some providers, like Amazon Pay Later and Unicard, explicitly place the responsibility of assessing the suitability of the credit line on the customer.[20] This 'buyer beware' approach is problematic and contravenes the Right to Suitability that customers have under the RBI Charter of Customer Rights (Reserve Bank of India, 2014).[21] Provisions like these can compound customer protection concerns. Evidence from prominent BNPL markets suggest that many customers who avail the BNPL services are rarely aware about entering into a credit contract (BEUC, 2022; ASIC, 2020). In the case of India too, such declarations are not direct. Instead, clauses like "*providers reserve the right to reject credit application*" imply that BNPL products have an underlying credit contract. Due to difficulties associated with accessing and comprehending the TnCs, customers opt-in to BNPL without fully understanding their repayment obligations or borrow more than they can afford. Offering BNPL products as a payment option or doing so without checking customers' ability to afford the product, can push customers into distress.

"*It must be noted that outsourcing of any activity by banks/ NBFCs does not diminish their obligations, as the onus of compliance with regulatory instructions rests solely with them. Wherever banks and NBFCs engage digital lending platforms as their agents to source borrowers and/ or to recover dues, they must follow the following instructions:*

a) Names of digital lending platforms engaged as agents shall be disclosed on the website of banks/ NBFCs.

b) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the bank/ NBFC on whose behalf they are interacting with him.

c) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the bank/ NBFC concerned."

[18] Ibid

[19] See clause 2(1)(d) of the Guidelines on Fair Practices Code for Lenders, RBI – "*In the case of small borrowers seeking loans up to Rs. 2 lakhs the lenders should convey in writing, the main reason/reasons which, in the opinion of the bank after due consideration, have led to rejection of the loan applications within stipulated time.*"

[20] For instance, the financier's T&C of Unicard had the following clause – "*I/We have exercised due care and caution and have made well informed independent decision (including if necessary, obtaining of advise of tax/legal/accounting/financial/other professionals) prior to applying for the Loan and signing the Loan Documents.*"

[21] Clause 3 of the Charter of Customer Rights states, "*The products offered should be appropriate to the needs of the customer and based on an assessment of the customer's financial circumstances and understanding.*" It is unclear whether RBI intended that such assessment be done by the provider or by the customer. Going by RBI's recent stance on microfinance regulations, we conclude that the RBI intended the provider to conduct the assessment in order to comply with this right.

vi. **Potentially unlawful clauses are hidden in the fine print:** Some clauses in the T&Cs tread a grey line by vacating customer protection safeguards and binding customers with unfair obligations that are potentially illegal. For instance, one clause in Unicard's terms and conditions waived customers' safeguards under usury and ***any other*** laws relating to charging of interest.[22] This clause vacates the protections afforded to customers by usury laws and interest rate related guidelines of RBI.[23] Ideally, unlawful clauses are deemed to be void by default. However, such clauses will have to be challenged before the court or arbitration tribunal to be legally voided. Unfortunately, customers may be ill-equipped to challenge clauses in providers' T&Cs. Customers may be unable to recognise unlawful clauses. Even if they recognise them, customers may be unable to challenge the clauses due to the monetary and time costs that are associated with doing so. Without such challenge, the provider may assume that the clause is lawful and design their processes around the clause. This would effectively institutionalise unlawful practices in the providers' practices.

vii. **Credit-reporting practices are rarely disclosed to customers:** All the BNPL providers disclose that they *could* access customers' credit information for making credit assessments. However, except PayTM PostPaid, none of the studied providers disclosed whether they report customers' repayments to credit bureaus. We also noticed that one of the volunteer's credit score had reduced by as much as 9 points after their application to a BNPL provider was denied. The T&Cs also omitted detailed disclosures about how BNPL use can impact customers' credit scores. For instance, they did not disclose that not using BNPL credit after it is sanctioned could reduce the customer's credit score until customers request BNPL providers to close the account (Ramanathan & Kalyanaraman, Why Ola Postpaid should really be called Ola Loans, 2022). One of our volunteer's sanction letters with ZestMoney disclosed that non-payment of dues may be reported to credit bureaus.[24]

viii. **Personal data use creates data protection concerns:** Most of the BNPL providers collected different kinds of personal information (including education information, occupation information and contact information) for on-boarding and verification purposes. However, the privacy policies that governed the use of personal data were often broad and non-specific, giving providers wide leeway in how they could use personal data. For instance, LazyPay had a clause that enabled them to collect and use customers' personal information without restrictions.[25] This clause unilaterally obtained the customers' consent to receive promotional offers and other marketing materials.

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[22] The financier's T&C of Unicard had the following clause – "*I/We understand and acknowledge that the Loan if provided by Lender, based on this Loan Application submitted by me/us, is a commercial transaction and I/we waive any defence under usury or other laws relating to the charging of the interest*"

[23] *See*, for instance, s.3 of the Usurious Loans Act, 1918 and provisions of the RBI Master Direction – Reserve Bank of India (Interest Rate on Advances) Directions, 2016 (For instance, see clause 4(vii) ("*Interest shall be charged on all advances at monthly rests*") and clause 4(ix) ("*Interest charged on small value loans, particularly, personal loans and such other loans of similar nature shall be justifiable having regard to the total cost incurred by the bank in extending the loan and the extent of return that could be reasonably expected from the transaction*")).

[24] Clause 13 of the sanction letter states –
"(iii) Non-payment of amounts due on the relevant due dates may have adverse consequences including: (a) having your details reported to the credit bureaus; and (b) suitable legal action as may be necessary to recover the outstanding amounts."

[25] Clause 7.4 of Lazypay's terms and conditions states –
"*The User hereby agrees that the Personal Information shall be collected, stored, analyzed and used by LazyPay for the purpose of providing the User efficient access to the LazyPay Platform and such other features, products and/or services offered by LazyPay, including the services offered by LazyPay to the Partner Merchants and/or Partner Financial Institutions. The User hereby grants its consent to LazyPay to further use and share the Personal Information with its affiliates and/or the Partner Merchants and/or Partner Financial Institutions and*

ix. **Burden of tracking changes to T&Cs is on the customer:** LazyPay placed the responsibility of tracking changes to its T&Cs on the customer.[26] The customer was expected to periodically visit the provider's website to review the changes in the T&Cs, if any, rather than be informed of changes to the T&Cs she has agreed to upon sign-up. This places undue burden on the customers for compliance.

x. **Unfair charges on customers:** We noticed that ZestMoney and Kissht had the option in the general T&Cs to charge an unspecified and non-refundable processing fees even when customers' loans are cancelled by the provider.[27] Kissht mentions that these charges are applicable even if the loan is not disbursed to the customer. The non-disclosure of fees amount can make it difficult for customers to gauge the costs of borrowing from these providers. Practices like these could also violate the Fair Practice Codes relating to the disclosure of all processing fees and charges (Reserve Bank of India, 2008).[28]

5. User experiences with using BNPL products

The onboarding and purchase experiences of the volunteers were seamless and completely digital. Barring a couple of rejections, all volunteers successfully registered for the BNPL product and made their purchase. However, specific information about the costs of the BNPL product, like interest rate, processing fee and other charges, were not prominently displayed before the start of the onboarding process[29]. The volunteers were able to get this information in the websites of all the BNPL providers except FlexMoney. The information displayed on the website, including the general T&Cs, provided a broad range of the costs involved, with the exact costs crystalising post sanction of the credit line and were displayed in the specific T&C of the lender of the credit line. A caveat here is that our volunteers signed up for specific BNPL providers with full knowledge of the context of the study. Thus, they are

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confirms that the User does not have any objection to receiving promotional offers, deals, marketing material, promotional material and any other form of communications from the Partner Merchants, LazyPay and Partner Financial Institutions and/or its or their affiliates in such form as may be determined by LazyPay or the Partner Merchant or the Partner Financial Institution in their sole discretion. In addition, User agrees and understands that LazyPay will collect, receive and process the personal information of the User in accordance with LazyPay's Privacy Policy. By accepting the T&Cs, User hereby agrees and accepts LazyPay Privacy Policy as may be updated by LazyPay from time to time."

[26] Clause 2.2 of LazyPay's term and conditions states –
"*LazyPay reserves the sole right to change, modify, add or remove the T&Cs from time to time, without providing prior notice to the User, and the revised T&Cs shall be posted on the LazyPay Website. The User shall be responsible for reviewing the T&Cs on the LazyPay Website periodically to remain updated with any such change, modification or amendment. All changes, modifications and amendments shall be effective immediately upon being updated on the LazyPay Website, unless stated otherwise. Continued use of the BNPL Option and/or the Credit Line Option by the User constitutes and will be deemed to constitute the User's acceptance of the applicable T&Cs as may be amended from time to time. LazyPay has the right to not entertain any requests from the User in relation to any such amendment without assigning any reasons. If at any time the User does not agree with the T&Cs, the User shall be entitled to immediately cease its use of the BNPL Option and/or of the Credit Line Option upon making payment of all outstanding amounts due*."

[27] For instance, the relevant clause in ZestMoney's terms and conditions states –
"*You hereby understand that every time you wish to make a payment using ZestMoney EMI, you will be provided with online loan terms and conditions. Upon clicking 'I Accept' you and your successors/ heirs/ executors will be bound by the terms of the loan in relation to the credit facility. You understand and agree that ZestMoney may charge you a non-refundable administrative fee or a technology usage fee for facilitating the loan to be availed by you and you agree to pay the same. You must understand that this fee may not be refundable to you even if the loan is cancelled for any reason whatsoever*."

[28] Clause 3 of the Codes states, "*Banks / FIs are therefore advised to ensure that all information relating to charges / fees for processing are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance*".

[29] The onboarding for Unicard, Amazon PayLater, Ola PostPaid and ZestMoney was done on the mobile app while it was done on web for FlexMoney

likely to be more aware of the onboarding process and T&Cs of the providers as compared to a first-time consumer of BNPL services.

In all the instances where a credit line was sanctioned, the sanctioned limit was much larger than the intended amount of purchase. While this prima facie appears harmless, it could encourage indebtedness especially since, as highlighted previously, the onus of assessing the suitability of credit is placed on the borrower. The problem of indebtedness is further complicated by the fact that all BNPL providers, or their financiers, have a clause in their T&Cs allowing them to recall the loan at any time and without assigning any reason. Thus, the borrower with maximum or near maximum utilisation of credit limit could face a severe liquidity crunch if her loan were to be recalled. These concerns can be partly mitigated by sanctioning a credit line that is the lower of the maximum credit sanctionable to the borrower and the maximum credit limit as requested by the borrower.

Another customer protection concern that emerged was an instance of unilateral cancellation of the credit line by the BNPL provider, immediate recall of the outstanding amount and non-intimation of the same to the borrower. Such an action, while consistent with the provider's T&Cs, raises consumer protection concerns. The immediate recall of the credit line and its non-intimation to the customer puts her at risk of potential default and subsequent impairment of her credit score. We document this in Box A, below.

Box A: Post Purchase experience with ZestMoney
One of our volunteers, who did not have prior credit-taking history, successfully registered with ZestMoney and got sanctioned a credit line of INR 1.03 Lakhs. Using the credit line, she purchased a good worth INR 2052 at a leading online retailer in April, 2022. However, ZestMoney cancelled her credit line unilaterally. The volunteer did not receive any intimation of the cancellation and realised that her credit line had been cancelled only when she attempted to make a second purchase on May 8th, less than a month since her first purchase and five days after she paid her first instalment. When she contacted the provider, she was asked to immediately repay the entire outstanding amount, including the interest as per the original repayment schedule, while no reason was given for the cancellation. However, it is to be noted here that she chose a no cost EMI plan where any interest paid by her would be sent back to her bank account after repayment. She received the cashbacks, equalling the interest amount, after she had made the repayments.

6. Grievance Redressal

All providers, except LazyPay, have a section on Grievance Redressal in their T&Cs. At a minimum, the section mentions the email address, physical address, phone number and the working hours of the grievance redress official. Some of the providers, like ZestMoney, also mention the contact details of the nodal officer to whom the issue can be escalated if the response of the grievance official was found unsatisfactory. However, we make no comment on the effectiveness or otherwise of the redressal mechanisms.

7. Functional similarities with RBI-regulated activities

We found two important instances where BNPL was functionally similar to existing RBI-regulated activities, and these have been discussed below.

i. BNPL products may fall within the purview of the RBI's Master Directions for Credit Card Issuers[30]

Recently, the RBI released their Master Direction on issuance of credit cards and conduct of card-issuers (Reserve Bank of India, 2022) (Directions). The Directions create specific obligations for card -issuers regarding credit underwriting, conduct towards customers and credit reporting (Chapter II of the Master

[30] See Annexure C

Directions). It appears these Directions can apply to BNPL providers and BNPL products because the definition of 'Credit card' functionally captures BNPL products.

The Directions define a 'Credit card' as (a) a physical or virtual payment instrument, (b) issued with a pre-approved revolving credit limit,[31] (c) used to purchase goods and services or draw cash advances, and (d) subject to prescribed terms and conditions (Reserve Bank of India, 2022). BNPL products are similar in all these aspects. First, BNPL products are offered virtually through BNPL mobile applications or online payment portals, and physically through cards (Bose S. , 2022). Second, BNPL providers sanction a revolving credit amount for customers, although their billing cycles may vary (Khatri B. , 2020). Lastly, BNPL products help customers purchase goods and services from merchants at specific terms and conditions.

As a result, BNPL providers may have to fine-tune their practices to align with the Directions. The changes this could bring broadly include–

a. Prohibition of mis-selling of BNPL products by providing incorrect or incomplete information.
b. Limitations on the entities that can undertake BNPL lending based on capital requirements.
c. Limitations on credit sanctioned to a customer.
d. Board-approved policies for issuing and reviewing issuing of BNPL credit.
e. Prescriptions regarding the design of KFS and other disclosures.
f. Activation of BNPL credit only based on customers' consent.
g. Thorough underwriting standards that BNPL providers must follow before creating BNPL accounts.
h. Disclosure of interest rates and repayment amounts.
i. Standardised credit reporting practices.

ii. Some BNPL practices may be misaligned with the Payment and Settlement Systems (PSS) Act[32]

The PSS Act requires the RBI to authorise payment and settlement systems for the systems to be valid.[33] Payments settled through card networks, banking networks and payment aggregators are authorised under the PSS Act. Systems that function without the RBI's authorisation fall foul of the PSS Act. However, specific BNPL models may be settling payments without authorisation from the RBI.

LSPs providing app-based BNPL products may settle payments through a licensed payment system provider (like a bank or payment aggregator) or directly settle payments with a merchant. In the latter case, LSPs may be performing a settlement function without due authorisation from the RBI. Similarly, providers settling payments directly with merchants through NBFCs may be misaligned with the PSS

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[31] Revolving credit can be understood as a reusable credit limit offered to a customer. The customer can use the credit at their discretion up to the limit. The credit available to the customer replenishes itself when customers make repayments. The credit remains available until the customer requests for the financier to close the account. For example, customers can use credit cards to make purchases until the credit card limit is reached. Customers can choose to repay all the dues or some of the dues at the end of the billing cycle to replenish credit available to them. Financiers can charge interest and other fees on the dues remaining after the billing cycle. Customers can continue to use the freed-up credit amount for making payments. This is different from a non-revolving line of credit. A non-revolving line of credit allows customers to make a one-time, non-reusable borrowing up to the credit limit sanctioned by a financier. The line of credit is closed when the amount sanctioned is spent. The sanctioned amount does not replenish once it is paid off. *See* Troy Segal, Investopedia, '*Revolving Credit vs Line of Credit: What's the Difference?*'.

[32] The discussion under this section is currently hypothetical, based on an analysis of payment functions of BNPL products that we commissioned to Ikigai Law in May 2022. Whether LSPs are indeed contravening the PSS Act may be confirmed only by analysing the back-end agreements, financial arrangements and payment practices between LSPs and merchants.

[33] *See* section 4 of the Payment and Settlement Systems Act, 2007.

Act. While NBFCs are authorised to lend money, they do not have the authorisation to settle payments (Reserve Bank of India, 2017).

To summarise, our findings suggest that the monetary and non-monetary costs associated with usage of BNPL products are substantial and are not always known to the customer before subscribing to the product.

Specifically, the non-monetary costs on customers arise from the misalignment between BNPL providers' practices and key RBI regulations and could result in the following:

i. Unknowingly incurring large amounts of unsuitable debt that can distress customers.
ii. Lowering of credit scores that can make access to credit in the future more expensive.
iii. Becoming subject to misconduct and personal data-related harms.

The opacity around the costs combined with some potentially unlawful clauses reveal serious customer protection risks that BNPL borrowers are exposed to. These findings refute the narrative of BNPL products as being low- to no-cost credit alternatives to credit cards.

IV. Contextualising our findings in the emerging narratives around BNPL

The findings presented so far provide a snapshot of BNPL provider practices, monetary costs and T&Cs in India. Our findings suggest that BNPL providers largely align with the RBI's customer protection framework for financiers including the Fair Practices Code for banks and NBFCs and the Outsourcing Guidelines for banks and NBFCs (Reserve Bank of India, 2015; Reserve Bank of India, 2006; Reserve Bank of India, 2017; Reserve Bank of India, 2020). However, many practices and T&Cs deviate from these Codes, vacating key customer protection safeguards .

The salience of these findings may be amplified by placing them in the larger narrative around financial inclusion. BNPL products are presented as an instrument to improve access to credit for thin-file and no-file customers, usually at little to no cost. Our findings question this narrative.

The credit inclusion promise appears to be weak

The promise of improving credit access for no-file (without credit history) customers and thin-file (with minimal credit history) customers may not materialise into better access.

First, the interest costs currently in force are substantial and will likely rise going forward due to rise in credit costs for the BNPL providers. Evidence in other jurisdictions suggests that customers using BNPL products often default on their repayments, because they do not realise they have borrowed a loan or because they do not fully assess whether they can afford the BNPL product (ASIC, 2020; Financial Conduct Authority, 2021; Wang, 2021). In India, BNPL customers appear to have higher delinquency rates than non-BNPL customers on other outstanding loans (Bhatnagar, 2022). The higher delinquency rates could increase the cost of funds for financiers and consequently increase interest costs for future customers.

Second, a shift in business strategy will increase the costs borne by BNPL borrowers. Most of the BNPL products in the market are newly launched offerings. These providers may therefore be looking to acquire more customers to grow and as part of their customer acquisition strategy could be providing lower rates of interest and other charges. It is likely that the lower costs are a temporary feature and would be rolled back once the market matures. For instance, Unicard, as part of its introductory offer, waived the joining fee of INR 2,499. It is possible that the rates charged could become closer to credit card rates once the BNPL sector becomes more mature. Analysing the unit economics of BNPL business models could help us understand if the current BNPL pricing strategies are sustainable in the long run.

In analysing the economics of the BNPL model, it is important to note that BNPL products perform the functions of both payment and credit. Thus, the cost and incentive structures prevailing in the digital payment and credit systems will impact the incidence of costs on customers. For instance, it appears that merchants, partner website, and LSPs currently bear at least some of the BNPL providers' financing cost (or interest charged) on behalf of the customer in some cases (FlipKart, n.d.; Slice, n.d.).[34] The costs customers bear could increase in case merchants or BNPL providers stop bearing the financing cost and pass it on to customers.

Closely related to the previous point is the distribution of revenues and costs between the BNPL provider and merchants. The costs merchants incur in providing BNPL payment options may affect the credit inclusion promise. Reports from global BNPL market studies suggest that the fee merchants pay BNPL providers is often twice or thrice the amount merchants pay as Merchant Discount Rate (MDR) on credit or debit card transactions (Mikula & Kral, 2021). The MDR for debit cards in India is capped, and it is inapplicable to United Payment Interface (UPI) transactions (Reserve Bank of India, 2017; PTI, 2019). However, if these costs get deregulated and merchants pass on the costs of BNPL transactions to customers to afford the BNPL arrangement, the costs that customers bear when purchasing products and services could increase. The promise of credit inclusion could hold true in the short run, but falter in the longer run.

Third, the BNPL providers we studied do not promise access to credit even if customer has successfully completed the on-boarding process. Customers can access and sign-up with different BNPL providers. However, BNPL providers make decisions about servicing a customer. Our findings suggest that providers make these decisions without justification, denying customers credit or keeping customers' applications on hold. Customers may not know why their credit applications were rejected or loans cancelled in the absence of clear reasons from providers.[^]

Lastly, even where customers do get access to credit there is some uncertainty about whether BNPL providers report BNPL transactions to credit bureaus and thus help them build their credit history (Kumar, 2021; Reserve Bank of India, 2021). This is because BNPL providers do not categorise their products as a loan as they do not charge interest until the customer defaults (Reserve Bank of India, 2021). This conflicts with the Credit Information Companies Act, 2005, which requires any entity that provides credit to report customers repayments to credit bureaus.[35] However, even if providers report to credit bureaus, there are concerns about providers reporting BNPL credit transactions inaccurately

[34] For instance, Flipkart Advanz's terms and conditions state, "*You acknowledge that as part of its marketing and promotional activities, FAPL* [Flipkart Advanz Private Limited] *may as a part of its promotional offers, bear the interest, if any, charged on the Loan/Pay Later Product/FSUP* [Flipkart Smart Upgrade Plan] *sourced by FAPL through the Financing Partner to You.*"
Clause 2.1 of Slice's terms and conditions state, "*An approved limit shall be sanctioned to You by the Financing Partner, details of which shall be available on Your slice account. Subject to this credit limit, You may be permitted to obtain disbursements from the Financing Partner, by confirming the disbursal amount and other terms and conditions of the disbursal (as determined by the Financing Partner), on the Portal and set out in the loan agreement to be entered into with the Financing Partner.* ***In cases where the partner website is running an interest free offer, the finance charges will be borne by the partner website and will not be paid by You.***" (emphasis added by authors).
[^] This sentence was added in November 2022 based on consultation and feedback obtained from BNPL providers after the Report's publication. The following sentences were redacted: "*These instances indicate that currently, in the absence of clear reasons being provided for why applications are rejected or cancelled, BNPL providers appear to be making credit decisions arbitrarily without a discernible approach to selecting the customer segments they service*".
[35] *See* the Credit Information Companies (Regulation) Act, 2005, s.2(f).

(Singh, 2022; Carrns, 2022).[36] Therefore, customers' eligibility for obtaining formal credit may not improve in either case.

[36] Some credit bureaus like Trans Union and Experian plan to report BNPL loans under a separate category without including them in credit score calculation. These Bureaus also plan to require reporting of BNPL loans on a more frequent basis than the typical 30-day reporting timeline due to the short duration of the loans. Credit Bureaus in India may also adopt a similar approach in the future as BNPL products gain popularity. *See* CNBC, *BNPL loans will soon be on your credit report* (20 March 2022); Forbes, *How the three big credit bureaus are using buy now pay later data* (22 March 2022).

V. Conclusion

Our findings in this report. Our analysis presents insights from studying BNPL products of ten different BNPL providers in India and the findings help put a spotlight on customer protection concerns in the BNPL market. Our methodology primarily adopts two simple activities of (i) examining the T&Cs of the BNPL providers and (ii) using BNPL products.

The insights we obtained from the examination shed light on two key dimensions of the emerging BNPL market in India –

i. The monetary costs that customers incur in using BNPL products.
ii. The customer protection gaps and concerns facing customers using BNPL products.

The examination suggests that BNPL products can impose high monetary costs that may be comparable to those imposed on credit cards usage – we caveat this by saying that a more thorough examination of actual costs based on customers' usage of BNPL products and credit cards over time is warranted. We were also able to discover significant misalignment between BNPL providers' practices and key conduct obligations towards customers Such misalignment could impose non-monetary costs which include loss of credit worthiness, personal data-related harms, and misconduct from providers and their agents.

In addition, our examination yielded some significant findings including –

i. Concerns with the customer experience journey of different BNPL provider applications.
ii. Significant limitations to the BNPL products' potential to foster credit inclusion.
iii. Gaps in customer protection safeguards afforded by regulations.
iv. Potential conflict between BNPL provider practices and the Payment and Settlement Systems Act, 2007, and the RBI Master Directions on issuing credit cards (April 2022).

Unfortunately, some of these findings are limited by the lack of access to more information about the BNPL market. For instance, our analysis could benefit from examining back-end arrangements between LSPs, financiers and merchants – helping us understand the BNPL market holistically. Yet, the methodology that we have used to examine the BNPL market presents itself as an effective monitoring tool to identify customer protection concerns arising from new products introduced in nascent markets. Regulators, industry associations and customer protection organisations could generate very valuable insights by adopting this methodology in monitoring the market. We hope that the nuanced insights obtained from the exercise can aid the measures that providers can take to strengthen customer protection at an entity-level and that regulator can take at a systemwide-level.

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Annexure A

Record of retrieving BNPL providers' terms and conditions

BNPL Provider	Date
Ola Money Postpaid	31 March 2022
Amazon Pay Later	22 March 2022
PayTM Postpaid	31 March 2022
LazyPay	31 March 2022
Unicard	31 March 2022
FlexMoney	10 April 2022
ZestMoney	28 April 2022
Slice	22 June 2022[37]
Simpl	16 June 2022
Kissht	16 June 2022

[37] Slice revised its terms and conditions that would be effective from 27 June 2022. We have captured these changes in this report.

Annexure B

Process followed by volunteering researchers in using BNPL products

i. Map each member with one or two BNPL providers.[38]

ii. Given our focus on low-income households and individuals, we will be restricting our purchase of good or service to below or equal to Rs. 7000[39]. Currently, BNPL products may not be offered to low-income users *per se*. The cap would help adapt the project to users at the lower end of income distribution.

iii. Record each member's CIBIL score immediately before the registration with the app/card, and after the completion of repayment of the BNPL service. This would help keep track of any non-monetary costs associated with even registration of this service.

iv. In availing the BNPL service, the member needs to ensure that the BNPL service is not clubbed with any other offer/special discount given by the merchant or the BNPL provider.

v. Each member will document the T&C agreement and validate the interest and other monetary charges associated with the service. Members will validate these charges using receipts of all monetary transactions with BNPL provider with regard to the purchase of the product.

vi. Each member will maintain screenshots of each page of the BNPL purchase, from the point of registration to the point of final repayment. This is to document every step, terms and conditions in the BNPL process, including the permissions granted to BNPL app. The sensitive and personal information present in the screenshots to be blacked out/blurred before being uploaded to the common folder.

[38] Here we are only considering the following BNPL providers - (1) Ola Postpaid (existing user) (2) ZestMoney (3) Amazon Pay Later (4) Unicard (5) Flexmoney

[39] The average MPCE of individuals in urban areas is Rs. 2630 - https://www.thehindu.com/business/Economy/what-is-consumer-expenditure-survey-and-why-was-its-2017-2018-data-withheld/article61611662.ece . Given that BNPL products are primarily used for purchasing consumer durables, and not essentials, we cap the purchase amount at approximately thrice the average MPCE.

Annexure C

A discussion on BNPL and the scope of the RBI's Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022

The Reserve Bank of India issued a new Master Direction for banks and NBFCs issuing credit cards in April 2022. These guidelines define 'Credit card' as "*A physical or virtual payment instrument… issued with a pre-approved revolving credit limit, that can be used to purchase goods and services or draw cash advances, subject to prescribed terms and conditions*" (cl.3(a)(xii)). The Master Direction also define a 'Charge card' as "*A type of credit card where the user has to pay the billed amount in full on due date after the billing cycle, and no rolling over of credit to the next billing cycle is permitted*" (cl.3(a)(viii)) (Reserve Bank of India, 2022).

These definitions of credit cards and charge cards seem to capture BNPL products. BNPL products allow customers to purchase products and services by borrowing small amounts from BNPL providers. We explore if BNPL products indeed fall within the scope of the Master Direction. For this, we analyse two preconditions for the Master Direction to apply to BNPL providers[40]. The two preconditions include–

i. BNPL products must be offered by banks or NBFCs.
ii. BNPL products must qualify as 'Credit cards' defined under the guidelines.

1st Pre-condition: BNPL products must be offered by banks or NBFCs

The Master Direction allows scheduled commercial banks (other than RRBs) with net worth of INR 100 crore and above to issue credit cards (cl.4). These banks can issue cards independently or together with other banks/NBFCs. NBFCs can take part in credit card business after taking the RBI's permission (cl.4). Banks and NBFCs (Card-issuers) can also issue co-branded credit cards with other non-financial entities (cl.17). In this case, the card-issuers are bound by the RBI's Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks/NBFCs (cl.20, cl.22) (Reserve Bank of India, 2022).

Analysis of the Terms and Conditions (T&Cs) of some of the prominent BNPL service providers reveal that the credit originated by the BNPL provider is provided by a Bank or NBFC (Saxena, 2021; Iyer P. , 2021).[41] Thus, banks and NBFCs play a key role in financing BNPL lending. Banks and NBFCs finance BNPL lending by sanctioning and disbursing credit that customers use for making payments. Some NBFCs (like Capital Float) offer BNPL directly to customers, but most banks and NBFCs seem to offer co-branded BNPL products through third-party LSPs (like Slice, Simpl, PayTM Postpaid etc.) (Saxena, 2021; Iyer P. , 2021).

2nd Pre-condition: BNPL products must qualify as 'Credit cards' defined under the Master Direction

BNPL products are functionally similar to credit cards. A credit card usually comprises a lending component (offering credit to customers) and a payments component (providing a payment and settlement system). These functional similarities may bring BNPL products within the scope of the definition of a 'Credit card' under the Master Direction.

The Master Direction describe a credit card as having four key elements. A credit card must be (i) a physical or virtual payment instrument, (ii) issued with a pre-approved revolving credit limit, (iii) used to purchase goods and services or draw cash advances, and (iv) subject to prescribed terms and conditions. BNPL products must satisfy these elements to be treated like a credit card (Reserve Bank

[40] BNPL providers include banks and NBFCs, and partner third-party LSPs which facilitate BNPL transactions.
[41] Our analysis included the T&Cs of Amazon Paylater, FlexMoney, ZestMoney and UniCard.

of India, 2022). A comparative analysis between the definition of credit cards and BNPL products is set out below.

i. **The instrument must be a physical or virtual payment instrument:** Under the RBI's Master Direction, credit cards can be offered as physical or virtual instruments for the purpose of making payments. Credit cards are currently allowing customers to make payments using physical cards or through virtual Card-Not-Present transactions. BNPL products are not different in this respect. BNPL products were initially offered virtually through BNPL mobile applications or merchants' online payment portals. More recently, BNPL providers have started issuing cards that can be used at merchant PoS terminals to make payments (Bose S. , 2022).

ii. **The instrument must be issued with a pre-approved revolving credit limit:** Revolving credit can be understood as a reusable credit limit offered to a customer. The customer can use the credit at their discretion up to the limit. The credit available to the customer replenishes itself when customers make repayments. The credit remains available until the customer requests for the financier to close the account (Alexton, 2019; Reserve Bank of India, 2021).[42] For example, customers can use credit cards to make purchases until the credit card limit is reached. Customers can choose to repay all or some of the dues at the end of the billing cycle to replenish credit available to them. Financiers can charge interest and other fees on the dues remaining after the billing cycle (Reserve Bank of India, 2008). Customers can continue to use the freed-up credit amount for making payments.

   BNPL products work in a similar manner. BNPL providers sanction a revolving credit amount for customers. Customers can use this amount at their will and replenish the available amounts by making repayments at the end of every billing cycle (Khatri B. , 2020). Providers may charge late fees if customers default, or charge interest on rolled-over dues. These accounts can be closed only when customers request BNPL providers to close the account. However, a difference between credit cards and BNPL products may be their billing cycle - the billing cycle for credit cards is usually one month, but BNPL billing cycles can vary between a few days and a few months.

iii. **The instrument must be used to purchase goods and services or draw cash advances:** BNPL products help customers purchase a variety of goods and services from merchants that accept BNPL payments. Like credit cards, the limits on the value of purchases can vary depending on the credit sanctioned to the customer. Typically, BNPL products are prohibited from drawing cash advances, though Unicard does provide this facility at an annualized interest of upto 30% However, this might not affect BNPL products' similarity with credit cards. The use of the phrase "*Or* draw cash advances" suggests that cash advances are optional. The absence of an option to draw cash advances might not disqualify an instrument from being treated as a credit card under the guidelines.

iv. **The instrument must be subject to prescribed terms and conditions:** BNPL providers offer products with terms and conditions detailing repayment conditions, penalties, personal data usage, grievance redress etc. These disclosures resemble some of those required under the guidelines and under the Fair Practices Codes for lenders (Reserve Bank of India, 2015).

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[42] This is different from a non-revolving line of credit. A non-revolving line of credit allows customers to make a one-time, non-reusable borrowing up to the credit limit sanctioned by a financier. The line of credit is closed when the amount sanctioned is spent. The sanctioned amount does not replenish once it is paid off. *See* Troy Segal, Investopedia, '[Revolving Credit vs. Line of Credit: What's the Difference?]'.

We conclude that BNPL products satisfy all the key preconditions for an instrument to be considered as a credit card. This would imply that all the regulations that apply to credit cards should also apply to BNPL products.

Annexure D

Breakdown of costs charged by the ten BNPL providers in our study
(as disclosed in T&Cs or incurred by the study's volunteers)

	Type of monetary cost	Pre-Default	Charge	Post Default	Amount due (INR)	Fees (INR)[43]
Ola Postpaid	Non-Interest Costs	NA	NA	Late Fees	0 – 250	0
					251 – 500	50 – 200
					501 – 1000	75 – 300
					1001 – 2500	100 – 400
					2501 – 5000	250 – 1000
					5000+	500 - 2000
	Interest Costs	NA	NA	NA	NA	
PayTM Postpaid	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	NA	NA	Late Fees	0 – 100	0
					101 – 250	10
					251 – 500	25
					501 – 1000	50
					1001 – 2000	100
					2001 – 5000	250
					5001+	500
	Interest Costs	NA	NA	NA	NA	
Amazon Pay Later	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Processing Fees	INR 0-199	Late Fees	0 – 200	0
					201 – 1000	100 + 18% GST
					1001 – 5000	200 + 18% GST

[43] Ola PostPaid varies its late fees on the amount outstanding and the Days Past Due (DPD). The late fees range reflects this.

			1% of retail order value above certain amounts		5001 – 20000	350 + 18% GST
					20000+	500 + 18% GST
		Autopay fees	One-time fees for setting up mandate			
	Interest Costs	Tenure less than 3 months	NA	NA	NA	
		Tenure more than 3 months	12.5 – 24%			
Slice	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	MNO charges	As applicable	Late Fees	0 – 500	0
					500 – 2000	15
		Service charges	Undisclosed		2000 – 10000	40
		Bank processing charges	As applicable		10000 – 25000	100
		Card replacement charges	INR 500 + taxes			
		Registration code re-issuance charges	INR 100 + taxes		25000+	150
		Non-transaction charges	INR 100 + taxes		(OR if lower)	
		Charge slip retrieval charges	INR 200 + taxes		30% of amount due (maximum up to 3000)	
		Cash withdrawal charges	INR 50 + taxes			
		ATM transaction charges	INR 25 + taxes			

	Interest Costs	Tenure more than 1 month	36%[44]	NA	NA	
Lazypay	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Trigger**	**Fees**
	Non-Interest Costs	Autopay fees	One-time fees for setting up mandate	Late Fees	Initial default	17.7 per day (or) 26% of default amount for EMI overdue
				Late fees per month partial repayment enabled customers (30-day cycle)	INR 0 – 200	0
					INR 200 – 499	INR 100 + 18% GST
					INR 500 – 1999	INR 250 + 18% GST
					INR 2000 – 4999	INR 400 + 18% GST
					INR 5000 – 9999	INR 750 + 18% GST
					INR 10000 – 24999	INR 1000 + 18% GST
					INR 25000 – 49,999	INR 1500 + 18% GST
					INR 50000 +	INR 2000
				Bounce charges	NA	300
	Interest Costs	For partial repayment-enabled customers	1.5 – 3.5% p.m.	NA	NA	
Simpl	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Autopay fees	One-time fees for setting up mandate	Late fees	0 – 100	11.8
					100 – 250	29.5
					250 – 500	59

[44] Initially, levied no interest on repayments made in three instalments. Slice updated its terms to levy an interest of 36% for repayments made in more than one instalment, effective from June 27 2022. *See* Slice updates terms, will levy 36% interest if repayment not done in one instalment, Money Control, 27 June 2022.

					500+	118
				Bounce charges	NA	300
	Interest Costs	NA	NA	NA	NA	
Unicard	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Joining fees	INR 0 – 2499	Late fees	1 – 200	0
					200 – 400	50
					400 – 1000	100
					1000 – 2000	250
					2000 – 5000	500
		Processing fees	0 – 3% of the transaction amount		5000 – 10000	1000
		Carry forward charges	0 – 6% of the carry forward amount		10000 – 20000	2000
		Convenience fee	0 – 3% of amount beyond limit		20000 – 1000000	3000
	Interest Costs	Splitting payments over 3 months	3% of amount beyond limit	NA	NA	
		EMIs	Maximum 30% APR			
ZestMoney (Financier: Hero FinCorp)	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Fees**	
	Non-Interest Costs	Processing fees	Determined case-by-case	Late Fees	INR 250 for every payment missed on due date (every 30 days)	
		Autopay fees	As applicable			
		Technology usage charge	Determined case-by-case			
	Interest Costs	Tenure less than 3 months	NA	NA	NA	
		Tenure more than 3 months	Determined by the financier	NA	NA	

<table>
<tr><td rowspan="4">FlexMoney</td><th>Type of monetary cost</th><th>Pre-Default</th><th>Charge</th><th>Post Default</th><th>Trigger</th><th>Fees</th></tr>
<tr><td>Non-Interest Costs</td><td>Unavailable</td><td>Unavailable</td><td>Unavailable</td><td colspan="2">Unavailable</td></tr>
<tr><td rowspan="2">Interest Costs</td><td>Up to 15 days</td><td>0</td><td>NA</td><td colspan="2">NA</td></tr>
<tr><td>More than 15 days</td><td>INR 69</td><td>NA</td><td colspan="2">NA</td></tr>
<tr><td rowspan="6">Kishht</td><th>Type of monetary cost</th><th>Pre-Default</th><th>Charge</th><th>Post Default</th><th>Amount due</th><th>Fees</th></tr>
<tr><td rowspan="3">Non-Interest Costs</td><td rowspan="2">Processing fees</td><td rowspan="2">Fixed or Variable</td><td>Late fees</td><td colspan="2">3.5% p.m. of loan amount for each overdue instalment</td></tr>
<tr><td rowspan="2">Bounce charges</td><td rowspan="2">NACH/Cheque bounce</td><td rowspan="2">INR 350</td></tr>
<tr><td>EMI date change fees</td><td>INR 200</td></tr>
<tr><td rowspan="2">Interest Costs</td><td>Up to 6 months</td><td>0%</td><td>NA</td><td colspan="2">NA</td></tr>
<tr><td>Beyond 6 months</td><td>8 – 30%</td><td>NA</td><td colspan="2">NA</td></tr>
</table>

Annexure E

Breakdown of costs charged by the nine Credit Card comparators assessed in our study

	Type of monetary cost	Pre-Default	Charge	Post Default	Amount due (INR)	Fees (INR)
Axis Bank Ace Credit Card	Non-Interest Costs	Joining/Annual Fees	INR 499. Joining fees waived if spend > INR 10000 within 45 days of issuance. Renewal fees waived if spend > INR 2 lakhs p.a.	Late Fees	0 – 100	0
					101 – 300	100
					301 – 1000	300
		Cash Advance Fees	2.5% of the cash advance of INR 500, whichever is higher		1001 – 5000	500
		Over Credit Limit Charge	3% of the over limit amount or INR 500, whichever is higher		5001 – 10000	600
		Bounce Charges	2% of the payment amount or INR 500, whichever is higher		10000+	700
	Interest Costs	Finance Cost	52.86% p.a	NA	NA	
SBI SimplyCLICK Credit Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Joining/Annual Fees	INR 499. Waived if spend > INR 1 lakh p.a.	Late Fees	0 – 500	0
					501 – 1000	400
					1001 – 10000	750
		Cash Advance Fees	2.5% of the cash advance of INR 500, whichever is higher		10001 – 25000	950

		Over Credit Limit Charge	NA		25001 – 50000	1100
		Bounce Charges	2% of the payment amount or INR 500, whichever is higher		50001+	1300
	Interest Costs	Finance Cost	42% p.a	NA	NA	
Flipkart Axis Bank Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Annual Fees	INR 500. Waived if spend > INR 2 lakhs p.a	Late Fees	0 – 300	0
					301 – 500	100
					501 – 1000	500
					1001-10001	750
		Cash Advance Fees	NA		10001-25000	950
		Over Credit Limit Charge	NA		25001-50000	1000
		Bounce Charges	NA		50000+	1200
	Interest Costs	Finance Cost	49.36% p.a.	NA	NA	
HSBC Cashback Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Annual Fees	INR 750	Late Fees	0 – 100	0
					101 – 500	100
					501 – 5000	500
					5001-10000	600
		Cash Advance Fees	2.5% of the cash advance of INR 500, whichever is higher		10001-25000	800

		Over Credit Limit Charge	2.5% of the over limit amount or INR 550, whichever is higher		25001-50000	1100
		Bounce Charges	2% of the payment amount or INR 450, whichever is higher		50000+	1300
	Interest Costs	Finance Cost	41.88% p.a	NA	NA	
Citi Cashback Credit Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount Due (INR)**	**Fees**
	Non-Interest Cost	Annual Fees	Case by Case basis	Late fees	0 – 2000	0
		Cash Advance Fees	2.5% of the cash advance of INR 500, whichever is higher		2001 – 7500	600
		Over Credit Limit Charge	2.5% of the over limit amount or INR 500, whichever is higher		7501 – 15000	950
		Bounce Charges	INR 500 per returned payment		15000+	1300
	Interest Costs	Finance Cost	45% p.a.	NA	NA	
Amazon Pay ICICI card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Annual fees	INR 0	Late fees	0 – 100	0
					101 – 500	100
					501 – 5000	500
					5001 - 10000	750
		Cash Advance Fees	NA		10001 - 25000	900
		Over Credit Limit Charge	NA		25001 - 50000	1000
		Bounce Charges	NA		50000+	1200

	Interest Costs	Finance costs	42-45.6% p.a.	NA	NA	
HDFC MoneyBank Credit Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount due (INR)**	**Fees (INR)**
	Non-Interest Costs	Annual fees	INR 500. Waived if spend above INR 20000 in the first 90 days	Late fees	1 – 100	0
					101 – 500	100
					501 – 5000	500
					5001 – 10000	600
		Cash Advance Fees	2.5% of the cash advance of INR 500, whichever is higher		10001 –25000	800
		Over Credit Limit Charge	2.5% of the over limit amount or INR 550, whichever is higher		25001 - 50000	1100
		Bounce Charges	2% of the payment amount or INR 450, whichever is higher		50000+	1300
	Interest Costs	Finance costs	41.88% p.a	NA	NA	
YES Prosperity Rewards Plus	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount Due (INR)**	**Fees (INR)**
	Non-Interest Costs	Annual/joining Fees	INR 399. Joining Fees waived on spending INR 10000 within 90 days of card issue. Renewal fees waived on spending INR 50000 within 12 months	Late Fees	0 - 100	0
					101 - 500	150
		Cash Advance Fees	3.5% of cash advance		501 - 5000	500
		Over Credit Limit Charge	2.5% of the over limit amount or INR 500, whichever is higher		5001 - 20000	750
		Bounce Charges	INR 350 per returned payment		20000+	1000

	Interest Costs	Finance costs	51.1% p.a.	NA	NA	
Standard Chartered Platinum Rewards Credit Card	**Type of monetary cost**	**Pre-Default**	**Charge**	**Post Default**	**Amount Due (INR)**	**Fees (INR)**
	Non-Interest Costs	Joining/annual fees	INR 250. Waived on spending more than INR 60000 p.a	Late Fees	0-100	0
					101 - 500	100
					501 - 5000	500
		Cash Advance Fees	3% of the cash advance		5001 - 10000	700
		Over Credit Limit Charge	2.5% of the over limit amount or INR 500, whichever is higher		10001 - 25000	800
		Bounce Charges	INR 500 per returned payment		25000+	1200
	Interest Costs	Finance Costs	45% p.a	NA	NA	